

Mitigation: Destination-based Sales Tax

Part III: How Shifts in the Tax Base are Turned Into Revenue Gains & Losses

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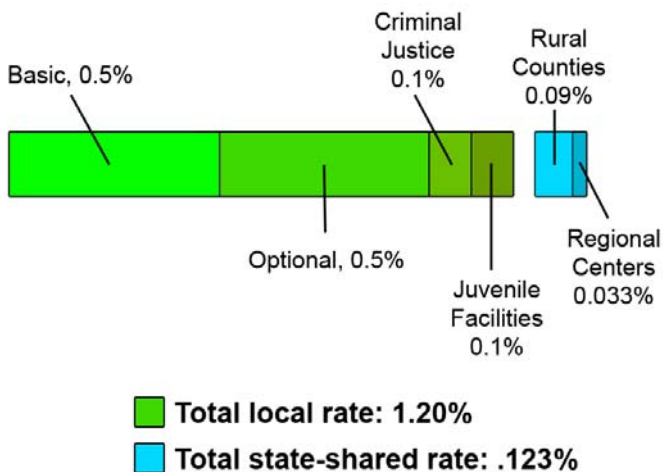
Background

Deliveries within the state are calculated by looking at the base of the retail sales tax. To determine how those deliveries impact revenues, we multiply by the local sales tax rate. However, the local tax rate is made up of several "components" and each of them can be distributed in a different way. Therefore, to determine what revenue gains and losses look like we have to simulate the way each of these components is normally distributed.

Composition of the Local Sales Tax Rate

Local sales tax rates vary from location to location because they are made up of different tax components. Each component is authorized under a separate law and is distributed in its own way.

For example: Mossyrock (location 2104) has a local tax rate of 1.20%. It is made up of four components: the basic, optional, criminal justice and juvenile facilities taxes. In addition, there are two state-shared taxes for this location code: the rural county and regional centers taxes.



If a sale of \$100 occurs in Mossyrock, the local tax reported to the Department of Revenue will be \$1.20 for location code 2104.

Each of the components of the tax reported for location code 2104 is distributed in its own way.

- The Basic and Optional taxes are distributed to the city or county that levies them. In most cases, 15% of the city's distribution is given to the county.
- The Criminal Justice Tax is distributed to the County and all cities in the county based on population.
- The Juvenile Facilities Tax is distributed to Lewis County (the county where Mossyrock is located).

The state-shared taxes are also distributed:

- The Rural Counties tax is distributed to Lewis County (the county where Mossyrock is located).
- The Regional Centers tax is distributed to a qualifying public facilities district.

As you can see, many jurisdictions receive tax from the deliveries reported in Mossyrock. This is why a distribution process is so important: it ensures that the Department accurately measures **who gained or lost revenues because of destination-based sales tax.**

How does this Impact Mitigation Analysis?

Deliveries are calculated by looking at the movement of sales, not the movement of revenues. To determine what revenues were gained or lost by a jurisdiction, we have to factor in the local sales tax distribution process.

If the Department determined that Mossyrock's location code gained \$100 in deliveries, we would have to determine which jurisdictions gained which part of the \$1.20 in tax. If we ran the \$100 through a simulation of the distribution process we would come up with:

| Jurisdiction | Basic and Optional | Criminal Justice | Juvenile Facilities | Total |
|--------------|--------------------|------------------|---------------------|----------------|
| Lewis County | \$ 0.1485 | \$ 0.0641 | \$ 0.099 | \$0.3116 |
| Centralia | \$ - | \$ 0.0185 | \$ - | \$0.0185 |
| Chehalis | \$ - | \$ 0.0084 | \$ - | \$0.0084 |
| Morton | \$ - | \$ 0.0014 | \$ - | \$0.0014 |
| Mossyrock | \$ 0.8415 | \$ 0.0008 | \$ - | \$0.8423 |
| Napavine | \$ - | \$ 0.0018 | \$ - | \$0.0018 |
| Pe Ell | \$ - | \$ 0.0008 | \$ - | \$0.0008 |
| Toledo | \$ - | \$ 0.0008 | \$ - | \$0.0008 |
| Vader | \$ - | \$ 0.0007 | \$ - | \$0.0007 |
| Winlock | \$ - | \$ 0.0016 | \$ - | \$0.0016 |
| Total | \$ 0.99 | \$ 0.099 | \$ 0.099 | \$ 1.20 |

Note: the numbers don't add up exactly because the 1% administrative fee is compensated for

A portion of the 6.5% state sales tax is given to the local jurisdictions as well. In this case the total state-

shared rate is 0.123%. The \$100 therefore yields an additional \$0.123 in tax for local government:

| Jurisdiction | Rural | Regional Centers | Total |
|------------------|----------------|------------------|-----------------|
| Lewis County | \$ 0.0900 | \$ - | \$ 0.0900 |
| Centralia | \$ - | \$ - | \$ - |
| Chehalis | \$ - | \$ - | \$ - |
| Morton | \$ - | \$ - | \$ - |
| Mossyrock | \$ - | \$ - | \$ - |
| Napavine | \$ - | \$ - | \$ - |
| Pe Ell | \$ - | \$ - | \$ - |
| Toledo | \$ - | \$ - | \$ - |
| Vader | \$ - | \$ - | \$ - |
| Winlock | \$ - | \$ - | \$ - |
| Lewis County PFD | \$ - | \$ 0.0330 | \$ 0.0330 |
| Total | \$ 0.09 | \$ 0.033 | \$ 0.123 |

Losses in deliveries (more goods flowing out of the location code than into it) can also be distributed in this way. If Mossyrock had a \$100 net *outflow* of deliveries, the results you see above would be negative.

Wrap-up

This simulated distribution process is repeated for every location code. The net inflow or outflow of deliveries is distributed so we can find the impact in revenue terms for every taxing jurisdiction. Since a jurisdiction can be affected by taxes all over the county, we combine the results of several location codes to get a total impact for the jurisdiction.

In Part IV you will see how these tax components are added up to determine the mitigation payment amount.