

# SUMMARY OF 2017 TAX & LICENSING LEGISLATION

## Washington Department of Revenue Legislation & Policy and Research & Fiscal Analysis Divisions

July 2017

This report summarizes the significant revenue and tax legislation of interest to the Department of Revenue (Department) and approved during the 2017 Regular Session, 1<sup>st</sup> Special, Session, 2<sup>nd</sup> Special Session, and 3<sup>rd</sup> Special Session of the Washington State Legislature. Legislation affecting the Department's Business Licensing Service (BLS) is also summarized. This summary is based on information developed by the Department's Legislation & Policy and Research & Fiscal Analysis Divisions, and is not intended to cover all of the technical details or provide a legal interpretation of the bills. Instead, this report is intended to alert readers to new legislation, assist in its implementation, and serve as a resource for historical research. Fiscal impacts of legislation in this summary may be found in "*State Revenue Impact of Major 2017 Tax Legislation*," beginning on page 3.

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**STATE REVENUE IMPACT OF MAJOR 2017 TAX LEGISLATION - Sources Impacting Dept. of Revenue Only**  
**State General Fund**

Bill Num	Bill Description	FY 2018	FY 2019	2017-19 Bien	FY 2020	FY 2021	2019-21 Bien
<b>House Bills:</b>							
HB 1148	Reporting requirements on timber purchases	\$0	\$0	\$0	\$0	\$0	\$0
HB 1166	Fire protection district tax levies	\$0	\$0	\$0	\$0	\$0	\$0
EHB 1201	Public facilities districts	\$0	\$0	\$0	\$0	\$0	\$0
ESHB 1296	Annual tax incentive reports and surveys	\$0	\$0	\$0	\$0	\$0	\$0
SHB 1344	Taxing district bond levies	\$0	\$0	\$0	\$0	\$0	\$0
SHB 1462	Marijuana infused edibles	\$0	\$0	\$0	\$0	\$0	\$0
SHB 1526	Property taxation of multipurpose senior citizen centers	\$0	\$0	\$0	\$0	\$0	\$0
ESHB 1538	Subcontractor retainage bonds <sup>1</sup>						
ESHB 1597	State Wildlife Account	\$0	\$0	\$0	\$0	\$0	\$0
HB 1722	Wholesale Vehicle Dealer License <sup>1</sup>						
ESHB 1809	Clean alternative fuel commercial vehicles tax credits	\$0	\$0	\$0	\$0	\$0	\$0
SHB 2138	Tax relief for disabled veterans	(\$122,000)	(\$122,000)	(\$244,000)	(\$122,000)	(\$122,000)	(\$244,000)
EHB 2163	Relating to revenue (part breakdown below)	\$114,106,000	\$299,795,000	\$413,901,000	\$378,277,000	\$422,907,000	\$801,184,000
EHB 2242	Basic education funding	\$541,000,000	\$1,073,200,000	\$1,614,200,000	\$1,184,800,000	\$1,308,900,000	\$2,493,700,000
<b>Senate Bills:</b>							
ESB 5096	Transportation funding and appropriations <sup>1</sup>						
ESSB 5131	Updating marijuana regulatory provisions	\$1,000	\$2,000	\$3,000	\$2,000	\$2,000	\$4,000
SSB 5138	Metropolitan parks districts	\$0	\$0	\$0	\$0	\$0	\$0
SSB 5358	Tax and licensing laws	\$0	\$0	\$0	\$0	\$0	\$0
SB 5734	Small public works bonding requirements <sup>1</sup>						
SB 5939	Renewable energy tax incentives	\$604,000	(\$5,562,000)	(\$4,958,000)	(\$7,977,000)	(\$10,825,000)	(\$18,802,000)
SB 5977	Tax preferences (part breakdown below)	(\$4,945,000)	(\$8,975,000)	(\$13,920,000)	(\$12,255,000)	(\$12,414,000)	(\$24,669,000)
<b>NET GENERAL FUND IMPACT</b>		\$650,644,000	\$1,358,338,000	\$2,008,982,000	\$1,542,725,000	\$1,708,448,000	\$3,251,173,000

**BLS License, Fee & Registration Bills - MLS Account Funds**

Bill Num	Bill Description	FY 2018	FY 2019	2017-19 Bien	FY 2020	FY 2021	2019-21 Bien
E2SHB 1351	Combined spirits, beer, and wine license <sup>1</sup>						
SHB 1902	Tavern licenses <sup>1</sup>						
EHB 2005	Administration of general municipal business licenses	\$0	\$1,067,000	\$1,067,000	\$1,625,000	\$1,771,000	\$3,396,000
ESSB 5130	Marijuana license fees <sup>1</sup>						
ESSB 5131	Updating marijuana regulatory provisions	\$0	\$0	\$0	\$0	\$0	\$0
ESB 5834	Spirits warehouses <sup>1</sup>						

**State Funds other than General or BLS Funds**

Bill Num	Bill Description - Fund	FY 2018	FY 2019	2017-19 Bien	FY 2020	FY 2021	2019-21 Bien
ESHB 1597	State Wildlife Account - Wildlife Excise Taxes	\$24,000	\$58,000	\$82,000	\$58,000	\$58,000	\$116,000
SHB 2138	Tax relief for disabled veterans - Performance Audit Account	(\$3,000)	(\$3,000)	(\$6,000)	(\$3,000)	(\$3,000)	(\$6,000)
EHB 2163	Relating to revenue - Performance Audit Account	\$173,000	\$459,000	\$632,000	\$574,000	\$638,000	\$1,212,000
SB 5939	Renewable energy tax incentives - Performance Audit Account	\$4,000	\$0	\$4,000	\$0	\$0	\$0
SB 5977	Tax preferences - Performance Audit Account	(\$1,000)	(\$27,000)	(\$28,000)	(\$25,000)	(\$26,000)	(\$51,000)

**EHB 2163 by Part (State General Fund)**

Part	Bill Description	FY 2018	FY 2019	2017-19 Bien	FY 2020	FY 2021	2019-21 Bien
I(A)	Eliminating the Sales and Use Tax exemption for Bottled Water	\$24,535,000	\$30,112,000	\$54,647,000	\$30,797,000	\$31,499,000	\$62,296,000
I(B)	Narrowing a Use Tax exemption for Self-produced Fuel	\$1,452,000	\$5,227,000	\$6,679,000	\$8,712,000	\$12,197,000	\$20,909,000
II	Remote Sellers, Referrers, and Marketplace Facilitators	\$83,720,000	\$256,780,000	\$340,500,000	\$327,862,000	\$367,600,000	\$695,462,000
III	Nexus for Excise Tax Purposes	\$4,399,000	\$7,676,000	\$12,075,000	\$10,906,000	\$11,611,000	\$22,517,000
IV	Eliminating Streamlined Sales Tax Mitigation to Local Governments	\$0	\$0	\$0	\$0	\$0	\$0

V	Public Utility Privilege Tax Distributions	\$0	\$0	\$0	\$0	\$0	\$0
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**SSB 5977 by Part (State General Fund)**

Part	Bill Description	FY 2018	FY 2019	2017-19 Bien	FY 2020	FY 2021	2019-21 Bien
I	Modifying the Washington Main Street Program	\$0	(\$500,000)	(\$500,000)	(\$1,000,000)	(\$1,000,000)	(\$2,000,000)
III	Business and Occupation Tax Exemption for Agricultural Fertilizer and Seed	(\$263,000)	(\$288,000)	(\$551,000)	(\$290,000)	(\$291,000)	(\$581,000)
IV	Solar Silicon Manufacturing and Wholesaling	(\$397,000)	(\$1,377,000)	(\$1,774,000)	(\$2,398,000)	(\$2,501,000)	(\$4,899,000)
V	Semiconductor Materials Manufacturing	\$0	(\$1,701,000)	(\$1,701,000)	(\$3,453,000)	(\$3,503,000)	(\$6,956,000)
VII	Tax Relief for Silicon Smelters	Indeterminate	Indeterminate	Indeterminate	Indeterminate	Indeterminate	Indeterminate
VIII	Invest in Washington Program	(\$541,000)	(\$1,298,000)	(\$1,839,000)	(\$1,298,000)	(\$1,298,000)	(\$2,596,000)
IX	Extending the Sales and Use Tax Deferral for Historical Auto Museums	(\$139,000)	(\$139,000)	(\$278,000)	(\$139,000)	(\$139,000)	(\$278,000)
X	Concerning Removal of Land from Current Use Due to Natural Disaster	(\$21,000)	(\$21,000)	(\$42,000)	(\$21,000)	(\$21,000)	(\$42,000)
XI	Modifying Washington's Motion Picture and Film Industries Tax Credit	(\$3,500,000)	(\$3,500,000)	(\$7,000,000)	(\$3,500,000)	(\$3,500,000)	(\$7,000,000)
XII	Concerning the Excise Taxation of Martial Arts	(\$84,000)	(\$151,000)	(\$235,000)	(\$156,000)	(\$161,000)	(\$317,000)
XIII	Leasehold Excise Credits and Exemptions for Colleges and Universities <sup>2</sup>	Confidential	Confidential	Confidential	Confidential	Confidential	Confidential

<sup>1</sup>The Department did not receive a fiscal note request for proposal.

<sup>2</sup>The revenue estimates for Part XIII of SSB 5977 are confidential.

## HOUSE BILLS

### **HB 1148**      **Extending the expiration date for reporting requirements on timber purchases ([Chapter 55, Laws of 2017](#))**

This bill extends the expiration date for reporting private timber purchases involving more than 200,000 board feet to the Department from July 1, 2018, to July 1, 2021. The Department uses these reports to set statewide stumpage values to impose the timber excise tax on public and private timber harvests.

HB 1148 is effective July 23, 2017.

### **HB 1166**      **Concerning fire protection district tax levies ([Chapter 107, Laws of 2017](#))**

This bill eliminates the requirement that a fire protection district must have at least one full-time paid or contracted employee to levy a third regular property tax levy in RCW 52.16.160.

HB 1166 is effective July 23, 2017.

### **EHB 1201**      **Concerning the taxing authority of public facilities districts ([Chapter 164, Laws of 2017](#))**

This bill extends the current 25-year expiration date of the state-shared local sales and use tax imposed by a public facilities district to finance a regional center to the earlier of:

- Retirement of the bonds issued to finance or refinance the construction, improvement, rehabilitation, or expansion of a regional center and related parking facilities; or
- Forty years after the tax is first collected.

This bill also clarifies that to impose the tax, a public facilities district created before July 21, 2002, need only have started construction on one regional center, or improvement or rehabilitation of any existing new regional center, before January 1, 2004.

EHB 1201 is effective July 23, 2017.

### **ESHB 1296**      **Consolidating and simplifying the annual report and annual survey used for economic development tax incentives ([Chapter 135, Laws of 2017](#))**

This bill consolidates the annual reporting requirements for tax preferences by replacing the Annual Tax Incentive Report (annual report) with the Annual Tax Performance Report and repealing the Annual Tax Incentive Survey (annual survey).

The bill also:

- Requires that the Annual Performance Report include the amount of the tax preference claimed.
- Eliminates the requirement that businesses provide health and benefit information.
- Makes information reported by businesses in the Annual Tax Preference Report subject to public disclosure.

- Both the Department and the Joint Legislative Audit and Review Committee may request additional information to measure the results of, or determine eligibility for, the tax preference. This information is not subject to public disclosure.
- Provides that where deferred taxes must be repaid due to failure to submit a complete report, the amount immediately due is twelve and one-half percent of the deferred tax.

ESHB 1296 is effective January 1, 2018.

**SHB 1344     Extending the period for which a bond levy may be increased**  
**([Chapter 296, Laws of 2017](#))**

This bill allows taxing districts in Thurston County, upon voter approval, to increase the maximum period from nine years to 25 years in which the district may raise their property tax growth limit to repay bond debt.

SHB 1344 is effective July 23, 2017.

**SHB 1526     Exempting multipurpose senior citizen centers from property taxation**  
**([Chapter 301, Laws of 2017](#))**

This bill creates a property tax exemption for one or more contiguous real property parcels and personal property owned by a nonprofit “senior citizen organization”.

The bill requires the property to be used for the actual operation of a multipurpose senior citizen center, but allows for various other uses including loaning or renting the property for any purpose, fundraising events and activities, and operating a farmers market or thrift store. Inadvertent uses inconsistent with the purposes of the exemption will not nullify the exemption, if the inadvertent use is not a pattern of use.

SHB 1526 is effective July 23, 2017.

**ESHB 1538     Requiring prime contractors to bond the subcontractors portion of retainage upon request**  
**([Chapter 301, Laws of 2017](#))**

This bill requires the prime contractor to provide a bond for the subcontractor's portion of retainage upon the subcontractor’s request.

The prime contractor may withhold the retainage bond premium from the subcontractor under prescribed circumstances.

ESHB 1538 is effective July 23, 2017.

**ESHB 1597     Increasing revenue to the state wildlife account by increasing commercial fishing license fees and streamlining wholesale fish dealing, buying, and selling requirements**  
**([Chapter 8, Laws of 2017 3<sup>rd</sup> sp. sess.](#))**

This Department of Fish and Wildlife request legislation modifies commercial fishery-related

licenses and license fees.

The bill also modifies the enhanced food fish excise tax administered by the Department by:

- Creating two categories of enhanced food fish, one for the identified fish harvested from the Puget Sound and one for the identified fish harvested from ocean waters, the Columbia River, Willapa Bay, and Grays Harbor.
- Increasing from 5.25 percent to 6.25 percent the tax rate for chinook, coho, and chum salmon and anadromous game fish harvested from ocean waters, the Columbia River, Willapa Bay, and Grays Harbor.
- Altering the distribution of the enhanced food fish excise tax.

ESHB 1597 is effective January 1, 2018.

**ESHB 1809 Concerning tax credits for clean alternative fuel commercial vehicles**  
**([Chapter 116, Laws of 2017](#))**

This bill:

- Expands the vehicles eligible for the commercial alternative fuel vehicle business and occupation (B&O) tax and public utility tax (PUT) credits to include vehicles providing commercial services and vehicles transporting passengers.
- Increases the mileage and manufacturing date limits for qualifying used commercial vehicles to vehicles with an odometer reading of less than 450,000 miles and that are less than ten years past the original date of manufacture.
- Increases the maximum amount of credit allowed per vehicle to \$25,000, \$50,000, and \$100,000, depending on the gross weight of the vehicle.
- Allows applicants to file for credits for multiple vehicles on one application.
- Requires that the anticipated delivery date of a qualifying vehicle to be within one year of the applicant's notice of intent to claim the credit.

ESHB 1809 is effective January 1, 2018.

**SHB 2138 Concerning tax relief for the construction of adapted housing for disabled veterans**  
**([Chapter 176, Laws of 2017](#))**

This bill allows a disabled or severely disabled veteran to apply to the Department for a remittance of the state portion of retail sales or use tax paid for materials incorporated in and/or labor and services rendered in respect to adapted housing performed under certain grants awarded by the United States Department of Veterans Affairs.

The bill limits the remittance to \$2,500 for each project. The annual statewide cap for remittances may not exceed \$125,000.

SHB 2138 is effective August 1, 2017.

**EHB 2163 Relating to revenue** ([Chapter 28, Laws of 2017 3<sup>rd</sup> sp. sess.](#))

This bill contains a number of provisions intended to increase revenues.



## **Part I, Subpart A – Eliminating the Sales and Use Tax Exemption for Bottled Water**

This subpart:

- Extends the sales and use tax to sales of bottled water to consumers.
  - Provides exemptions for sales of bottled water for human use pursuant to a prescription and persons lacking readily available potable water.

This subpart is effective August 1, 2017.

## **Part I, Subpart B – Narrowing a Use Tax Exemption for Self-produced Fuel**

This subpart:

- Limits the use tax exemption for fuel used by the extractor or manufacturer of the fuel to biomass fuel.
- Provides a four-year phase-in of the state use tax rate applied to refinery fuel gas as follows:
  - 0.963 percent from 1-1-2018 through 12-31-2018
  - 1.926 percent from 1-1-2019 through 12-31-2019
  - 2.889 percent from 1-1-2020 through 12-31-2020
  - 3.852 percent from 1-1-2021 and thereafter.

*Note:* Section 108, which specifies phased-in rates for the newly imposed use tax, does not specify a tax rate for August 1, 2017, through December 31, 2017. The Legislature has indicated it will address the ambiguity and clarify that use tax does not apply until January 1, 2018.

The state use tax is effective beginning January 1, 2018.

## **Part II – Remote Sellers, Referrers, and Marketplace Facilitators**

This part:

- Requires remote sellers, marketplace facilitators, and referrers meeting specified sales or income thresholds to elect to either:
  - Collect sales or use tax on sales to Washington consumers, or
  - Comply with specified use tax notice and reporting requirements. If a person is not reporting and remitting tax, the person is presumed to have made an election to comply with the use tax notice and reporting requirements. Failure to comply subjects the entity to specified penalties.
- Requires marketplace facilitators subject to these provisions to make the required election on behalf of sellers making sales through its marketplace.

This part is effective immediately but the requirements provided in this part of the bill take effect January 1, 2018

## **Part III – Nexus for Excise Tax Purposes**

This part requires businesses to pay retailing B&O tax on retail sales into Washington if, in the current or immediately preceding calendar year, the business has more than \$267,000 in retail sales into Washington or at least 25% of its total sales receipts from this state.

This part is effective July 1, 2017.

## **Part IV – Eliminate Streamlined Sales Tax Mitigation to Local Governments**

This part modifies streamlined sales tax mitigation payments to local governments to reflect increased local tax revenue related to the marketplace facilitator/remote seller provisions of Part II and eliminates all such payments after September 30, 2019.

This part is effective July 7, 2017.

## **Part V – Public Utility Privilege Tax Distributions**

This part requires the Department to notify the State Treasurer on the first business day of July of each year of the amount of public utility district privilege tax revenue collected for distribution.

This part is effective July 7, 2017.

## **EHB 2242 Funding fully the state's program of basic education by providing equitable education opportunities through reform of state and local education contributions ([Chapter 13, Laws of 2017 3<sup>rd</sup> sp. sess.](#)) **Partial Veto****

This bill addresses the Legislature's duty to amply fund, from a dependable source, the state's instructional program of basic education as defined by the Legislature.

Changes to state property tax laws include:

- Imposing an additional ("second") state property tax levy for collection beginning in calendar year 2018.
- For taxes due in calendar years 2018 through 2021, establishing an aggregate of \$2.70 per \$1,000 of market value for the current state levy and the second state levy.
- Exempting individuals who qualify for the senior citizen/disabled person property tax exemption from the second state levy.
- Exempting farm machinery and equipment from the second state levy.
- For tax years 2019 through 2021, fixing the tax rates for the existing state levy at the 2018 tax rate, and excluding the levy from the growth limit in chapter 84.55 RCW.
- For tax years 2022 and thereafter, continuing to subject the existing state levy and the second state levy to the growth limit in chapter 84.55 RCW.
- Beginning with taxes levied for collection in 2022 and thereafter, establishing an aggregate rate limit for the existing state levy and second state levy at \$3.60 per \$1,000 of market value.

Changes to school district property taxes include:

- Renaming local school district "maintenance and operation (M&O) levies" as "enrichment levies."
- Replacing the current school district M&O levy lid with a new levy lid for enrichment levies equal to the lesser of the amount that would be generated by a levy rate of \$1.50 per \$1,000 of assessed value or \$2,500 per student, effective for taxes collected in 2019. Beginning in 2020, increasing by inflation the maximum per-student limit (\$2,500 per student for tax year 2019).
- Requiring enrichment levies be spent only on permitted enrichment activities.
- Beginning with enrichment levies for collection in calendar year 2020 and thereafter, requiring a school district to receive approval of an enrichment levy expenditure plan by

the Office of the Superintendent of Public Instruction (OSPI) before placing a levy proposition on the ballot.

EHB 2242 also provides a process for reviewing and rebasing salary allocations. To support of this process, by November 1, 2022, and by November 1<sup>st</sup> every six years thereafter, the Department must determine:

- The median single-family residential value of each school district; and
- The median value of proximate districts within 15 miles of the boundary of the school district for which the median residential value is calculated.

This bill also makes a number of public education (K-12) policy changes that are not enumerated here. The sections vetoed by the Governor do not affect the property tax provisions associated with this bill.

## SENATE BILLS

### **ESB 5096** Making transportation appropriations for the 2017-2019 fiscal biennium ([Chapter 313, Laws of 2017](#))

This bill is the base transportation budget for the 2017-2019 biennium that appropriates funds for various state transportation agencies and programs.

Section 207(6) affects the Department. It appropriates \$510,000 of the State Patrol Highway Account (SPHA) for the operation of the License Investigation Unit (LIU) to enforce vehicle license laws in Southwestern Washington. It requires the Washington State Patrol (WSP), in consultation with the Department, to maintain a running estimate of sales and use taxes remitted pursuant to activity conducted by the LIU.

The WSP must notify the State Treasurer when the amount of tax remitted exceeds \$625,000. The State Treasurer must then transfer this amount from the General Fund to the State Patrol Highway Account.

ESB 5096 is effective May 16, 2017.

### **SSB 5138** Concerning metropolitan park districts ([Chapter 215, Laws of 2017](#))

This bill:

- Allows a city, county, or contiguous group of cities or counties forming the metropolitan (metro) park district to limit the purpose and the taxing powers of the district when formed for specifically identified public parks or recreational facilities.
- Requires the ballot proposition to create a metro park district to include both the regular levy rate limitation (if limited) and to specify the public parks or recreational facilities proposed for funding. The levy rate limitation may be set at or below the maximum aggregate levy rate of (\$0.75/\$1,000 AV).
- Clarifies the purpose for general obligation bonds and increases the maximum term from twenty to forty years.
- Allows a city treasurer to act as the metro park district treasurer when the city and metro park district boundaries are coterminous. City or county treasurers acting in as ex officio treasurers for the metro park district may provide a bridge loan or line of credit to the newly formed metro park district until the district receives sufficient levy proceeds to pay for maintenance and operations.

SSB 5138 is effective July 23, 2017.

### **SSB 5358** Improving tax and licensing laws administered by the Department Revenue ([Chapter 323, Laws of 2017](#))

This bill makes revenue neutral technical and administrative changes to tax statutes administered by the Department by:

- Making general administrative provisions of excise tax law applicable to the public utility privilege tax (Part I);
- Clarifying the taxation of pet adoption fees (Part II);

- Making certain technical corrections to legislation enacted during the 2015 3<sup>rd</sup> Special Legislative Session (Part III);
- Clarifying the legal possession of voluntarily surrendered sales suppression devices to the Department's employees (Part IV);
- Making a variety of technical corrections, such as correcting or eliminating incorrect or obsolete statutory references (Part V);
- Relieving estates from the requirement to file a Washington estate tax return if the gross estate is less than the applicable exclusion amount (Part VI);
- Clarifying that the Department may not disclose certain basic licensing information for commercial purposes (Part VII);
- Requiring the Department to establish background investigation policies for employees and contractors that have access to federal tax information (Part VIII);
- Altering the annual date by which the Department must provide estimates of the amount of public forestland that is available for harvest from August 30<sup>th</sup> to October 1<sup>st</sup> (Part IX); and
- Allowing the Department to provide confidential property tax information electronically (Part X).

SSB 5358 is effective July 23, 2017, except for part 1, which is effective January 1, 2018 and section 102, which is effective April 1, 2018.

**SB 5734      Bringing Washington state government contracting provisions into compliance with federal law as it relates to small works bonding requirements ([Chapter 75, Laws of 2017](#))**

This bill makes changes to the small works bonding requirements by:

- Increasing from \$35,000 to \$150,000 the threshold contract amount for which a contractor or general contractor/construction manager may choose to have a public entity retain a percentage of the contract amount.
- Reducing the percentage of the contract amount that a public entity may retain in lieu of a bond on small works for the public entity from 50% to 10%.
- Providing priority for the recovery of unpaid wages and benefits for any claims against retained amounts.
- Raising the threshold amount on contracts for which a public entity may accept full payment and performance bond from a surety, from \$100,000 to \$150,000.

SB 5734 is effective July 23, 2017.

**ESSB 5939      Promoting a sustainable, local renewable energy industry through modifying renewable energy system tax incentives and providing guidance for renewable energy system component recycling ([Chapter 36, Laws of 2017 3<sup>rd</sup> sp. sess.](#))**

This bill:

- Ends the current renewable energy system cost recovery incentive program for systems not producing electricity before July 1, 2017.

- Transfers program management to the Washington State University Extension Energy Program (WSU) on October 1, 2017.
- Ends the sales/use tax exemptions for solar energy equipment on September 30, 2017, for systems capable of generating no more than 500 kW of electricity.
- Establishes a new program administered by WSU open to applicants certified under the existing program and new applicants starting July 1, 2017.
- Modifies the PUT credit for incentive payments made under the existing program as follows:
  - Expands the credit to incentive payments made under the new program and fees paid by a utility to WSU to collect electricity production data.
  - Increases the PUT credit cap for utilities to the greater of 1.5% of 2014 taxable power sales or \$250,000.
  - Expires the right to earn PUT credits on June 30, 2029. Credits may not be claimed after June 30, 2030.
- Removes the confidentiality of application data and information related to PUT credits.

ESSB 5939 is effective July 7, 2017.

**SSB 5977 Relating to revenue ([Chapter 37, Laws of 2017 3<sup>rd</sup> sp. sess.](#)) Partial Veto)**

This bill contains a number of provisions creating, extending, or modifying various tax preferences.

**Part I – Modifying the Washington Main Street Program**

This part increases the statewide tax credit limit for contributions to the Washington Main Street program to \$2.5 million in any calendar year and makes certain administrative changes to the program.

This part is effective January 1, 2018.

**Part II – Lowering the Manufacturing B&O Tax Rate – (Vetoed)**

The Governor vetoed this part of the bill, which would have provided a phased in reduction of the state manufacturing B&O tax rate to a rate of .2904 percent over four years.

**Part III – Business and Occupation Tax Exemption for Agricultural Fertilizer and Seed**

This part creates an exemption from the B&O tax on wholesale sales by an eligible distributor of commercial fertilizer, agricultural crop protection products, and seed, to an eligible retailer when there is a specified percentage of common ownership between the distributor and retailers.

This part is effective July 1, 2017.

**Part IV – Solar Silicon Manufacturing and Wholesaling**

This part extends the expiration date for the preferential B&O manufacturing tax rate of 0.275 percent, applicable to manufacturing of solar energy systems using photovoltaic modules or stirling converters and solar grade silicon, silicon wafers, silicon solar cells, thin film solar

devices, or compound semiconductor solar wafers to be used exclusively in the components or such systems, to July 1, 2027.

This part also extends the 0.275 percent preferential B&O tax rate applicable to the wholesaling of the same products if they are manufactured by that person.

This part is effective June 30, 2017.

### **Part V – Semiconductor Materials Manufacturing**

This part:

- Extends the B&O tax preferential rate and the sales and use tax exemptions on purchases of gases for persons that manufacture or process for hire semiconductor materials to December 1, 2028.
- Requires persons claiming the preferential B&O tax rate or sales and use tax exemptions to pay back fifty percent of the amount of tax preference claimed if certain employment level and wage criteria are not met.
- Provides a January 1, 2024, expiration date for the tax preferences subject to the contingencies in RCW 82.32.790 of siting a significant semiconductor microchip fabrication facility in Washington.

### **Part VI – Exemptions for the Conversion of Coal-Fired Electric Plants (Vetoed)**

The Governor vetoed this part, which would have provided certain sales and use tax exemptions for the conversion of coal-fired electric plants to natural gas or biomass facilities.

### **Part VII – Tax Relief for Silicon Smelters**

This part:

- Creates a B&O tax and PUT credit for utilities that provide electricity, natural gas, or manufactured gas to a silicon smelter.
  - The contract for sale of the electricity or gas to the silicon smelter must specify that the price charged for the electricity or gas will be reduced by an amount equal to the credit.
  - The credit is equal to the gross income from the sale multiplied by the applicable B&O or PUT rate.
- Creates an exemption from brokered natural gas use tax for natural or manufactured gas used by a silicon smelter.
- Requires repayment of the credits claimed if, for the previous two calendar years, certain employment level and wage criteria are not met.

This part is generally effective October 19, 2017.

### **Part VIII – Invest in Washington Program**

This part expands the Invest in Washington program to allow for the annual approval of sales and use tax deferrals for up to two manufacturing facilities, one of which must be located in eastern Washington and one of which must be located in western Washington. The deferral applies to qualified buildings or qualified machinery and equipment, including labor and services rendered in respect to the planning, construction, and installation.

This part is effective January 1, 2018.

### **Part IX – Extending the Sales and Use Tax Deferral for Historical Auto Museums**

This part extends the due date of the first payment due under the sales and use tax deferral program for historical auto museums from December 31 of the fifth year after project completion to ten years. The payment terms remain the same with the museum repaying ten percent of the deferral each year for ten years.

This part is effective October 19, 2017.

### **Part X – Concerning Removal of Land from Current Use Due to Natural Disaster**

This part provides property tax relief to owners when property is removed from:

- The Current Use Program due to a wildfire; or
- The Designated Forestland Program due to a natural disaster

This part is effective July 1, 2017.

### **Part XI – Modifying Washington’s Motion Picture and Film Industries Tax Credit**

This part extends the motion picture and film industries tax credit for ten years to June 30, 2027.

The bill also decreases the maximum credit amount that a person may claim in a calendar from \$1.0 million to \$750,000.

This part is effective October 19, 2017.

### **Part XII – Concerning the Excise Taxation of Martial Arts**

This part reclassifies martial arts training from a retail sale to the Service and Other Activities B&O tax classification, except for martial arts classes held at facility operated within and as a part of an “athletic or fitness facility.”

"Martial arts" means any of the various systems of training for physical combat or self-defense. "Martial arts" includes, but is not limited to, karate, kung fu, tae kwon do, Krav Maga, boxing, kickboxing, jujitsu, shootfighting, wrestling, aikido, judo, hapkido, Kendo, tai chi, and mixed martial arts.

This part is effective October 19, 2017.

### **Part XIII – Leasehold Excise Credits and Exemptions for Colleges and Universities**

This part:

- Creates a leasehold excise tax (LET) credit for leasehold interests in real property owned by state universities when the tax parcel subject to the leasehold interest has a market value in excess of \$10 million.
- Creates a LET exemption for leasehold interests in facilities owned by a community or technical college, if used to:
  - Provide food service for students, faculty, and staff;
  - Operate a bookstore on campus; or



- Provide maintenance, operational, or administrative services to the community or technical college.

The LET credit for leasehold interests that have a market value exceeding \$10 million is effective January 1, 2022. The LET exemption for leasehold interests owned or used by a community or technical college is effective October 19, 2017.

## **BILLS AFFECTING THE BUSINESS LICENSE SERVICE (BLS)**

### **E2SHB 1351 Authorizing, under one license, the sale of spirits, beer, and wine at retail for off-premises consumption ([Chapter 96, Laws of 2017](#))**

This bill establishes a combination spirits, beer, and wine license that allows sales of these items at retail for off-premises consumption subject to certain requirements. The annual license fee is \$316 for each store. Existing licensees holding a grocery store, beer and wine specialty shop, or spirits retailer license may transition to the combination license with approval from the Liquor and Cannabis Board (LCB).

E2SHB 1351 is effective July 23, 2017.

### **SHB 1462 Adding authority to the department of agriculture to regulate sanitary processing of marijuana-infused edibles ([Chapter 138, Laws of 2017](#))**

This bill requires marijuana processors that produce marijuana-infused edibles (e.g. marijuana cookie) to comply with the same sanitary requirements as other food processors. The Washington State Department of Agriculture (WSDA) administers this program and inspects food processors.

Beginning April 1, 2018, marijuana processors that produce marijuana-infused edibles must apply for a marijuana-infused edibles endorsement and applicants must pass a sanitary inspection by the WSDA. The annual endorsement fee is \$895. The Department's BLS will process the endorsement.

SHB 1462 is effective July 23, 2017.

### **HB 1722 Eliminating wholesale vehicle dealer licensing ([Chapter 15, Laws of 2017](#))**

This bill eliminates the Wholesale Vehicle Dealer license in three phases:

- Effective July 1, 2017, the Department of Licensing (DOL) may not issue any new wholesale vehicle licenses;
- Effective July 1, 2018, the DOL may not renew wholesale vehicle dealer licenses; and
- Effective July 1, 2019, eliminates the wholesale vehicle dealer license.

HB 1722 is effective June 30, 2017.

### **SHB 1902 Modifying tavern license provisions ([Chapter 252, Laws of 2017](#))**

This bill allows businesses holding a tavern license to obtain a catering endorsement. The LCB will administer the \$350 endorsement and the Department's BLS will process and renew the endorsement.

SHB 1902 is effective July 23, 2017.

### **EHB 2005 Improving the business climate in this state by simplifying the administration of municipal general business licenses ([Chapter 209, Laws of 2017](#))**

This bill requires most cities to partner with the Department's BLS for the issuance and renewal of municipal general business licenses. It provides a phased-in approach to partnering with all cities by December 31, 2027; or December 31, 2022, if the Legislature provides funding in the omnibus appropriations act. As of the date of this summary, it was not clear whether the Department had received funding for the accelerated partnering.

This bill also:

- Requires cities to develop and adopt a general business licensing model ordinance that defines the term "engaging in business within the city" and establishes a uniform minimum licensing threshold.
- Establishes the Local Business and Occupation Tax Apportionment Task Force, chaired and staffed by the Department, to recommend changes to simplify the two-factor apportionment formula.

EHB 2005 is effective July 23, 2017.

**SB 5130      Increasing marijuana license fees and adding a temporary additional fee on marijuana licenses issued by the Washington State Liquor and Cannabis Board ([Chapter 316, Laws of 2017](#))**

This bill establishes a temporary additional fee of \$480 for applications and renewals of all marijuana business licenses. The LCB must use the increased fees to fund the replacement of its marijuana traceability system. Beginning July 1, 2018, the temporary fee expires and the fee for marijuana producer, processor, retailer, and research licenses increases by \$300 to \$1,300.

SB 5130 is effective July 23, 2017.

**ESSB 5131    Addressing provisions concerning marijuana with respect to research licenses, local authority notifications, the retail licensing application process, processor wholesale events, and jurisdictional requirements. ([Chapter 317, Laws of 2017](#))**

This LCB agency request legislation makes a variety of regulatory changes to the marijuana statutes, only a few of which affect the Department. Changes that affect the Department include the following:

- Cooperatives, medical marijuana patients with recognition cards, and marijuana research licensees may purchase sales-taxable marijuana seeds and plants from a marijuana producer.
- Individuals and other persons or entities may hold a collective total of not more than five retail marijuana licenses.
- LCB may make rules concerning the forfeiture of a marijuana retailer license if the business does not become operational within a specified period.

SB 5131 is effective July 23, 2017.

**ESB 5834      Concerning the licensing of bonded spirits warehouses ([Chapter 229, Laws of 2017](#))**

This bill establishes a spirits warehouse license that allows for the storage and handling of spirits off the premises of a distillery. The licensee must physically separate the sections of the warehouse for bonded and non-bonded spirits. The LCB will administer the \$100 license and the Department's BLS will issue and renew the license.

ESB 5834 is effective July 23, 2017.