

## NOTES ON LOCAL TAX DISTRIBUTIONS REVENUE REPORTS

Local tax distributions are amounts disbursed to cities, counties, and other local governments by the Office of the State Treasurer. These taxes are collected by the Department of Revenue which is responsible for the correct allocation of the funds. The amounts are based on the local share of retail sales and use taxes collected two months prior to the distribution. Distributions are made monthly; however, no allowances or adjustments are made for late returns. Distributions from late returns are made in the second month after the returns are received just as they are for current returns. As soon as they are available, monthly local tax distribution figures are posted on the Department of Revenue's web site at <http://dor.wa.gov/content/statistics/>.

### **Differences Between Local Tax Distributions and the *Quarterly Business Review***

The amounts reported as local tax distributions should not be compared with the *Quarterly Business Review* (QBR) amounts for taxable retail sales by county and city (Tables 3 and 4). The two amounts differ in the following respects.

1. The local distribution amounts are based on local retail sales and use taxes. QBR amounts are based on retail sales only. The use tax is levied on items purchased out of state but used in state and on other items on which sales tax has not been paid.
2. Local sales and use tax distributions are made monthly based on cash collections of two months prior, without regard to when the tax liability occurred. QBR taxable retail sales are reported for the month in which the liability occurs. Adjustments are made for tax returns that are up to two months late.
3. State administrative costs have already been deducted from the local distributions and the county share has been deducted from city distributions.

**Data Presentation** - The formats used in this annual summary vary from the formats used in previous bimonthly printed editions and on the Department's Internet web site. Some tables were renumbered and grouped by tax type. The three tax types are sales/use taxes, lodging taxes and rental car tax. The formats used in this publication were developed in consultation with a cross-section of representative users of the publication. While some formats have changed, the figures included are identical to those presented in other media. This annual edition includes figures for both the most recent complete calendar year and the year immediately prior. At our users' request we have included a computation of the percentage change in distribution amounts from one year to the next. We caution all users of this data to take great care in attempting to attribute causes to individual percentage changes. Distributions can fluctuate dramatically due to population changes, annexations and incorporations, as well as audit adjustments. Also, corrections to previous incorrect location codes can cause changes to amounts received by particular local entities.

**Basic and Optional Distributions** - A portion of the total sales and use tax collected by retailers is a local tax and is returned to the city, county, or certain other local jurisdictions where the sales transaction took place. The local jurisdictions are identified by a location code on the tax return. The calculation for the distribution of the local sales and use tax is as follows. A 1 percent fee is deducted

from the total reported collections for state administration of the program. (State law allows deduction of up to 2 percent for administrative costs.) Of the remaining 99 percent, 15 percent is distributed to the county for transactions occurring within city limits. The remaining 85 percent is distributed to the cities as their share of the basic or optional tax. Counties receive the full amount attributable to sales in the unincorporated areas, plus the 15 percent share for sales in cities.

**Transit Tax Distributions** - Cities, counties or public transportation benefit areas may levy a local sales and use tax for transit programs. The tax may range in rate from 0.1 to 0.9 percent (excluding the local tax for high capacity transit, as described below). After an administration fee of 1 percent is deducted, the remainder is returned to the transit districts.

**Criminal Justice Tax Distributions** - The criminal justice tax is an additional local sales/use tax of 0.1 percent for criminal justice programs. The criminal justice distribution is based on population rather than location code. This tax is levied only by the county and is imposed countywide, but the receipts are shared with the cities. Of the revenues collected for criminal justice, 1 percent is retained for administration. Of the amount remaining, 10 percent is distributed to the county and 90 percent to the county and all cities within the same county on a per capita basis based on their official April 1 populations.

**Correctional Facility Tax Distributions** - The correctional facility tax of 0.1 percent provides funds for juvenile detention facilities and jails in counties with populations less than one million. Each county must vote to approve the tax. It is levied only by the county and is imposed countywide. Of the revenues collected, 1 percent is retained for administration and the remainder is distributed wholly to the county.

**Rural Counties Tax Distributions** - In 1998, economically distressed counties were authorized to levy a local sales/use tax of up to 0.04 percent. In 1999 the qualification criterion was changed to population density and the maximum rate was increased to 0.08 percent. The tax is deductible from the state 6.5 percent tax, so consumers will not bear an additional tax burden (the impact is shifted to the state general fund). Receipts of the tax are returned to the county to be used to finance public facilities.

**Emergency Communications Systems Tax Distributions** - Legislation passed in 2002 authorized counties to levy, with voter approval, an additional local sales/use tax of 0.1 percent to support emergency communications systems and facilities. Of the revenues collected, 1 percent is retained for administration and the remainder is distributed wholly to the county. This tax is not deducted from the state rate, so it is an additional tax for the consumer.

**Public Safety and Health Distributions** - Legislation passed in 2003 provides an additional local tax of up to 0.3 percent for counties, subject to voter approval. At least one-third of the tax receipts must be devoted to criminal justice programs, including funding of additional police officers and the relief of congested court systems and overcrowded correctional facilities. The levying county is to retain 60 percent of the receipts and the remaining 40 percent will be distributed to cities within the county on a per capita basis. The statute requires that the use of the revenues be stated in the ballot proposition that goes before the voters; further, the receipts may not be used to replace existing funds for such programs. The tax does not apply to sales, use, or leases (first 36 months only) of motor vehicles.

**Local Sales/Use Tax Distributions to Other Jurisdictions** - The Spokane County Public Facilities District is authorized to levy a 0.1 percent retail sales tax for the funding of a sports and entertainment

arena. Pursuant to 1999 legislation, other public facility districts may, upon voter approval, levy a local sales tax of up to 0.2 percent for public facilities. This tax is in addition to the state rate, representing an additional tax for consumers.

Other legislation allows public facilities districts which start construction of new, or renovation of existing, regional centers before January 1, 2004, to impose local sales and use tax of up to 0.033 percent for their support. This tax is credited against the state tax (thus shifting the impact to the state general fund) and therefore does not increase the tax paid by consumers.

The funding measures for the professional baseball stadium in King County include additional local sales and use tax at a maximum rate of 0.017 percent. This tax is credited against the 6.5 percent state tax, so the consumer does not experience an additional tax burden. Another local tax that benefits the baseball stadium is a 0.5 percent local tax on food and beverages sold by restaurants, taverns, and bars in King County. This tax is not deducted from the state rate, so it is an additional tax for the consumer.

A local sales and use tax of 0.016 percent has been applied to all taxable sales in King County for the construction of the new stadium for professional football. This tax is credited against the state tax (thus shifting the impact to the state general fund) and does not increase the consumer's tax burden.

Another local sales and use tax applies within the Regional Transit Authority area, which generally includes the urban portion of King, Pierce and Snohomish counties. This tax of 0.4 percent is used to fund a high capacity, rapid transit system. (The statutory maximum rate is 1 percent, or 0.9 percent if the criminal justice tax is levied.)

A local sales and use tax of 0.1 percent which is applied to all taxable sales within Pierce County for support of zoo and aquarium facilities and county parks was effective January 1, 2001. This is not deducted from the state rate, so it is an additional tax for the consumer. In lieu of an administration fee for this distribution, 1 percent of the revenues are transferred to the Community, Trade, and Economic Development Department to support community-based housing for the mentally ill.

**State Shared Hotel/Motel Tax Distributions** - The "regular" or state-shared hotel/motel tax distributions are for a local option tax of 2 percent on sales of hotel/motel rooms. The regular hotel/motel tax is not paid in addition to other state and local sales taxes. Instead, it is credited against the state's 6.5 percent retail sales tax (thus shifting the impact to the state general fund). Cities can levy the regular hotel/motel tax within their corporate limits and counties can levy the tax in unincorporated areas and within cities that do not levy the tax. (There are two exceptions: the cities of Bellevue and Yakima, where both the city and the county are permitted to levy the hotel/motel tax.)

**Additional Local Hotel/Motel Taxes** - Additional (also referred to as "special") hotel/motel taxes were previously authorized by statute for specific cities and counties for specific purposes. Starting in 1997, any city, town or county was eligible to levy an additional hotel/motel tax at a rate of up to 4 percent (unless a higher rate was previously authorized). Up to one-half, or a maximum of 2 percent, of this amount can be credited against the state sales tax, as under the existing state-shared hotel/motel tax. These taxes are paid in addition to all other state and local sales taxes.

**Tourism Promotion Area** - Tourism promotion area taxes may be levied by a county with a population greater than 40,000 but less than 1,000,000 and by cities within those counties. A fee applies to each room that is rented for less than 30 days in lodging facilities that have 40 or more rooms; it is based on the number of days the room is rented. The qualifying cities and counties can impose a fee of up to \$2 per day

for each day that a lodging unit is rented (in facilities with 40 or more units). The statute provides for classification of lodging units with different rates for each; such classifications may be based on total number of units available, total lodging revenues, or the specific location within a tourism promotion area.

**Rental Car Tax Distributions** - Counties may impose an additional 1 percent sales tax upon rental cars. This tax is in addition to the regular retail sales tax rate and the 5.9 percent state rental car tax. Proceeds from this additional tax are to be used for public sports facilities and youth or amateur sport activities.

One of the provisions of the funding measures for the professional baseball stadium in King County is an additional sales and use tax of 2 percent on car rentals in King County. The tax rate for car rentals in King County therefore represents the total of the combined state and local retail sales tax, the statewide car rental tax, the optional King County car rental tax, and the special stadium sales and use tax.

Within the Regional Transit Authority area of urban King, Pierce and Snohomish counties, the rental car tax is increased by an additional 0.8 percent.

**Chemical Dependency or Mental Health Treatment Services or Therapeutic Courts** - 2006 legislation authorized counties to levy an additional sales/use tax of 0.1 percent. The tax revenues will be distributed to the county and solely used for the purpose of providing new or expanded chemical dependency or mental health treatment services and for the operation of new or expanded therapeutic court programs.

**Disclosure** - To comply with state law requiring data on individual taxpayers to be kept confidential, in the regular and additional hotel/motel tax distribution tables a "D" indicates that the data cannot be disclosed because the jurisdictions have fewer than three taxpayers who report on a monthly basis. These amounts are not included in the totals for the cities or counties.