

Revenues

In the 2006 session, the Legislature enacted several bills intended to help the agriculture industry. One of the main concerns was the effect of record high fuel prices on the industry. Legislation was passed to exempt diesel fuel and aircraft fuel used for farm purposes from the retail sales and use tax to help offset the cost of fuel. In addition, a sales and use tax exemption was provided for replacement parts for farm equipment. Tax incentives were also adopted for the seafood and dairy industries.

Tax incentives were also given to the timber and wood products industry, motion picture industry, aluminum industry, and biotech product and medical device manufacturing industries to either help them rebound or to grow. In addition, the current aerospace tax incentives were extended to non-manufacturing aerospace business.

Assistance was given to all businesses in Chapter 256, Laws of 2006 (HB 2671), which reversed legislation adopted in 2003. The excise tax return due date for monthly filers was extended from the 20th of the month following a taxable activity to the 25th of the month. The 5 percent assessment penalty on all tax deficiencies that was adopted in 2003 was reduced to only apply to businesses that “substantially underpay” their tax obligations, meaning they pay less than 80 percent of the amount due and the deficiency is greater than \$1,000.

Finally, Chapter 278, Laws of 2006 (SHB 2880), closed an unintended loophole in the tax code. The statute imposing the insurance premiums tax states that the tax is in lieu of all other taxes, except taxes on real and tangible personal property; excise taxes on the sale, purchase, or use of such property; and business and occupation (B&O) tax imposed on nonprofit hospitals. The question arose as to whether the phrase “excise taxes on the sale, purchase, or use of such property” means insurers are liable for retail sales taxes only on the sale of tangible personal property and not on the sale of sales taxable services or extended warranties. This bill clarified that insurers do pay the retail sales and use taxes on taxable services as other types of businesses do.

2005-07 Revenue Legislation
General Fund-State
(Dollars in Thousands)

Legislation	2005-07	2007-09	
Revenue Reduction Measures			
HB 2671	Modifying Due Dates & Eliminating an Assesement Penalty	-11,140	-24,720
SHB 2457	Replacement Parts for Farm Machinery & Equipment	-5,829	-13,277
SSB 6874	Timber & Timber Products Tax Incentives	-4,630	-32,600
HB 2424	Farm Fuel Sales Tax Exemption	-4,549	-8,132
2SSB 6558	Motion Picture Industry	-3,500	-7,000
HB 2644	Public Utility Tax Credit for Heating Assist for Low-Income	-3,000	0
HB 2466	Aerospace Tax Incentives	-2,912	-7,478
EHB 3159	Food Product Manufacturing	-2,810	-6,474
SSB 6533	Syrup Taxes	-2,294	-12,857
SSB 6671	Professional Employer Organizations	-2,147	-6,654
SHB 2640	Biotech Products and Medical Device Mfg Incentives	-1,394	-3,335
HB 2348	Aluminum Smelters	-1,144	-4,656
SHB 1523	Vegetable Seed Conditioning	-1,085	-2,614
2SSB 6326	Customized Work Force Training	-910	-2,999
SB 6826	Public Transit Services	-476	-1,038
ESSB 6230	Sales & Use Tax Credit for Regional Centers	-389	-1,281
SHB 2416	State Park Fees	-265	-403
SHB 2778	Nonprofit Convention & Tourism Promotion Organizations	-210	-453
HB 2364	State Chartered Credit Unions	-158	-338
ESHB 3222	Tax Exemptions for Handling & Processing Livestock Manure	-41	-93
SSB 6512	Enhancing Air Quality at Truck Stops	-35	-3
ESB 5048	Tobacco Product Sampling	-20	-44
SHB 2569	Property Tax Deferral Interest Rates	-15	-150
2SHB 2799	Solar Hot Water Heating Equipment	-14	-28
No 2005-07 General Fund-State Impact			
SB 6368	Nursing Home Bed Tax Repeal	0	-31,351
SSB 6686	City Annexation Sales Tax Credit	0	-7,699
E2SHB 2673	Local Infrastructure Financing Tool Program	0	-5,000
SHB 3190	Semiconductor Materials Tax Incentive	0	-1,762
SSB 5236	Providing Additional Funding to Prevailing Wage Program	0	-1,138
ESHB 1672	Safe Patient Handling	0	-600
EHB 1069	Performance Audits of Tax Preferences	0	0
SHB 1510	Property Taxation of Nonprofit Entities	0	0
SHB 2033	Municipal B&O Taxation of Printing & Publishing	0	0
SHB 2670	Hospital Benefit Zone Financing	0	0
SHB 2804	Nonprofit Schools & Colleges	0	0
HB 2879	Modifying the Electronic Admin of the Real Estate Excise Tax	0	0
SHB 3164	Personal Property Tax Exemption for a Head of Family	0	0
HJR 4223	Personal Property Tax Exemption for a Head of Family	0	0
SB 6280	Nonprofits/Property Tax Exemption	0	0
SB 6338	Senior Citizen Property Tax Exemption Program	0	0

2005-07 Revenue Legislation
General Fund-State
(Dollars in Thousands)

Legislation	2005-07	2007-09
Revenue Increase Measures		
ESB 6537 Direct Wine Shipments	2,803	5,751
SSB 6141 Wind Turbine Facilities	272	1,093
2SSB 6823 Distribution of Beer and Wine	18	36
TOTAL	-45,874	-177,297
Miscellaneous		
SHB 2880 Insurance Premium Taxpayers	51,598	65,426

Revenue Legislation

The legislation listed below is intended to be a summary of bills passed during the 2006 session affecting state revenues or tax statutes but may not cover all revenue-related bills.

Revenue Reduction Measures

Modifying Due Dates and Eliminating an Assessment Penalty – \$11.4 Million General Fund-State

Chapter 256, Laws of 2006 (HB 2671), moves the due date for taxpayers filing monthly excise tax returns to the 25th of the month rather than the 20th. In addition, the current 5 percent assessment penalty is only assessed on businesses if they “substantially underpay” taxes due, which is defined as less than 80 percent of the tax due and is greater than \$1,000.

Replacement Parts for Farm Machinery and Equipment – \$5.8 Million General Fund-State

Chapter 172, Laws of 2006 (SHB 2457), exempts replacement parts for farm machinery and equipment from the sales and use tax for qualifying farmers. This includes replacement parts that are installed by the farmer and those parts installed by others if the parts are separately itemized on the bill. To qualify, the farm must have a gross income from sale of agricultural products that exceeded \$10,000 in the prior year or in the first full year of farming. Paint, fuel, oil, grease, hydraulic fluids, antifreeze, and similar items are excluded from the definition of replacement parts and do not qualify for this exemption.

Timber and Timber Products Tax Incentives – \$4.6 Million General Fund-State

Chapter 300, Laws of 2006 (SSB 6874), provides a preferential B&O tax rate of 0.2904 percent for cutting timber, manufacturing timber and timber products into wood products, and sales of the timber and wood products at wholesale. Wood products include pulp, paper, lumber, and engineered wood products, such as particle board. The preferential rate expires July 1, 2024.

Farm Fuel Sales Tax Exemption – \$4.5 Million General Fund-State Decrease

Chapter 7, Laws of 2006 (HB 2424), provides a sales and use tax exemption for diesel and aircraft fuel used by a farmer for farming purposes or a person performing horticultural services for a farmer.

Motion Picture Industry – \$3.5 Million General Fund-State

Chapter 247, Laws of 2006 (2SSB 6558), creates the Motion Picture Competitiveness Program (MPCP), a non-profit entity administered by a board of directors appointed by the Governor. MPCP is authorized to provide up to 20 percent of the in-state cost of, or investment in, certain film production projects. A contributor of cash of up to \$1 million to MPCP qualifies, dollar for dollar, for a B&O tax credit until 2008. After 2008, the amount of the credit is reduced to 90 percent of the amount contributed. The total of all tax credits claimed in any calendar year may not exceed \$3.5 million.

Public Utility Tax Credit for Heating Assistance for Low-Income Households – \$3.0 Million General Fund-State

Chapter 213, Laws of 2006 (HB 2644), raises the total public utility tax credit for electric and natural gas utilities providing heating assistance to low-income customers from \$2.5 million to \$5.5 million for fiscal year 2007.

Aerospace Tax Incentives – \$2.9 Million General Fund-State

Chapter 177, Laws of 2006 (HB 2466), extends the sales and use tax exemption for computer equipment and software used primarily in commercial airplane development and the B&O tax credit for pre-production development expenditures related to commercial aircraft to non-manufacturing firms. The B&O tax credit for property taxes paid on property used in the manufacture of commercial airplanes is expanded to include leasehold excise taxes. The reduced B&O tax rate for Federal Aviation Administration certificated repair stations engaged in the repair of equipment used in interstate or foreign commerce is extended to July 1, 2011. The tax rate is set at 0.2904 percent.

Food Product Manufacturing – \$2.8 Million General Fund-State

Chapter 354, Laws of 2006, Partial Veto (EHB 3159), extends the B&O tax exemption, sales and use tax deferral on manufacturing facilities, and warehouse tax remittance adopted for fruit and vegetable products in 2005 to seafood and dairy product manufacturing. The tax exemptions for fruit and vegetable, seafood and dairy product manufacturing, and warehousing terminates July 1, 2012. The B&O tax rate on persons that inspect, test, and label canned salmon owned by another person is reduced from 1.5 percent to 0.484 percent. Vetoed were sales and use tax exemptions provided for materials used in the labeling or packaging of canned salmon.

Syrup Taxes – \$2.3 Million General Fund-State

Chapter 245, Laws of 2006 (SSB 6533), allows a retailer to claim a credit against B&O taxes for 50 percent of carbonated beverage syrup taxes paid as follows: 25 percent for fiscal year 2007; 50 percent for fiscal year 2008; 75 percent for fiscal year 2009; and 100 percent for years after fiscal year 2009.

Professional Employer Organizations – \$2.1 Million General Fund-State

Chapter 301, Laws of 2006 (SSB 6671), defines a professional employer organization as a firm providing employee-related services to clients where the client's employer rights, duties, and obligations have been allocated between the client and the professional employer organization. Professional employer organizations pay B&O tax at the 1.5 percent service rate. A deduction is provided from gross income for amounts representing the actual cost of wages and salaries, benefits, workers compensation, payroll taxes, withholding, and other assessments paid on behalf of the client.

Biotechnology Products and Medical Device Manufacturing Incentives – \$1.4 Million General Fund-State Decrease

Chapter 178, Laws of 2006 (SHB 2640), provides a state and local sales and use tax deferral for investments in construction or renovation of structures, or machinery and equipment, used for biotechnology product or medical device manufacturing. If, after eight years, the deferral recipient meets eligibility criteria, repayment of the sales and use tax is not required.

Aluminum Smelters – \$1.1 Million General Fund-State Decrease

Chapter 182, Laws of 2006 (HB 2348), extends the tax preferences for the aluminum smelting industry through 2012, which were originally set to expire after 2006. The preferences continued include: 1) a reduction in the B&O tax rates under manufacturing and wholesaling to 0.2904 percent; 2) a credit against B&O tax liability for property taxes paid; 3) a credit against retail sales and use tax liability for the amount of the state portion of sales and use taxes paid on property, labor, and services associated with the property; and 4) an exemption from the brokered natural gas use tax.

Vegetable Seed Conditioning – \$1.1 Million General Fund-State Decrease

Chapter 142, Laws of 2006 (SHB 1523), extends the rural county sales and use tax deferral/exemption program applying to investments by certain businesses in plant construction, expansion, or equipment acquisition to include businesses conditioning vegetable seeds.

Customized Work Force Training – \$0.9 Million General Fund-State

Chapter 112, Laws of 2006 (2SSB 6326), creates the Washington Customized Employment Program to provide training assistance to employers locating to or expanding in the state. The State Board for Community and Technical Colleges shall provide training allowances to employers. Employers must pay for one quarter of the cost of training up front. The remaining three quarters of the cost is repaid over an 18-month period. Employers are given a B&O tax credit equal to half of the amount paid for training their employees through this program.

Public Transit Services – \$0.5 Million General Fund-State

Chapter 336, Laws of 2006 (SB 6826), provides a public utility tax deduction for fare-box revenues collected by county and city transit agencies, urban public transit systems, and public transportation benefit district transit agencies. Transit agencies must use an amount equal to the tax saving for increased service to low-income and senior citizens.

Sales and Use Tax Credit for Regional Centers – \$0.4 Million General Fund-State

Chapter 298, Laws of 2006 (ESSB 6230), extends the 0.033 percent sales and use tax for a regional center for public facilities districts that is credited against the state sales and use tax to districts created before July 1, 2006, in a county or counties in which there are no other public facilities districts on the effective date of the bill and in which the total population in the public facilities district is greater than 90,000 that commences construction of a new regional center before February 1, 2007.

State Park Fees – \$0.3 Million General Fund-State

Chapter 141, Laws of 2006 (SHB 2416), prohibits the Washington State Parks and Recreation Commission from imposing a fee for parking or general access to state parks.

Nonprofit Convention and Tourism Promotion Organizations – \$0.2 Million General Fund-State

Chapter 310, Laws of 2006 (SHB 2778), exempts from B&O taxes income of a nonprofit organization from state and local governments, federally-recognized Indian tribes, or public corporations for promoting conventions and tourism.

State-Chartered Credit Unions – \$0.2 Million General Fund-State

Chapter 11, Laws of 2006 (HB 2364), provides a use tax exemption to state-chartered credit unions for personal property, services, and extended warranties that are acquired from a federal, out-of-state, or foreign credit union as a result of a conversion or merger.

Tax Exemptions for the Handling and Processing of Livestock Manure – \$0.04 Million General Fund-State

Chapter 151, Laws of 2006 (ESHB 3222), expands the current exemption from sales tax for dairy cattle operations to all confined livestock feeding operations with nutrient management plans approved by conservation districts. The sales tax exemption applies to livestock nutrient management equipment and facilities purchased to implement the approved nutrient management plan. The current exemption from sales tax for the construction and repair of anaerobic digesters for treating dairy manure is expanded to anaerobic digesters that treat other kinds of livestock manure.

Enhancing Air Quality at Truck Stops – \$0.04 Million General Fund-State

Chapter 323, Laws of 2006 (SSB 6512), provides B&O and sales and use tax incentives for equipment designed to convey power to idling heavy duty vehicles through on-board or stand-alone electrification systems. Incentives are available to both businesses providing electrification services and to vehicle owners installing on-board equipment. The incentives expire on July 1, 2015.

Tobacco Product Sampling – \$0.02 Million General Fund State-Decrease

Chapter 14, Laws of 2006 (ESB 5048), prohibits the distribution of tobacco product samples to members of the public.

Property Tax Deferral Interest Rates – \$0.02 Million General Fund-State

Chapter 275, Laws of 2006 (SHB 2569), reduces the interest rate charged on property taxes deferred under the senior citizen property tax deferral program from 8 percent to 5 percent for future deferrals. The Department of Revenue (DOR) must study and report on the adequacy and appropriateness of the interest rate in 2012.

Solar Hot Water Heating Equipment – \$0.01 Million General Fund-State Decrease

Chapter 218, Laws of 2006 (2SHB 2799), provides a sales and use tax exemption for solar water heating systems, water heating collectors, heat exchangers, and differential controllers. The exemption also applies to repairs, replacement parts, and related labor and services. The exemption expires on July 1, 2009.

No General Fund-State Impact for 2005-07

Performance Audits of Tax Preferences

Chapter 197, Laws of 2006 (EHB 1069), creates a citizen commission to develop a schedule for periodic review of tax preferences such as exemptions, exclusions, deductions, credits, deferrals, and preferential rates. The commission must develop a schedule for the Joint Legislative Audit and Review Committee (JLARC) to conduct a review of all tax preferences at least once every ten years. Annual reports are to be made to the Legislature on reviewed tax preferences.

Property Taxation of Nonprofit Entities

Chapter 305, Laws of 2006 (SHB 1510), expands the exceptions to the prohibition on the use of property tax exempt property of nonprofit organizations. The days a nonprofit public assembly hall or meeting place or a war veterans' organization may loan or rent its property tax exempt property for gain or to promote business activities is increased from 7 to 15 days per year. Counties in which a public assembly hall or meeting place property tax exempt property may be used for dance or music lessons and art classes is increased from 10,000 to 20,000 in population. Nonprofit social service organizations in counties with less than 20,000 population may loan or rent their property tax exempt property for gain or to promote business activities for 15 days per year if there is no private for-profit facility that could be used within 10 miles and may loan or rent their property to a nonprofit community group for 15 days per year if the community derives a benefit.

Safe Patient Handling

Chapter 165, Laws of 2006 (ESHB 1672), requires hospitals to establish a safe patient handling program. In addition, a B&O tax credit is established for hospitals licensed by the Department of Health. The credit is equal to 100 percent of the cost of acquiring mechanical lifting devices consistent with a safe patient handling program. The maximum credit for each hospital is \$1,000 for each acute care available inpatient bed. The maximum credit that can be taken statewide is \$10 million. The credit expires after 2010.

Municipal Business and Occupation Taxation of Printing and Publishing

Chapter 272, Laws of 2006 (SHB 2033), exempts printing and publishing businesses from the methodology adopted in 2003 for apportioning business income for purposes of municipal B&O taxes that is to take effect in 2008. The gross income of printing and publishing businesses will, instead, be allocated to the principal place in the state from which they are directed or managed.

Hospital Benefit Zone Financing

Chapter 111, Laws of 2006 (SHB 2670), allows local governments to finance public improvements within a defined area using revenue from a local sales and use tax up to 6.5 percent credited against the state sales and use tax. The defined area must include a hospital that has received a Certificate of Need. The tax must be used for bonds and must be suspended each fiscal year when the amount collected equals the amount of local matching funds, the increase in state sales taxes in the area, or \$2 million. The credit is capped statewide at \$2 million per year. There is a \$4.0 million General Fund-State impact in the 2009-11 biennium.

Local Infrastructure Financing Tool Program

Chapter 181, Laws of 2006, Partial Veto (E2SHB 2673,) allows a local government to make public improvements in a specially designated revenue development area (RDA) using revenue from a local sales and use tax up to 6.5 percent credited against the state sales and use tax. The tax must be used for bonds and must be suspended each fiscal year when the amount collected equals the amount of local matching funds, the increase in state sales and property taxes in the area, or \$1 million. The credit is capped statewide at \$5 million per year. The program is administered by the Community Economic Revitalization Board (CERB) and board approval is required. Project criteria is established but does not apply to three demonstration projects, which must be approved prior to other projects. The demonstration projects are the Bellingham redevelopment project, the Spokane River district project, and the Vancouver Riverwest project. Local governments sponsoring an RDA must report annually to CERB, and CERB must make an annual report to the public and the Legislature. JLARC is to evaluate and report on the program every five years, starting in 2013, and CERB and DOR are to evaluate and report on the program

periodically. Vetoed were provisions requiring the Office of Financial Management to conduct a study of governance and selection criteria for the program. There is a \$5.0 million General Fund-State impact in the 2007-09 biennium.

Nonprofit Schools and Colleges

Chapter 226, Laws of 2006 (SHB 2804), allows the property of nonprofit schools and colleges to be used for non-tax exempt purposes and by persons who do not qualify for a property tax exemption without losing their property tax exemption. The property may be used by students, alumni, faculty, staff, or other persons consistent with the educational, social, or athletic programs of the school or college. The school or college may contract for school-related programs or services, such as food services for students. The school or college may allow uses for gain or to promote business for seven days a year for each portion of the property. Sports or educational camp or program uses conducted by faculty members do not count against the seven days.

Modifying the Electronic Administration of the Real Estate Excise Tax

Chapter 312, Laws of 2006 (HB 2879), makes changes to the real estate excise tax transaction fee structure to ensure only one \$5 fee applies to a single transaction for real estate excise tax electronic technology. The bill makes sure that counties do not receive double reimbursement for technology expenses from the real estate excise tax technology account and from the grant program administered by DOR. County treasurers are required to pay state real estate excise tax revenue to the State Treasurer by noon on the last working day of each month instead of 5:00 p.m.

Personal Property Tax Exemption for a Head of Family

Chapter 281, Laws of 2006 (SHB 3164), increases the statutory personal property tax exemption for a head of family from \$3,000 to \$15,000 for taxes payable in 2007 and thereafter.

Semiconductor Materials Tax Incentives

Chapter 84, Laws of 2006 (SHB 3190), provides a preferential B&O tax rate of 0.275 percent for manufacturing semiconductor materials and a sales and use tax exemption for gases and chemicals used in manufacturing semiconductor materials for a 12-year period, contingent on at least a \$350 million investment in an advanced semiconductor materials fabrication facility. There is a \$1.8 million General Fund-State decrease in the 2007-09 biennium.

Personal Property Tax Exemption for a Head of Family

House Joint Resolution 4223 increases the maximum personal property tax exemption allowed under the State Constitution for a head of family from \$3,000 to \$15,000.

Providing Additional Funding to the Prevailing Wage Program

Chapter 230, Laws of 2006 (SSB 5236), eliminates the requirement that 30 percent of the filing fees paid by entities subject to the prevailing wage statutes must be transferred each quarter from the Public Works Administration account to the general fund. The bill goes into effect July 1, 2007.

Removing the Irrevocable Dedication Requirement for Exemption from Property Tax for Nonprofit Entities

Chapter 319, Laws of 2006 (SB 6280), removes the irrevocable dedication requirement for property tax exemption for nonprofit organizations.

Senior Citizen Property Tax Exemption Program

Chapter 62, Laws of 2006 (SB 6338), increases the land eligible for the senior citizen property tax exemption program from one acre to five acres if zoning requires this larger parcel size.

Nursing Home Bed Tax Repeal

Chapter 241, Laws of 2006 (SB 6368), repeals the nursing home bed tax effective July 1, 2007. Under previous law, the tax would continue until July 1, 2011. Early repeal of the tax will reduce state general fund revenues by

\$21 million in 2007-09 and by \$11 million in 2009-11, after accounting for the portion of the tax for which facilities will no longer need to be reimbursed in their Medicaid payment rate.

City Annexation Sales Tax Credit

Chapter 361, Laws of 2006 (SSB 6686), provides a credit against the state portion of the sales tax for cities that annex an area in which the projected costs are greater than the projected revenues. The credit applies to cities with a population less than 400,000 and which are located in a county with a population greater than 600,000. The rate of the tax credit is 0.1 percent for each annexation area with a population over 10,000 and 0.2 percent for an annexation area over 20,000. The maximum rate of credit a city can impose is 0.2 percent. Eligibility for the credit begins July 1, 2007.

Revenue Increase Measures

Direct Wine Shipments – \$2.8 Million General Fund-State

Chapter 49, Laws of 2006 (ESB 6537), allows properly licensed wineries to ship wine to Washington residents over the age of 21. The winery must obtain a wine shipper’s permit or be licensed as a domestic winery. Wine shippers permit holders must pay the wine liter tax and collect and remit to DOR all applicable state and local taxes on all sales of wine delivered to buyers in this state.

Wind Turbine Facilities – \$0.3 Million General Fund-State

Chapter 184, Laws of 2006 (SSB 6141), adds property taxes resulting from new county-assessed wind turbine facilities to the amount that may be levied under the 1 percent limit on increases in property taxes.

Distribution of Beer and Wine – \$0.02 Million General Fund-State

Chapter 302, Laws of 2006 (2SSB 6823), permits in-state and out-of state wineries and breweries to act as the distributor of its production. They may distribute their product directly to a retailer or may use a distributor. The bill is in response to the court case *Costco Wholesale Corp. v. Roger Hoen, et al.*

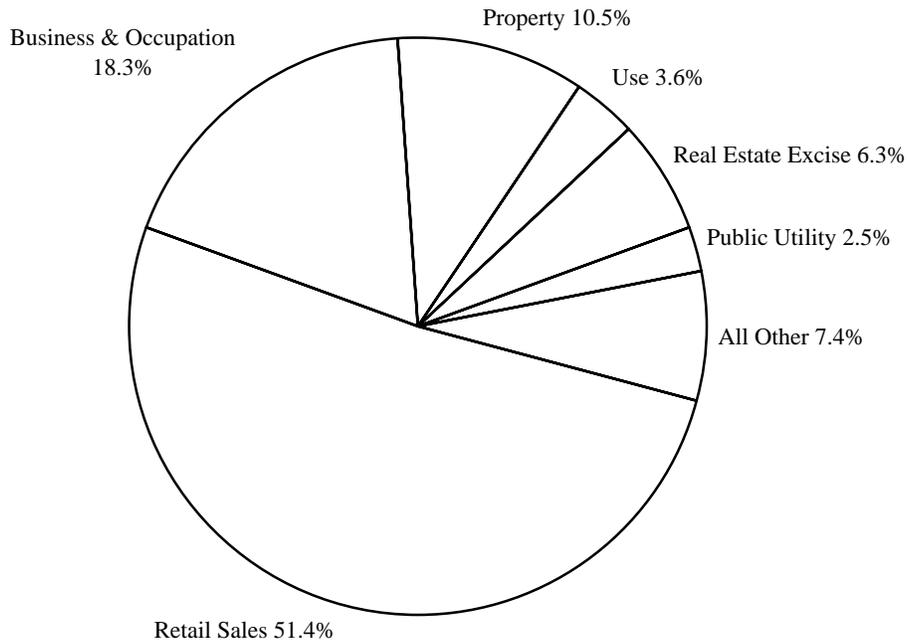
Miscellaneous

Insurance Premiums Taxpayers – \$51.6 Million General Fund-State

Chapter 278, Laws of 2006 (SHB 2880), states that the insurance premiums tax is intended to be in lieu of any other tax imposed on the privilege of conducting an insurance business but not in lieu of property taxes or retail sales taxes. The bill expressly adds to the statutory list of taxes that apply to insurers’ state and local excise taxes on the sale of services and extended warranties. This provision applies both prospectively and retroactively and is not a change from current practice.

Washington State Revenue Forecast - February 2006
2005-07 General Fund-State Revenues by Source

(Dollars in Millions)



Sources of Revenue	
Retail Sales	13,597.7
Business & Occupation	4,839.4
Property	2,782.5
Use	962.1
Real Estate Excise	1,660.9
Public Utility	655.3
All Other	1,945.1
Total *	26,443.0

* The state levy forecast reflects only the General Fund portion. The portion of the state levy that is transferred to the Student Achievement Account by Initiative 728 is excluded.

Note: Reflects the February 2006 Revenue Forecast.