Revenues

The 2008 Legislature enacted 37 tax-related measures. One bill, Chapter 324, Laws of 2008 (SB 6799), increased revenue. The other bills either reduced revenue or were revenue neutral. A net reduction of about $5 million in revenue is expected for 2007-09 biennium.

Significant legislation included the following:

- Business and Occupation (B&O) tax reduction for electronic versions of newspapers;
- Sales and use tax exemptions on weatherization materials;
- Sales and use tax deferral on the 520 bridge project;
- B&O tax reduction for grocery store cooperatives;
- A new tax credit for the development of a polysilicon manufacturing facility;
- Reversal of the destination sourcing for delivery of flowers; and
- An extension of certain tax breaks to additional firms in the aerospace industry.

Electronic Versions of Newspapers
Chapter 273, Laws of 2008 (SHB 2585), extends the lower B&O tax rate (0.484 percent) available for printed newspapers to the electronic version of these newspapers (now taxed at 1.5 percent). The treatment is limited to three years, from July 1, 2008, until July 1, 2011.

Weatherization Materials
Chapter 92, Laws of 2008 (ESHB 2847), provides exemptions from retail sales/use tax to weatherization materials that are installed in residences and financed by federal funds under the Weatherization Assistance program. The Weatherization Assistance program was enacted by Congress in 1976 to help low-income families upgrade the energy efficiency of their homes.

State Route 520 Bridge Project
Chapter 270, Laws of 2008 (ESHB 3096), provides that state and local sales/use tax on site preparation, construction of the new highway 520 bridge, and equipment that is rented for use on the project may be deferred for five years following completion of the 520 bridge.

Grocery Store Cooperatives
Legislation enacted in 2001 allowed a B&O deduction from B&O wholesaling tax for distributions by member-owned grocery cooperatives of items to their member grocery stores. That legislation applied a rate of 1.5 percent on the value of wholesales less the deduction. Chapter 49, Laws of 2008 (HB 3275), extends this same treatment to a grocery distribution cooperative that acquired the assets of the grocery distribution cooperative that was a beneficiary of the 2001 legislation.

Polysilicon Manufacturing Facility
Chapter 283, Laws of 2008 (ESHB 3303), establishes a new tax incentive for a manufacturer of polysilicon, an essential component of solar panels. The bill requires that the plant be located in Walla Walla County and that the investment total at least $500 million. Starting on July 1, 2009, a B&O credit is available equal to 7.5 percent of expenditures made for research and development (R&D) of the technology, for design and development the facility, for engineering of the tooling and production processes, and for training of employees. The credit is limited to $1 million annually for a single firm and may be taken until July 1, 2024.

Delivery of Flowers
Starting on July 1, 2008, Washington will switch to destination-based sourcing of retail sales tax, pursuant to the national Streamlined Sales and Use Tax Agreement. This means that local sales taxes on products that are delivered will be coded to the buyer's location, rather than the point from which shipment was originated. This will interfere with the system developed many years ago by the florist industry under the FTD network. Chapter 324, Laws of 2008 (SB 6799), allows florists to continue to code their sales at the location of the florist who takes the order for the product.

Aerospace Industry
Chapter 81, Laws of 2008 (SSB 6828), extends existing aerospace tax incentives to additional aerospace activities. Firms that develop tooling for the aerospace manufacturing process and firms that engage in the development of aerospace products are eligible for tax incentives. Incentives include the following: a sales/use tax exemption for computers and software used in design and engineering; a B&O tax credit for expenditures for R&D, engineering and design activities; a reduced B&O tax rate for the manufacturing of tooling used in the manufacture of commercial aircraft and for FAR Part 145 aircraft repair stations; and a B&O tax credit for property or leasehold taxes paid on aerospace facilities. In addition, a new B&O tax rate category of 0.9 percent is established for firms that engage in the development of aerospace products and provide aerospace services.

2008 Revenue Legislation
General Fund-State
Dollars in Thousands

			FY 2009 Impact
Tax-Related Bills			
E2SHB	1621	Manufactured/Mobile Home	-19
3SHB	2053	Motor Vehicle Fuel	-125
HB	2460	Amphitheater Property	-12
HB	2542	Cigarette Taxes	0
HB	2544	Temporary Medical Housing	-31
SHB	2585	Newspaper Supplement Tax	-867
HB	2650	Cigarette Tax Agreement	0
HB	2678	Timber Industry Tax	-34
ESHB	2847	Weatherization Assistance	-276
ESHB	3096	State Route 520 Bridge	-251
2SHB	3104	Domestic Partnerships	0
SHB	3120	Construction Tax Exemption	0
SHB	3126	Local Governments to License/Tax	0
HB	3151	National Disaster Counties	0
HB	3188	Waste Vegetable Oil	0
HB	3275	Grocery Distribution Cooperatives	-1,100
SHB	3283	Military Personnel/Taxes	-53
ESHB	3303	Polysilicon Manufacturers	0
HB	3362	Energy Efficient Equipment	-106
SSB	5256	Veterans/Property Tax Relief	0
E2SSB	6111	Tidal and Wave Energy	0
SSB	6195	Rural County Definition	0
SB	6196	Local Infrastructure Finance	0
SB	6216	Cigarette Tax Contract	0
SB	6375	Trail Grooming Services	-6
SSB	6389	Military Housing	0
SSB	6423	Motion Picture Program	0
2SSB	6468	Honey Beekeeper Taxation	-74
2SSB	6626	Community Empowerment Zones	0
SB	6638	Heritage and Arts Programs	0
ESB	6641	Property Tax Levy Limits	0
ESB	6663	Tax Program Administration	0
SB	6799	Florists' Personal Property	147
SSB	6806	Anaerobic Digester	0
ESSB	6809	Earned Income Tax Credit	0
SSB	6828	Aerospace Industry	-2,166
SSB	6851	Inheritance/Tax Exemption	0
SB	6950	Emergencies/Limited Waiver	0
		Subtotal	**-4,973**

2008 Revenue Legislation

General Fund-State

Dollars in Thousands

			FY 2009 Impact
		Penalties, Fees, Interest, and Transfers	
SHB	2602	Victims' Employment Leave	38
EHB	3360	Linked Deposit	-210
EHB	3381	Washington Health, Safety, & Other	42
SSB	6224	Vendor Overpayments	-260
SSB	6297	Prosecutor Salaries	-916
		Subtotal	**-1,306**
		Total General Fund-State Revenue Impact	**-6,279**

Revenue Legislation

The legislation listed below is intended to be a summary of bills passed during the 2008 session that affect state revenues or state or local government tax statutes. The dollar amounts reflect the impact for the state general fund for: (1) the second year of the current biennium (FY 2009) and (2) the full amount for the ensuing 2009-11 biennium.

Real Estate Excise Tax Exemption for Mobile Home Parks
Chapter 116, Laws of 2008 (E2SHB 1621), encourages owners of mobile home and manufactured housing parks who seek to sell such parks to negotiate with the tenants or a local government jurisdiction dealing with housing. In addition, the bill repeals the right of first refusal for such sales, since this was declared unconstitutional by the State Supreme Court in 2000. The bill provides that if a mobile home or manufactured housing community is sold to the tenants or to a qualified local agency before the end of 2018, then real estate excise tax does not apply to the sale. Reduction in state revenues: FY 2009 = $19,000; 2009-11 biennium = $57,000.

B&O Tax Credit for Electrical Generators
Chapter 223, Laws of 2008 (3SHB 2053), establishes a tax incentive for gasoline service stations. The bill provides a credit for the service station owner equal to one-half of the cost of obtaining an alternative electrical generation device, including the cost of wiring the facility to accommodate the device. The credit is limited to $25,000 per taxpayer and an overall cap of $750,000 per biennium applies to the program. The credit is also limited to three fiscal years and will expire on June 30, 2011. Reduction in state revenues: FY 2009 = $125,000; 2009-11 biennium = $250,000.

Leasehold Tax Exemption for Amphitheater
Chapter 194, Laws of 2008 (HB 2460), amends a 2005 statute which authorized an exemption from leasehold excise tax for an amphitheater in Clark County. The original statute specified that the county population had to be within the range of 350,000 to 425,000. Because of rapid growth in Clark County, there is concern that the facility might no longer qualify for the exemption. This bill stipulates that the population had to be within the specified range at the time the facility was opened to the public (July 2003). Assuming the exemption would otherwise have expired, the reduction in state revenues is: FY 2009 = $12,000; 2009-11 biennium = $96,000.

Cigarette Tax Enforcement
Chapter 226, Laws of 2008 (HB 2542), relates to enforcement of state cigarette taxes upon the Yakama Indian Reservation. It is in response to a 2007 federal Court of Appeals ruling that affirmed the treaty rights of Yakama tribal members to travel freely throughout the state. The required advance notice of transporting unstamped cigarettes was ruled to be in violation of that right. In response, this legislation specifically recognizes the unique treaty rights granted to the Yakamas by the federal government in 1855. It also affirms the right of the state to take necessary enforcement actions in the administration of cigarette taxes. Specifically, the bill requires purchasers of unstamped cigarettes to provide advance notice to the Liquor Control Board prior to taking possession. It also increases penalties for unlawful possession of unstamped cigarettes. There is no direct impact on state revenues.

Tax Exemptions for Temporary Medical Housing
Chapter 137, Laws of 2008 (HB 2544), establishes new exemptions from sales and lodging taxes for qualified housing at lodging facilities that are associated with a public or nonprofit hospital. The exemption applies to any charges for lodging, up to 30 days in duration, by a nonprofit health or social welfare organization for a patient who is undergoing treatment at the hospital or an affiliated outpatient clinic. In addition, the patient's immediate family may stay at the facility without incurring tax liability. Reduction in state revenues: FY 2009 = $31,000; 2009-11 biennium = $69,000.

B&O Tax on Electronic Versions of Newspapers
Chapter 273, Laws of 2008 (SHB 2585), changes the application of B&O tax for newspapers. Printed newspapers are subject to a rate of 0.484 percent, while income associated with electronic or Internet versions of the newspaper are taxed at 1.5 percent. This bill reduces the latter to 0.484 percent for three years, from July 1, 2008,

until July 1, 2011. In addition, the bill places the Department of Revenue's (DOR's) current interpretation regarding newspaper supplements in statute. If the supplement is distributed in the same geographic area as the printed newspaper, then income related to the supplement qualifies for the 0.484 percent tax rate. Otherwise, the 1.5 percent service rate applies. Reduction in state revenues: FY 2009 = $867,000; 2009-11 biennium = $2,757,000.

Cigarette Tax Agreement with Yakama Nation
Chapter 228, Laws of 2008 (HB 2650), authorizes a new contract between the state and the Yakama Nation. Since 2001, contracts have been authorized with 28 tribal entities; currently there are 20 such agreements in force. This legislation provides the basis for a new agreement with the Yakamas. (A previous agreement is in mediation over issues of noncompliance.) Under the new agreement when it is signed, the tribe will enact a tribal cigarette tax equal to 80 percent of the state tax rate. The rate will increase to 84 percent by the seventh year and to 87.6 percent by the eighth year. The agreement is subject to renewal after its original eight-year term. There is no direct impact on state cigarette tax revenues although the state will benefit from the reduced incentive for purchasers to avoid the state tax.

B&O Tax Rate on Timber & Wood Products
Chapter 296, Laws of 2008 (HB 2678), relates to a preferential B&O tax rate that was enacted in 2006 for extracting and wholesaling of timber and manufacturing of timber and wood products. The bill broadens activities that qualify for the reduced 0.2904 percent tax rate to include production of biocomposite surface products that include recycled paper. The tax reduction is retroactive to July 1, 2007. Reduction in state revenues: FY 2009 = $34,000; 2009-11 biennium = $34,000.

Sales Tax Exemption for Weatherization Materials
Chapter 92, Laws of 2008 (ESHB 2847), extends exemptions from retail sales/use tax to weatherization materials that are installed in residences. This includes insulation and other materials to increase the thermal efficiency of a residence. The bill requires that the project be financed by federal funds under the Weatherization Assistance program. This program was enacted by Congress in 1976 to help low-income families upgrade the energy efficiency of their homes. Reduction in state revenues: FY 2009 = $276,000; 2009-11 biennium = $578,000.

Replacement of Highway 520 Bridge; Deferral of Sales Tax
Chapter 270, Laws of 2008 (ESHB 3096), relates to the proposed new bridge across Lake Washington. The bill specifies that a new bridge shall include four lanes for general-purpose traffic, two lanes for high-occupancy vehicles, and connection for transit near the University of Washington campus. The financing plan will include the application of tolls to the existing bridge, pursuant to a recommendation from a new tolling implementation committee established by the bill. ESHB 3096 also provides that state and local sales/use tax on site preparation, construction of the new bridge, and equipment that is rented for use on the project may be deferred. Repayment is made with ten annual payments beginning five years after the project is completed. Reduction in state revenues: FY 2009 = $251,000; 2009-11 biennium = $14,963,000; 2011-13 biennium = $23,200,000.

Domestic Partners Act
In 2007, legislation established a domestic partnership registry and defined the eligibility for same-sex couples. Chapter 6, Laws of 2008 (2SHB 3104), amends a variety of statutes that concern the rights and responsibilities of spouses. In the area of tax law, the following programs are amended to include the term domestic partner: real estate excise tax pertaining to the assignment of property pursuant to a decree of dissolution; senior citizens property tax deferrals and deferrals for lower income households; and ownership of property that is eligible for the senior citizens property tax exemption. There is no direct reduction in state revenues.

Study of Tax Incentives for Green Building
Chapter 235, Laws of 2008 (SHB 3120), requires a study of tax incentives to encourage the construction of energy-efficient residential, commercial, and public buildings. The focus will include sales/use tax exemptions, as well as B&O tax provisions for contractors and architects that design and build energy-efficient structures. The bill requires the Department of Community, Trade, and Economic Development to conduct the study, with assistance from DOR. The study will examine the revenue impact of various incentives, the possible cost savings

to owners, and the potential reduction in emissions. The study is due to the Legislature by December 1, 2008. There is no reduction in state revenues.

Municipal Business Taxes; Remote Sellers
Chapter 129, Laws of 2008 (SHB 3126), amends a variety of statutes that authorize cities to levy a local business tax. The purpose is to acknowledge the effect of the Streamlined Sales and Use Tax Agreement, which becomes fully effective on July 1, 2008. On that date, Washington's sales tax shifts to a destination-based tax, instead of the current origin-based sourcing, in order to be consistent with other states which have already joined the Agreement. As a result, cities will begin to receive reports of sales taxes coded to their jurisdiction for transactions in which the purchaser resides in the city. This bill merely affirms that the vendor is not liable for the local business tax, if the firm is not actually located within the city. There is no impact on state revenues.

Lewis County Regional Center
Chapter 48, Laws of 2008 (HB 3151), extends the construction date for a regional center in Lewis County. In 2007, the local sales tax that allows public facility districts to impose a state-credited tax of 0.033 percent was broadened to permit a facility in this County. However, construction had to be initiated by the end of 2008. This bill pushes that date back by two years to allow more time for plans to be developed and construction to commence. There is no impact on state revenues because information submitted for this project indicates that construction might still commence by the existing required date.

Tax Exemptions for Waste Vegetable Oil Used for Biodiesel Fuel
Chapter 237, Laws of 2008 (HB 3188), creates new exemptions from special fuel tax and retail sales/use tax for waste vegetable oil that is collected from restaurants and food processors and is used to produce biodiesel fuel. The resulting fuel must be for personal use and cannot be sold commercially. The impact on state revenues is minimal.

B&O Tax Exemption for Grocery Cooperatives
Chapter 49, Laws of 2008 (HB 3275), amends a 2001 tax exemption for certain associations of grocery stores. Legislation enacted in 2001 allowed a B&O deduction from B&O wholesaling tax for distributions by member-owned grocery cooperatives of items to their member grocery stores. That legislation applied a rate of 1.5 percent on the value of wholesales less the deduction. HB 3275 extends this same treatment to a grocery distribution cooperative that acquired the assets of the grocery distribution cooperative that was a beneficiary of the 2001 legislation. Reduction in state revenues: FY 2009 = $1,100,000; 2009-11 biennium = $3,600,000.

Waiver of Excise Tax Penalties/Interest
Chapter 184, Laws of 2008 (SHB 3283), concerns penalties that may be levied by the DOR for late payment, failure to file tax returns, failure to obtain a business registration, and other provisions pertaining to state excise taxes. It addresses businesses in which the majority owner is a member of the military and is assigned to a duty station outside of the country. The bill provides that during periods of armed conflicts, DOR may waive such penalties and interest if the majority owner is on active duty outside of the country and is participating in an armed conflict. The waiver is limited to a two-year period. In order to qualify, the firm must have grossed less than $1 million in the year before the owner was assigned to military service overseas. Reduction in state revenues: FY 2009 = $53,000; 2009-11 biennium = $116,000.

B&O Tax Credit for Polysilicon Manufacturer
Chapter 283, Laws of 2008 (ESHB 3303), establishes a new tax incentive for a manufacturer of polysilicon, an essential component of solar panels. The bill requires that the plant be located in Walla Walla County and that the investment total at least $500 million before any tax credits are taken. Starting on July 1, 2009, the credit will be available for pre-production expenditures made after January 1, 2008, as long as the local port district has signed a memorandum of understanding with the manufacturer by October 1, 2008. The credit equals 7.5 percent of expenditures made for research and development of the technology, for design and development of the facility, for engineering of the tooling and production processes, and for training of employees. Capital costs for land or machinery, construction of the facility, and actual production expenses are not eligible for the tax credit. Credits are limited to $1 million annually for a single firm and may be taken until July 1, 2024. Recipients must file an

annual report with DOR. Evaluations of the program are required by the Joint Legislative Audit and Review Committee by November 1 of 2014 and 2022. Reduction in state revenues: FY 2009 = $0; 2009-11 biennium = $2,000,000.

B&O Tax Credit for Energy-Efficient Commercial Appliances
Chapter 284, Laws of 2008 (HB 3362), establishes a two-year credit program to encourage restaurants, food stores, laundries, and similar small businesses to purchase new energy-efficient appliances. Eligible purchases include freezers and refrigerators, clothes washers, icemakers, gas convection ovens, deep fat fryers, hot food holding cabinets, and steam cookers. The appliances must meet specified ratings of energy efficiency. The credit equals 8.8 percent of the purchase price of qualified appliances. To qualify, the business must have gross receipts of less than $750,000 the prior year; a cap of $750,000 applies to all B&O tax credits taken under the program. The credit is allowable from July 1, 2008, to July 1, 2010. Reduction in state revenues: FY 2009 = $106,000; 2009-11 biennium = $106,000.

Senior Citizen Property Tax Exemption; Veterans Benefits
Chapter 182, Laws of 2008 (SSB 5256), amends the existing property tax exemption for qualified senior citizen and disabled homeowners. The definition of qualifying household income is amended to exclude certain federal payments to veterans and their survivors. Specifically, disability compensation or dependency and indemnity compensation will be excluded from qualifying income. Because the definition is linked to other similar programs, the bill also affects the senior citizens property tax deferral program, the widows and widowers of veteran's reimbursement program, and the property tax deferral for lower-income homeowners. The only direct impact on state revenues will be increased reimbursements for local governments under the deferral programs; this amounts to roughly $22,000 annually.

Tax Incentives for Tidal and Wave Energy Devices; Study; Partial Veto
Chapter 307, Laws of 2008, Partial Veto (E2SSB 6111), would have established new sales/use tax exemptions for devices that generate electricity that are located in salt water. These tidal and wave energy facilities utilize the horizontal or vertical motion of the device to produce energy. The exemptions were scheduled to expire on June 30, 2018. However, the Governor vetoed the tax exemption sections. The veto message indicated that such exemptions are more appropriate once the commercial viability of the technology has been established. The bill also establishes a work group to facilitate the permitting process of these devices. A report is due by June 30, 2010. There is no impact on state revenues.

Definition of Rural County; Public Utility Tax Credit
Chapter 131, Laws of 2008 (SSB 6195), makes uniform the definition of "rural" county for several economic development programs. The definition used for the 0.9 percent local sales tax and the rural county sales tax deferral is extended to other programs. Under this two-part definition, a rural county is: (1) one with a population density of fewer than 100 residents per square mile; or (2) one that is less than 225 square miles in area. Currently, 31 counties qualify under the density criterion and only Island County meets the size requirement. The bill extends this definition to four programs, specifically including Island County in their coverage. Statutes dealing with the Community Economic Revitalization Board and the Rural Washington Loan Fund have no fiscal impact. Increased funding for the Contracts with Associate Development Organizations could require increased funds of $40,000 annually. The only tax-related program is a public utility tax credit for contributions to a rural economic development revolving fund. The potential impact of extending this credit to Island County has not been quantified.

Local Infrastructure Financing; Vancouver Project
Chapter 209, Laws of 2008 (SB 6196), amends a 2006 program to finance local community revitalization projects with tax increment financing. Increased local and state tax receipts within a revenue development area are devoted to financing investments that benefit the revitalization project. This bill changes the base year for measurement of the local revenues. If no local excise tax distributions are received by the city during the last five months of 2008, then the receipts for calendar year 2009 will be considered as the local excise tax allocation revenue. There is no direct impact on state revenues.

Cigarette Agreement with Shoalwater Bay Tribe
Chapter 241, Laws of 2008 (SB 6216), provides authorization for the state to enter into an agreement with the Shoalwater Bay Tribe relating to cigarette taxation. Such authority has previously been extended to 28 other tribes, and there are now 20 agreements in force. Pursuant to these agreements, the tribal authority has levied a tribal cigarette tax that is equivalent to the state cigarette and state and local sales taxes. There is no direct impact on state revenues.

Exemption for Trail Grooming Services
Chapter 260, Laws of 2008 (SB 6375), establishes a new exemption from state and local retail sales/use tax for wintertime grooming of trails. Grooming is defined as compacting, redistributing, or removal of snow. The exemption applies only to work done for the state or a nonprofit organization; it does not extend to commercial ski areas. Reduction in state revenues: FY 2009 = $6,000; 2009-11 biennium = $13,000.

Exemptions for Military Housing
Chapter 84, Laws of 2008 (SSB 6389), encourages private developers to construct and operate housing facilities for military families. Exemptions from property tax and leasehold excise tax are provided for housing facilities that qualify under the federal Military Housing Privatization Initiative. The land must be owned in fee by the federal government and must be used exclusively for housing of military personnel and their families. There is no direct effect on state revenues, although some shifts of property tax burden to other taxpayers will occur.

B&O Tax Credit for Motion Picture Contributions
Chapter 85, Laws of 2008 (SSB 6423), amends a program enacted in 2006 that encourages the filming of motion pictures, television shows, and commercials in this state. The bill eliminates a cap of $1 million on grants for productions that receive state assistance, and it revises the terms for the board members of the nonprofit organization that administers the program. A B&O tax credit for contributions to the program is also amended. The credit amount had been scheduled to drop to 90 percent of the amount contributed; this legislation retains the credit at the full 100 percent level. There is no reduction in state revenues because the overall cap of $3.5 million continues to apply to the tax credits.

Exemptions for Beekeepers
Chapter 314, Laws of 2008 (2SSB 6468), establishes several new tax exemptions for beekeepers. Two new B&O tax exemptions are provided for persons who maintain bee colonies. To qualify, the colony must comprise at least 7,000 bees, plus one or more queen bees, and be housed in man-made hives. Wholesale sales of honey and other bee products by eligible apiarists will be exempt from B&O tax. In addition, income derived from pollination services provided to farmers is exempt from tax. New sales/use tax exemptions are also granted for purchases of honeybees by a qualified apiarist. Reduction in state revenues: FY 2009 = $74,000; 2009-11 biennium = $162,000.

Sales Tax Deferral/Exemption for Corporate Headquarters Facilities
Chapter 15, Laws of 2008 (2SSB 6626), creates a new deferral program for sales tax paid upon construction of a corporate headquarters building, as long as it is located in one of the six Community Empowerment Zones (CEZs) in the state. In order to qualify, the facility must cost at least $30 million and must provide office space for at least 300 full-time employees. A maximum of two projects will qualify each biennium, and only one of these may be located in a single CEZ. Once completed, if the facility continues to meet program requirements, the deferred state and local sales tax need not be repaid, thus turning the deferral into an outright exemption. Applications for the deferral may be made from July 1, 2009, until the end of 2020. Participants must file annual reports with DOR, and DOR will report on the utilization of the program by December 1, of 2014 and 2018. Reduction in state revenues: FY 2009 = 0; 2009-11 biennium = $2,596,000.

King County Lodging Tax Receipts
Chapter 264, Laws of 2008 (SB 6638), amends the 2.0 percent state-shared local tax on hotels and motels in King County. These revenues have been devoted to financing bonds on the Kingdome. Since 1989, a portion of the receipts has been earmarked for arts and heritage programs. This bill eliminates the endowment fund for the arts and allows all of the earmarked receipts to be used for programs, rather than just the interest earnings. After the

Kingdome roof repair bonds are retired, all of the proceeds of the tax will go to arts and heritage programs until December 2015, when the funds shift to Qwest Field bonds. At the beginning of 2021, the bill diverts 37.5 percent of the lodging tax receipts to King County arts programs. The provisions of the bill expire on July 1, 2009, thus forcing the Legislature to reconsider the long-term funding of the King County stadia and arts programs. There is no direct impact on state revenues.

Ballot Titles for Property Tax Levy Lid Lifts
Taxing districts may seek approval from the voters to increase their allowable regular property tax levies above existing statutory limitations. Chapter 319, Laws of 2008 (ESB 6641), clarifies that such levy "lid lifts" will be considered as temporary, unless the ballot title clearly specifies that the increased levy is to be permanent. There is no impact on state revenues.

Tax Administrative Provisions
Chapter 86, Laws of 2008 (ESB 6663), amends a variety of tax statutes to update references, remove extraneous language, and clarify or simply existing laws. Statutes amended include: local sales taxes, cigarette tax rates, leasehold excise tax, and property taxes. The only substantive provision is elimination of a requirement for DOR to produce a biennial report on litter tax compliance. There is no impact on state revenues.

Sales Tax Sourcing for Florists
Starting on July 1, 2008, Washington will switch to destination-based sourcing of retail sales tax, pursuant to the national Streamlined Sales and Use Tax Agreement. This means that local sales taxes on products that are delivered by the vendor will be coded to the buyer's location, rather than the point from which shipment was originated. Since this will interfere with the system developed many years ago by the florist industry under the FTD network, Chapter 324, Laws of 2008 (SB 6799), allows florists to continue to code their sales according to the location of the florist who takes the order for the product. Compared with existing law, this is estimated to increase state revenues: FY 2009 = $147,000; 2009-11 biennium = $341,000.

Exemptions for Anaerobic Digesters
Chapter 268, Laws of 2008 (SSB 6806), creates new property and leasehold excise tax exemptions for anaerobic digesters, which are used on dairy farms and livestock feeding operations. These facilities help to decompose livestock manure in a closed, oxygen-free container. The exemptions are effective for six years after they become operational; applications for the exemptions must be filed by the end of 2012. There is no revenue impact for the state, although some minor shifting of the state levy will result.

Sales Tax Remittance for Earned Income Credit Recipients
Chapter 325, Laws of 2008 (ESSB 6809), establishes a new program of tax relief for low- and moderate-income working families. The program provides remittances of state retail sales tax to households based on the amount of federal earned income tax credit (EITC) the household receives. The federal credit depends upon the level of income and family size. For example, a family with more than one child that filed jointly for 2007 taxes and had a maximum adjusted gross income of $39,783 was eligible for a federal tax credit of $4,716. The amount of the state remittance will equal 5 percent of the EITC (or $25) for 2009 and 2010; the remittance rises to 10 percent of the EITC (or $50) starting in 2011. Eligible households will make application to DOR starting in October 2009. However, in order for the program to be effective for any year, it must be specifically authorized in the budget. The Legislature has yet to authorize the remittance payments, so there is no actual impact on state revenue. As illustration of the potential impact, it has been estimated that the program would provide remittances of approximately $77 million for fiscal year 2011, the first full year in which the program might be effective.

Expansion of Aerospace Tax Incentives
In 2003, a variety of excise tax incentives was created for firms that manufacture airplanes or components of commercial airplanes. In 2006, these were extended to aerospace firms that are not actually manufacturers of commercial airplanes. Chapter 81, Laws of 2008 (SSB 6828), further extends these incentives to firms that provide aerospace products or services, including development of tooling for the manufacturing process. Incentives include the following: a sales/use tax exemption for computers and software used in design and engineering; a B&O tax credit for expenditures for R&D, engineering, and design activities; a reduced B&O tax

rate for the manufacturing of tooling used in the manufacture of commercial aircraft and for FAR Part 145 aircraft repair stations; and a B&O tax credit for property or leasehold taxes paid on aerospace facilities. All of these programs are broadened by this bill. In addition, a new B&O tax rate category of 0.9 percent is established for firms that engage in the development of aerospace products and provide aerospace services. Reduction in state revenues: FY 2009 = $2,166,000; 2009-11 biennium = $5,553,000.

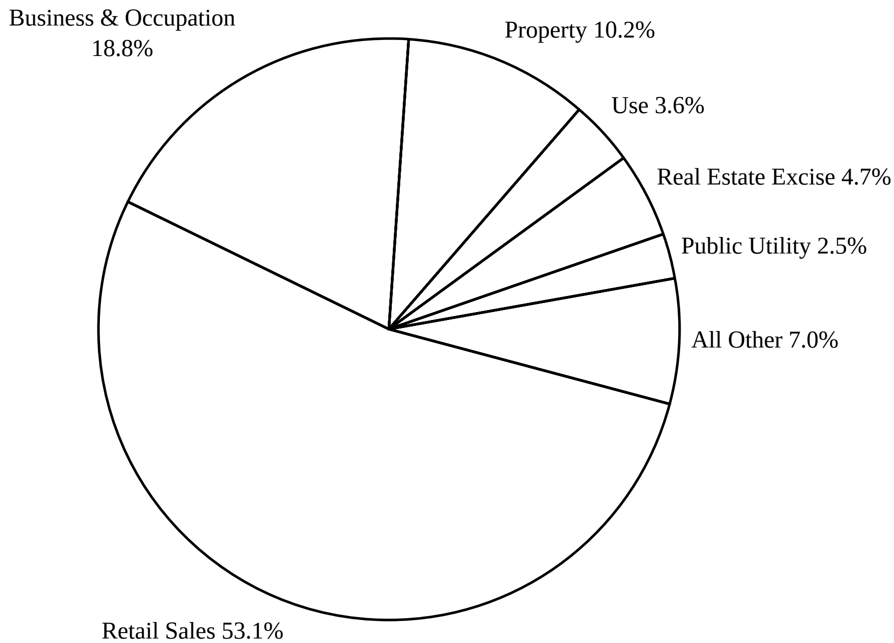
Real Estate Excise Tax; Documentation of Exemption
Administrative rules of DOR define the documentation necessary for heirs to establish that property inherited from a decedent is not subject to real estate excise tax. Chapter 269, Laws of 2008 (SSB 6851), places these requirements in statute. In addition, the bill provides a new procedure that should simplify the transferring of real property to a surviving spouse or domestic partner. Now the surviving spouse or domestic partner need only produce a certified copy of the death certificate and sign an affidavit attesting that the survivor is the sole and rightful heir to the property. There is no impact on state revenues.

Emergency Extension of Tax Due Dates
Part V of Chapter 181, Laws of 2008 (SB 6950), allows DOR to extend the due date for filing state excise tax returns or paying tax assessments during an emergency that is declared by the Governor. Postponement of the due date may be initiated either by the Department or by any affected taxpayer within the impacted area. Section 509 adds a new provision for the timber excise tax. Small harvesters who cut less than two million board feet per calendar year are allowed to calculate the tax based on their actual receipts from the sale of the timber rather than using the applicable timber stumpage value tables. This legislation provides the same treatment for timber harvesters who cut up to five million board feet during calendar year 2008 or 2009, if the harvests occurred in a county that was declared by the President to be a disaster area due to the storms and flooding of December 2007. The revenue impact of this legislation is indeterminate.

Washington State Revenue Forecast - February 2008

2007-09 General Fund-State Revenues by Source

(Dollars in Millions)



Sources of Revenue	
Retail Sales	15,654.9
Business & Occupation	5,543.7
Property	2,994.6
Use	1,074.7
Real Estate Excise	1,382.6
Public Utility	736.5
All Other	2,076.1
Total *	29,462.9

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

Note: Reflects the February 2008 Revenue Forecast.