

Revenues

The March 2009 forecast for Near General Fund-State revenue is \$30.5 billion for the 2009-11 biennium. This forecast is much weaker than the February 2008 forecast which was the used in the 2008 legislative session. Forecasted Near General Fund-State revenues for fiscal years 2009 through 2011 have been reduced by \$5.7 billion since the February 2008 forecast.

The current March forecast assumes that the national and Washington economies will be in recession for most of the year with modest growth not occurring until the latter part of 2010. The state is expected to continue to experience job losses even after the economy has begun to recover, with unemployment rising to approximately 10 percent.

The revenue-related legislation from the 2009 session increased potential revenue \$100 million for the 2009-11 biennium. The revenue increases were due mainly to a bill relating to tax compliance. There were a few tax preferences adopted, the largest of which was legislation that provides many environmental tax incentives and legislation to reduce business and occupation taxes (B&O) to the newspaper industry.

Tax Compliance Legislation

Chapter 563, Laws of 2009 (SB 6173), eliminates the resale certificate for businesses that make purchases for resale. Instead, the Department of Revenue (DOR) will issue seller's permits only to businesses that make purchases for resale in their normal course of business. This, and several other provisions of the legislation, will provide the Department with additional oversight of sales tax free purchases for resale.

Chapter 562, Laws of 2009 (ESSB 6169), authorizes DOR to enhance collections by providing a partial or full list of unpaid tax warrants to financial institutions and requiring the financial institution to withhold and deliver property owned by delinquent taxpayers to DOR.

Chapter 309, Laws of 2009 (SB 5568), allows DOR to apply for a subpoena to a superior court or district court to obtain third party information, if there is probable cause to believe that records in the possession of the third party will aid DOR in connection with its official duties relating to an audit, collection activity, or a civil or criminal investigation.

Tax Reductions

Chapter 469, Laws of 2009 (ESSB 6170), repeals the hybrid vehicle tax exemption. Additionally, it provides the following environmental and renewable energy tax incentives:

- **Renewable Energy** – Provides a sales tax exemption for machinery and equipment used to create renewable energy from fuel cells, sun, wind, biomass energy, tidal and wave energy, geothermal resources, anaerobic digestion, and technology that converts otherwise lost energy from exhaust or landfill gas. This exemption expires on June 30, 2013.
- **Radioactive Waste Cleanup** – Reduces the B&O tax rate from 1.5 percent to 0.471 percent for persons providing certain support services, which are either within the scope of work under a cleanup contract with the U.S. Department of Energy, or which assist in the requirement of a cleanup subcontract for radioactive waste cleanup.
- **Hog Fuel Incentives** – Provides a sales and use tax exemption for hog fuel used to produce electricity, steam, heat, or biofuel. This exemption expires on June 30, 2013.

- Biomass Energy Incentives – Provides a B&O tax credit for harvesters of harvested green ton of forest-derived biomass sold or used for production of electricity, steam, heat, or biofuel. This credit expires on June 30, 2015. Also provides a sales tax and use exemption for the sale of forest-derived biomass used to produce electricity, steam, heat, or biofuel. This exemption expires on June 30, 2013.
- Solar Energy and Semiconductor Incentives – Reduces the B&O tax rate from 0.2904 percent to 0.275 percent for businesses that manufacture or sell at wholesale either: 1) solar energy systems using photovoltaic modules; or 2) solar grade silicon and an expanded list of materials to be used exclusively in the components of solar systems or semiconductors. This exemption expires on June 30, 2014. Exempts gases and chemicals used in the production of some solar energy equipment from sales tax and use tax. This exemption expires on December 1, 2018. Extends the public utility tax (PUT) cost-recovery incentive program for renewable energy systems to “community solar projects.” The expiration date of the PUT incentive is extended from June 30, 2015, to June 30, 2020.
- Livestock Nutrient Incentives – Clarifies the nutrient management sales and use tax exemption with a specified list of exempt equipment and facilities.
- Log Hauling – Reduces the PUT rate from 1.926 percent to 1.3696 percent on the hauling of logs over public highways. This exemption expires on June 30, 2013.

Chapter 461, Laws of 2009 (EHB 2122), reduces the B&O tax rate on newspapers and printers of newspapers from 0.484 percent to 0.2904 percent.

2009 Revenue Legislation
General Fund-State
Dollars in Thousands

Bill Number	Subject	2009-11
SB 6173	Improving Sales Tax Compliance	102,550
ESSB 6108	State Lottery Agreements/Powerball	11,464
ESSB 6169	Enhancing Tax Collection Tools	8,755
SHB 1067	Creating the Uniform Limited Partnership Act	1,164
SSB 5571	Electronic Methods/Dept of Revenue	241
SSB 5616	Business Customized Training	84
SHB 2013	Self-Service Storage Insurance	46
SHB 1592	Registering with Secretary of State	40
ESHB 1326	Pacific Sardines	7
E2SHB 1208	Property Tax Administration	0
2SHB 1290	Local Tourism Promotion Areas	0
SHB 1435	Cigarette and Tobacco Licenses	0
SHB 1751	Rural Counties Public Facilities	0
EHB 1815	Property Tax Open Space Program	0
EHB 2299	Public Facilities Districts	0
ESSB 5321	Local and State Sales and Use Tax	0
SB 5354	Public Hospital Capital Facilities Areas	0
SB 5355	Rural County Library Districts	0
SSB 5368	Annual Property Valuation	0
ESSB 5421	Salmon and Steelhead Stamp Program	0
2SSB 5433	Local Option Tax Provisions	0
SB 5511	City-County Assistance Account Distributions	0
SSB 5566	Excise and Sales and Use Taxes	0
SB 5568	Enhancing Tax Collection Tools	0
SB 5587	Heavy Rail Short Lines	0
SB 5680	Nonprofit Organizations	0
SB 5909	High Tech Sales and Use Tax	0
SB 6096	Vessels in Foreign Commerce	0
2SHB 1484	Habitat Open Space	-3
SSB 5793	Single-Occupancy Farm Conveyance	-3
SHB 1733	Current Use Valuation Programs	-27
HB 1579	Nonprofit Legal Services	-55
HB 1287	Intrastate Commuter Aircraft Operations	-93
SB 6126	Boxing and Similar Events	-147
SB 5470	Low-Income Senior Housing	-149
SHB 1062	Electrolytic Process Tax Exemption	-313
2SHB 1481	Electric Vehicles	-316
2SSB 5045	Community Revitalization Financing	-2,250
EHB 2122	Newspaper Industry B&O Tax	-2,500
ESHB 2075	Excise Taxation	-2,635
ESSB 6170	Environmental Tax Incentives	-3,977
	Other Legislation	32
	Total General Fund-State Revenue Impact	111,915

Revenue Legislation

The legislation listed below is a summary of bills passed during the 2009 session that affect state revenues or state or local government tax statutes but may not cover all revenue-related bills.

Improving Sales Tax Compliance – \$102.6 Million General Fund-State Increase

Chapter 563, Laws of 2009 (SB 6173), eliminates the resale certificate for businesses that make purchases for resale. Instead, the Department of Revenue (DOR) will issue seller's permits, only to businesses that make purchases for resale in their normal course of business. This, and several other provisions of the legislation, will provide the Department with additional oversight of sales tax free purchases for resale.

Enhancing Tax Collection Tools to Promote Fairness and Administrative Efficiency – \$8.8 Million General Fund-State Increase

Chapter 562, Laws of 2009 (ESSB 6169), authorizes DOR to issue a notice and order to withhold and deliver property to any financial institution by providing a partial or full list of unpaid tax warrants.

Creating the Uniform Limited Partnership Act – \$1.2 Million General Fund-State Increase

Chapter 188, Laws of 2009 (SHB 1067), adopts the Washington Uniform Limited Partnership Act, changing many aspects of limited partnership law to modernize the statute, to update the fee structure, and to conform the provisions more closely to statutes governing other business entities in Washington.

Requiring the Use of Electronic Methods for Filing Taxes, Payment of Taxes, Assessment of Taxes, and Other Taxpayer Information – \$241,000 General Fund-State Increase

Chapter 176, Laws of 2009 (SSB 5571), requires electronic filing of tax returns and electronic tax payment but only if the taxpayer is required to file and remit taxes monthly. Electronic filing and payment are allowed for taxpayers on the quarterly and annual basis.

Connecting Business Expansion and Recruitment to Customized Training – \$84,000 General Fund-State Increase

Chapter 296 Laws of 2009 (SSB 5616), delays payments for training provided to participating employers into the employment training finance account and delays the taking of B&O tax credits from the 2009-11 period to the 2011-13 period.

Allowing the Owner of a Self-Service Storage Facility to Offer Self-Service Storage Insurance – \$46,000 General Fund-State Increase

Chapter 119, Laws of 2009 (SHB 2013), requires the owner of a self storage facility to obtain a license from the Insurance Commissioner to sell insurance to customers for covering goods stored at the facility. Fees are \$130 each two years for a storage producer with fewer than 50 employees and \$365 if the storage producer has 50 or more employees.

Registering Business Entities and Associations with the Secretary of State – \$40,000 General Fund-State Increase

Chapter 437, Laws of 2009 (SHB 1592), requires all corporations sole to file an annual report with the Office of the Secretary of State along with a \$10 filing fee.

Establishing a License Limitation Program for Harvest and Delivery of Pacific Sardines into the State – \$7,000 General Fund-State Increase

Chapter 331, Laws of 2009 (ESHB 1326), requires an annual sardine license or permit of \$185 for residents and \$295 for nonresidents.

Concerning Property Tax Administration – No Impact to General Fund-State

Chapter 350, Laws of 2009 (E2SHB 1208), authorizes a county treasurer to begin collection of specified taxes and assessments once the treasurer completes the yearly tax roll; makes payment dates for diking, drainage, or sewerage improvement district assessments the same as for property taxes; requires that property tax refund claims be made within three years of the due date for payment; and allows local taxing districts to levy additional property taxes to fund tax refunds and specified tax abatement reimbursements.

Concerning Local Tourism Promotion Areas – No Impact to General Fund-State

Chapter 442, Laws of 2009 (2SHB 1290), allows counties with populations greater than one million to create tourism promotion areas if two or more jurisdictions operating under an interlocal agreement seek the establishment of the tourism promotion area. Within a tourism promotion area, a tax of up to \$2 per night may be charged for lodging.

Liquor/Tobacco – Licensing Provisions for Cigarettes and Tobacco Products – No Impact to General Fund-State

Chapter 154, Laws of 2009 (SHB 1435), provides the Liquor Control Board with administrative authority to approve, deny, suspend, and revoke retail, wholesale, and distributor cigarette and tobacco products licenses. Applicants for a tobacco retailer license are required to undergo a criminal background check.

Concerning the Time Period During Which Sales and Use Tax for Public Facilities in Rural Counties May Be Collected – No Impact to General Fund-State

Chapter 511, Laws of 2009 (SHB 1751), allows a rural county to impose the rural county sales and use tax for 25 years from the date the county changes the tax rate from 0.08 percent to 0.09 percent as long as the 0.09 percent rate is first imposed before August 1, 2009.

Concerning Current Use Valuation Under the Property Tax Open Space Program – No Impact to General Fund-State

Chapter 513, Laws of 2009 (EHB 1815), amends the current use farm and agriculture category for parcels of land between 5 and 20 acres by modifying income requirements for standing crops that have an expectation of harvest within 7 years or 15 years in the case of short-rotation hardwoods. Such crops will meet income eligibility requirements if at least \$100 or more per acre of investment is made in the current or previous year. Also, it provides that when an assessor notifies a property owner that the property no longer qualifies for current use assessment, then the assessor will provide information on appeal procedures, including timelines, petition forms, and county board of equalization contact information.

Concerning Formation, Operation, and Non-State Funding of Public Facilities Districts – No Impact to General Fund-State

Chapter 533, Laws of 2009 (EHB 2299), allows a contiguous group of cities or their counties to form an additional public facilities district for developing recreational facilities notwithstanding that the city or county has previously formed one or more public facilities districts within the same geographic boundaries. Further, it clarifies that the new public facilities district may not impose a sales or use tax that exceeds 0.2 percent minus the rate of the highest tax already authorized by any other public facilities district within its boundaries.

Extending Local Sales and Use Tax Credited Against the State Sales and Use Tax – No Impact to General Fund-State

Chapter 550, Laws of 2009 (ESSB 5321), extends the sales tax credit for cities annexing an area until 2015. The city of Seattle may qualify for a credit at the rate of 0.85 percent up to a maximum of \$5 million per year. Any city exceeding the maximum credit before 2010 may receive an additional 0.1 percent credit.

Regarding Public Hospital Capital Facility Areas – No Impact to General Fund-State

Chapter 481, Laws of 2009 (SB 5354), establishes a mechanism for forming voter-approved public hospital capital facility areas (hospital facility areas) for financing public hospital capital facilities and other capital health care facilities and specifies governance provisions and powers for hospital facility areas, including authorization to incur indebtedness, issue bonds, and levy property taxes.

Regarding Initial Levy Rates for Rural County Library Districts – No Impact to General Fund-State

Chapter 306, Laws of 2009 (SB 5355), allows a petition and ballot measure proposing the creation of a rural county library district to include information regarding the maximum initial tax levy rate for the proposed district; requires that if a petition for the creation of a district includes the disclosure of a proposed initial maximum tax levy rate, then the ballot proposition must also include the same tax levy information; and requires that a district's initial tax levy rate not exceed that permitted under statute or, if applicable, the tax levy rate may not exceed that specified in the ballot proposition approved by the voters.

Making Provisions for all Counties to Value Property Annually for Property Tax Purposes – No Impact to General Fund-State

Chapter 308, Laws of 2009 (SSB 5368), requires that all counties value property on an annual basis for property tax purposes by 2014. To help fund this, DOR will administer a grant program and provide assistance to the counties. The grant program is funded by extending the \$5 real estate technology fee that was set to expire in 2010.

Creating the Columbia River Recreational Salmon and Steelhead Pilot Stamp Program – No Impact to General Fund-State

Chapter 420, Laws of 2009 (ESSB 5421), creates a pilot program, to be administered by the Washington State Department of Fish and Wildlife, regarding recreational salmon and steelhead fishing on the Columbia River. An additional payment of \$7.50 is added to all recreational fishing licenses used for salmon and steelhead fishing in the Columbia River or its tributaries.

Modifying Provisions of Local Option Taxes – No Impact to General Fund-State

Chapter 551, Laws of 2009, Partial Veto (2SSB 5433), allows counties to partially supplant existing funds until January 1, 2015, for the county public safety sales and use tax and the mental health/chemical dependency sales and use tax. Multi-year property tax lid lifts may also be used to supplant existing funds; however, in King County, this is allowed only for lid lifts approved in 2009, 2010, and 2011. The ferry district property tax rate in King County is lowered to 7.5 cents per \$1,000 of assessed value. An additional property tax in King County is authorized to fund transit projects at a rate of 7.5 cents per \$1,000 assessed value.

Making Changes Affecting City-County Assistance Account Distributions in Response to the Recommendations of the Joint Legislative Audit and Review Committee – No Impact to General Fund-State in FY 2009 to FY 2011

Chapter 127, Laws of 2009 (SB 5511), provides that streamline sales tax mitigation distributions are included into the determination of eligibility for, and amounts of, city/county assistance account distributions. The certification date for city/county assistance account distributions is changed from March 1 to October 1, beginning October 1, 2009.

Harmonizing Excise Tax Statutes with the Streamlined Sales and Use Tax Agreement – No Impact to General Fund-State

Chapter 289, Laws of 2009 (SSB 5566), provides that the sourcing, for sales tax purposes, of direct mail that is delivered or distributed from a location within this state to another location within this state is sourced to the address of the seller from which the direct mail was sent.

Enhancing Tax Collection Tools to Promote Fairness and Administrative Efficiency – No Impact to General Fund-State

Chapter 309, Laws of 2009 (SB 5568), allows DOR to apply for a subpoena to a superior court or district court to obtain third party information if there is probable cause to believe that records in the possession of the third party will aid DOR in connection with its official duties relating to an audit, collection activity, or a civil or criminal investigation.

Authorizing Existing City and County Real Estate Excise Taxes to be Expended on Municipally-Owned Heavy Rail Short Lines – No Impact to General Fund-State

Chapter 211, Laws of 2009 (SB 5587), allows up to 25 percent of the proceeds collected from a locally-imposed real estate excise tax before December 31, 2008, to be used for municipally-owned heavy short line railroads and includes a June 30, 2012, expiration date.

Modifying the Property Tax Exemption for Nonprofit Artistic, Scientific, Historical, and Performing Arts Organizations – No Impact to General Fund-State

Chapter 58, Laws of 2009 (SB 5680), increases the number of days that exempt property can be used for non-exempt purposes from 25 to 50 days per year. The number of days the property may be used for profit-making business activities is increased from 7 days to 15 days. This provision applies for property that is used for historical, scientific, or artistic collection, as well as performing arts.

Eligibility of Multiple Buildings in the High Technology Retail Sales and Use Tax Deferral Program – No Impact to General Fund-State

Chapter 268, Laws of 2009 (SB 5909), changes the high tech deferral to allow multiple qualified buildings leased to the same person to be eligible for the deferral when the structures are located within a 5 mile radius and the initiation of construction of each building begins within a 60-month period.

Clarifying the Tax Classification of Manufacturing of Fuel for Consumption Outside the Waters of the United States – No Impact to General Fund-State

Chapter 494, Laws of 2009 (SB 6096), clarifies that, while income from wholesaling and retailing of bunker fuel can be deducted from the B&O tax, manufacturing of bunker fuel is taxable under the B&O manufacturing classification.

Regarding Habitat Open Space – \$3,000 General Fund-State Decrease

Chapter 354, Laws of 2009, Partial Veto (2SHB 1484), creates an exception for payment of back taxes for designated forest land located in counties with a population greater than 600,000, if the sale or transfer of land is to a governmental entity, nonprofit historic preservation, or nonprofit nature conservancy corporation for the purpose of conserving open space land.

Concerning a Single-Occupancy Farm Conveyance – \$3,000 General Fund-State Decrease

Chapter 128, Laws of 2009 (SSB 5793), exempts single-occupancy farm conveyances used exclusively by a farm operator and the farm operator's family members from the Department of Labor and Industries permit and inspection requirements.

Concerning the Property Tax Current Use Valuation Programs – \$27,000 General Fund-State Decrease

Chapter 255, Laws of 2009 (SHB 1733), allows land used for equestrian activities such as stabling, training, riding, clinics, schooling, shows, or grazing for feed to be eligible for current use valuation as farm and agricultural land. Also allows an exception from the requirement to pay additional tax upon removal of property from a current use classification when the classification was originally granted in error through no fault of the owner.

Concerning a Business and Occupation Tax Exemption for Nonprofit Organizations that Provide Legal Services to Low-Income Individuals – \$55,000 General Fund-State Decrease

Chapter 508, Laws of 2009 (HB 1579), creates a B&O tax exemption for nonprofit organizations that primarily provide legal services to low-income individuals from whom no charge for services is collected.

Sales and Use Tax Exemptions for Intrastate Commuter Aircraft Operations – \$93,000 General Fund-State Decrease

Chapter 503, Laws of 2009 (HB 1287), provides a sales and use tax exemption for the sale of airplanes for use in providing intrastate air transportation by a commuter air carrier.

Concerning Boxing, Martial Arts, and Wrestling Events – \$146,500 General Fund-State Decrease

Chapter 429, Laws of 2009 (SB 6126), eliminates the 5 percent general fund tax on events and creates a new event fee that is deposited into the Business and Professions Account.

Sales and Use Tax Exemptions for Senior Residents of Low-Income Senior Housing Facilities – \$149,000 General Fund-State Decrease

Chapter 483, Laws of 2009 (SB 5470), provides a sales and use tax exemption for bundled service packages and meals when provided by qualified low-income senior housing facilities.

Modifying the Electrolytic Processing Business Tax Exemption – \$313,000 General Fund-State Decrease

Chapter 434, Laws of 2009 (SHB 1062), extends the Public Utility Tax exemption for sales of electricity by a utility chlor-alkali or a sodium chlorate chemical business until December 31, 2018.

Regarding Electric Vehicles – \$316,000 General Fund-State Decrease

Chapter 459, Laws of 2009 (2SHB 1481), provides a sales and use tax exemption for electric vehicle batteries and for electric vehicle infrastructure. In addition, a leasehold excise tax exemption is provided for electric vehicle infrastructure. The bill also contains several other provisions to promote electric vehicle infrastructure within the state.

Regarding Community Revitalization Financing – \$2.3 Million General Fund-State Decrease

Chapter 270, Laws of 2009 (2SSB 5045), allows local governments to create “revitalization areas” and use certain tax revenues that increase within the area to finance local public improvements, including a state contribution in the form of a local sales and use tax credited against the state tax. The following areas are “demonstration projects” that may establish revitalization areas and finance local public improvements: Whitman County, University Place, Tacoma, Bremerton, Auburn, Vancouver, and Spokane. These demonstration projects may impose the new local tax credited against the state tax beginning July 1, 2010, and the maximum state contribution is \$2.25 million per fiscal year. Other projects may apply to DOR starting September 1, 2009. These projects may impose the new local tax credited against the state tax beginning July 1, 2011, and the maximum state contribution is \$2.5 million per fiscal year. The maximum state contribution per project is \$500,000 per fiscal year.

Regarding the Taxation of Newspapers – \$2.5 Million General Fund-State Decrease.

Chapter 461, Laws of 2009 (EHB 2122), reduces the B&O tax rate on newspapers and printers of newspapers from 0.484 percent to 0.2904 percent.

Concerning the Excise Taxation of Certain Products and Services Provided or Furnished Electronically – \$2.6 Million General Fund-State Decrease

Chapter 535, Laws of 2009 (ESHB 2075), codifies the current tax treatment of digital goods. In addition, the bill provides for broad based taxation of digital products and services while providing many exemptions for certain types of business related to digital products and services.

Concerning Environmental Tax Incentives – \$4.0 Million General Fund-State Decrease

Chapter 469, Laws of 2009 (ESSB 6170), repeals the hybrid vehicle tax exemption. Additionally, it provides several tax incentives to renewable energy sources, log hauling, radioactive waste cleanup, and livestock nutrient management programs.

Providing Authority for the State Lottery to Enter into Agreements to Conduct Multi-State Shared Games – \$11.5 Million Education Construction Account Increase

Chapter 576, Laws of 2009 (ESSB 6108), allows the Washington State Lottery Commission to enter into an agreement for a second multi-state lottery game known as Powerball. After distributions to the Education Construction Account, net revenues from the Powerball game will be transferred to the state general fund for the Student Achievement Program. For the 2009-11 biennium, while not raising General Fund-State revenues, the second multi-state lottery game will allow a transfer of \$11.5 million from the Education Construction Account to General Fund-State.

Budget-Driven Revenue

Department of Revenue Enhancement – \$60.1 Million General Fund-State Increase

This revenue is the result of the implementation of revenue enhancement strategies by the Department of Revenue. The strategies include increased out-of-state auditing and compliance, the purchase of third party data sources for enhanced audit selection, and increased traditional auditing and compliance efforts.

Liquor Control Board Enhancement – \$9.1 Million Near General Fund-State Increase

Several revenue-enhancing measures were implemented in the budget including opening five new state stores and ten new contract stores. Additionally, appropriations are provided for new retail strategies, including opening nine state stores on Sunday, opening state liquor stores on seven holidays, and opening six mall locations during the holiday season. Also, included in the total are other minor policy level changes impacting revenues.

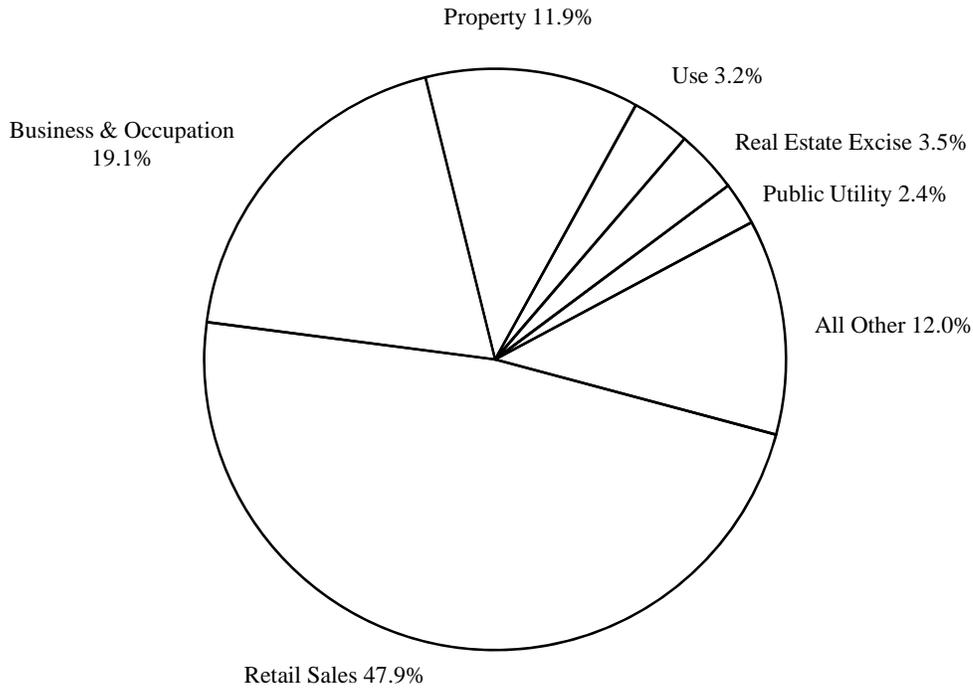
Lottery Unclaimed Prizes – \$11.0 Million General Fund-State Increase

The budget assumes that a portion of the unclaimed prizes will transfer to the general fund rather than be retained in the State Lottery Account.

Washington State Revenue Forecast - March 2009

2009-11 Near General Fund-State Revenues by Source

(Dollars in Millions)



Sources of Revenue	
Retail Sales	14,604.6
Business & Occupation	5,826.1
Property	3,628.0
Use	990.0
Real Estate Excise	1,070.9
Public Utility	728.9
All Other	3,655.0
Total	30,503.4

Note: Reflects the March 2009 Revenue Forecast.