Department of Revenue Fiscal Note

Bill Number: 5440 SB	Title: Manufacturing taxes	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2022	FY 2023	2021-23	2023-25	2025-27
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(138,000,000)	(216,000,000)	(354,000,000)	(453,000,000)	(472,000,000)
Total $	(138,000,000)	(216,000,000)	(354,000,000)	(453,000,000)	(472,000,000)

Estimated Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	2.0	0.4	1.2	0.1	0.1
Account					
GF-STATE-State 001-1	320,900	40,400	361,300	18,200	18,200
Total $	320,900	40,400	361,300	18,200	18,200

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☒ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

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Agency Approval:	Kim Davis	Phone: 360-534-1508	Date: 02/10/2021
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Request # 5440-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

CURRENT LAW
There is a business and occupation (B&O) tax levied and collected from every person for the act or privilege of engaging in business activities. The tax is measured by the application of rates against value of products, gross proceeds of sales, or gross income of the business, as the case may be (RCW 82.04.220).

A business engaged in manufacturing activities pays manufacturing B&O tax at a rate specific to the type of manufacturing activity being engaged in.

A manufacturer who sells the goods produced pays retailing and/or wholesaling B&O at a rate specific to the type of the manufacturing activities involved in producing the goods. For example, general manufacturer's retailing B&O tax is 0.471% and wholesaling B&O tax is 0.484%.

When a business performs more than one taxable activity related to the production and sale of the same product, it reports each activity under the proper classification. However, the business receives the multiple activities tax credit (MATC) so B&O tax is not paid more than once on the same product. For instance, a business that both manufactures and sells a product at wholesale in Washington does not pay both manufacturing and wholesaling B&O tax. A credit (multiple activities tax credit, or MATC) is allowed so that B&O tax is paid only once.

There is an exemption for B&O tax for manufacturing and wholesaling activities of seafood (RCW 82.04.4269), dairy (RCW 82.04.4268) and vegetable and fruit (RCW 82.04.4266) products until July 1, 2025. After July 1, 2025, B&O tax rates for manufacturing and wholesaling of seafood, dairy, vegetable and fruit products will be 0.138%.

PROPOSED
This bill eliminates B&O tax for all manufacturing and timber extracting activities. The bill does not eliminate the corresponding retailing and wholesaling B&O tax that may be due on manufactured products sold in Washington except for timber manufacturers or timber extractors' wholesaling B&O tax.

The proposed elimination of B&O taxes for certain activities and current rates are as follows:

- General Manufacturing 0.4840%
- Processing for Hire 0.4840%
- Splitting, Processing of Dried Peas 0.1380%
- Manufacturing Wheat into Flour, Soybean & Canola Processing 0.1380%
- Slaughtering, breaking and/or processing perishable meat products 0.1380%
- Manufacturing of Solar Energy 0.2750%
- Manufacturers of Semiconductor Materials 0.2750%
- Commercial Airplane Manufacturing 0.4840%
- Timber Manufacturing/ Process for hire 0.2904%
- Timber Extracting/ Extracting for hire 0.2904%
- Timber manufacturers or extractors' Wholesaling 0.2904%
- Manufacturing wood biomass fuel 0.1380%
- Aluminum Smelter/Solar Energy 0.2904%
- Manufacturing of Dairy Products 0.4840%
- Manufacturing of Fresh Fruit/Vegetables 0.4840%
- Manufacturing of Seafood Products 0.4840%

EFFECTIVE DATE
This bill takes effect October 1, 2021, except for the commercial aircraft industry.
The elimination of the manufacturing B&O tax for commercial aircraft, parts and tooling industry takes effect July 1, 2021.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS
- This proposal passes effective October 1, 2021, impacting eight months of collections in Fiscal Year 2022, with the exception of the elimination of the manufacturing B&O tax for commercial airplanes or components which is effective July 1, 2021, impacting 11 months of collections in Fiscal Year 2022.
- Growth rates based on the Economic and Revenue Forecast Council November 2020 forecast for B&O tax and the IHS Markit November 2020 forecast for Aerospace Products & Parts.
- B&O tax for Fruits-Vegetables, Dairy and Seafood manufacturing and Wholesaling activities are currently exempted; therefore, there is no detailed data to model for future impact after the B&O exemption expires July 1, 2025. The fiscal impact from these activities are assumed to be minimal.

DATA SOURCES
- Department of Revenue Fiscal Year 2020 Excise Tax Return data.
- Economic and Revenue Forecast Council November 2020 B&O tax forecast.
- IHS Markit November 2020 forecast for Aerospace Products & Parts.

REVENUE ESTIMATES
This bill decreases state revenues by an estimated $138 million in Fiscal Year 2022, and by $216 million in Fiscal Year 2023, the first full year of impacted collections. This bill does not impact local revenues.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):
FY 2022 - ($ 138,000)
FY 2023 - ($ 216,000)
FY 2024 - ($ 224,000)
FY 2025 - ($ 229,000)
FY 2026 - ($ 234,000)
FY 2027 - ($ 238,000)

Local Government, if applicable (cash basis, $000): None

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:
This legislation will affect 11,000 taxpayers.

FIRST YEAR COSTS:
The Department will incur total costs of $320,900 in Fiscal Year 2022. These costs include:

Labor Costs - Time and effort equates to 2.03 FTEs.

- Test and verify computer systems to update 11 tax rates on returns.
- Create two new reporting line codes.
- Revise performance reports.
- Update imaging programs.
- Create paper returns, design and develop new templates and forms, update scanning programming and training.
- Answer phone calls and counter inquiries, review and update account information.
- Respond to letter ruling requests, email inquiries and more difficult call backs from the telephone information center.
- Create a Special Notice and identify publications that need to be updated.
- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Amend four administrative rules.

Object Costs - $88,900.
- Contract computer systems programming.
- Print and mail a special notice to taxpayers who do not file returns electronically.
- Print and mail additional paper returns and notices.

SECOND YEAR COSTS:
The Department will incur total costs of $40,400 in Fiscal Year 2023. These costs include:

Labor Costs - Time and effort equates to 0.4 FTE.
- Ongoing testing of computer systems.
- Revise performance reports.
- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

THIRD YEAR COSTS:
The Department will incur total costs of $9,100 in Fiscal Year 2024. These costs include:

Labor Costs - Time and effort equates to 0.1 FTE.
- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

ONGOING COSTS:
Ongoing costs for Fiscal Year 2025 equal $9,100 and include similar activities described in the third year costs. Time and effort equates to 0.1 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	2.0	0.4	1.2	0.1	0.1
A-Salaries and Wages	141,200	26,100	167,300	12,000	12,000
B-Employee Benefits	50,800	9,400	60,200	4,200	4,200
C-Professional Service Contracts	88,000		88,000		
E-Goods and Other Services	26,800	4,400	31,200	1,800	1,800
J-Capital Outlays	14,100	500	14,600	200	200
Total $	$320,900	$40,400	$361,300	$18,200	$18,200

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
EMS BAND 4	119,061	0.0		0.0		
EXCISE TAX EX 3	59,688	0.2	0.2	0.2	0.1	0.1
IT SYS ADM-JOURNEY	89,916	0.4		0.2		
MGMT ANALYST4	70,956	0.6	0.2	0.4		
RECORDS MGMT SUPV	67,560	0.2		0.1		
TAX INFO SPEC 1	43,392	0.2		0.1		
TAX INFO SPEC 4	64,332	0.3		0.2		
TAX POLICY SP 2	72,756	0.0		0.0		
TAX POLICY SP 3	82,344	0.1		0.0		
TAX POLICY SP 4	88,644	0.0		0.0		
WMS BAND 3	101,257	0.0		0.0		
Total FTEs		2.0	0.4	1.2	0.1	0.1

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and dexcribe potential financing methods

NONE

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited rule-making process to amend WAC 458-20-13501, titled: “Timber harvest operations,” WAC 458-20-19301, titled: “Multiple activities tax credits,” WAC 458-20-267, titled: "Annual tax performance reports for certain tax preferences,” and WAC 458-20-267A, titled: “Annual reports for certain tax preferences.” Persons affected by this rule-making would include manufacturers and processors for hire.