Department of Revenue Fiscal Note

Bill Number: 1279 S HB	Title: Main street program	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	(270,000)	(740,000)	(1,010,000)	(2,400,000)	(3,670,000)
GF-STATE-State 01 - Taxes 35 - Public Utilities Tax	(80,000)	(220,000)	(300,000)	(710,000)	(1,080,000)
Total $	(350,000)	(960,000)	(1,310,000)	(3,110,000)	(4,750,000)

Estimated Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	1.0	0.5	0.8	0.2	
Account					
GF-STATE-State 001-1	188,600	53,200	241,800	32,500	
Total $	188,600	53,200	241,800	32,500	

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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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.

Note: This fiscal note reflects language in SHB 1279, 2021 Legislative Session.

CURRENT LAW
Chapter 82.73 RCW allows a credit against the business and occupation (B&O) tax and public utility (PU) tax for contributions made to a program or to the Washington Main Street Trust Fund.

A program is a nonprofit, designated by the Department of Archaeology and Historic Preservation, having the sole mission of revitalizing a downtown or neighborhood commercial district area.

The Department of Revenue (Department) approves the credit amounts before businesses make contributions to a program or to the Washington Main Street Trust Fund. The Department may not accept applications before the second Monday in January of each calendar year.

Once approved, businesses must make the approved contribution by November 15th of the calendar year in which the application is approved. If the contribution is not made by November 15th, the credits are forfeited. The Department must make the forfeited credits available for new applicants. Businesses approved for a credit after November 15 must make the total contribution by the end of the calendar year in which the contribution was approved.

Between the second Monday of January and March 31st of the same calendar year, the Department must evenly allocate the amount of statewide credits allowed based on the total number of programs and the Main Street Trust Fund as of January 1st for the same year. The Department may not approve contributions that would cause the total amount of approved credits to exceed the allocated amount.

The total credit claimed in any calendar year by a business may not exceed the lesser amount of:
- The approved credit; or
- 75 percent of the contribution made in the prior calendar year to a program in a city with population less than 190,000 and 50 percent of the contribution made in the prior calendar year to the Washington Main Street Trust Fund.

Each calendar year:
- Total statewide credits cannot exceed $2.5 million;
- Contributions to each program cannot exceed more than $100,000 in credit; and
- A business cannot receive more than $250,000 in credit.

Businesses take credits approved in one calendar year against tax due in the following calendar year. Credits cannot be carried forward into subsequent years and cannot be refunded.

The credit has a contingent expiration date. The credit expires January 1, 2028, if a review by the Joint Legislative Audit and Review Committee finds the number of the businesses that are part of a main street community is not equal to or more than the number that were a part of the main street communities prior to June 30, 2017.

COMPARISON OF SUBSTITUTE BILL WITH THE ORIGINAL BILL:
The substitute bill provides an additional credit in the amount of 40 percent of the approved contribution made by a business to the Main Street Trust Fund beginning with contributions made in 2021.The substitute bill increases the annual statewide credit cap from $4 million, as stated in the original bill, to $5 million.

PROPOSED LAW
This bill provides an additional credit to businesses who are receiving credits for approved contributions made in Calendar Year 2020. The additional credit equals 15 percent of the approved contributions made by a business to a program in Calendar Year 2020. The credit can be used against the B&O or PU tax beginning after the effective date of this legislation and be carried over for two subsequent years after 2021 and must be used by December 31, 2023.

Beginning with contributions made in Calendar Year 2021, businesses will receive an additional credit equal to 15 percent of the approved contribution to a program or 40 percent of the approved contribution to the Main Street Trust Fund. This equates to 90 percent of the amount of the contribution made to a program instead of 75 percent. This also equates to 90 percent of the amount of the contribution made to the Main Street Trust Fund instead of 50 percent. The total credits allowed for each program has increased from $100,000 to $160,000. The statewide total credit per calendar year has increased from $2.5 million to $5 million.

The bill amends the section regarding the timing of when the Department must evenly allocate the credit among the total programs and the Main Street Trust Fund to include a specific time. Starting at 8:00 a.m. Pacific daylight time on the second Monday in January through 8:00 am Pacific daylight time on April 1st of the same calendar year the Department must complete the calculation to evenly allocate the statewide credit.

The bill repeals the contingent expiration date. The credit expires January 1, 2032, and cannot be claimed afterwards.

EFFECTIVE DATE:
The bill takes effect 90 days after final adjournment of the session in which it is enacted.

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
- The bill increases the overall statewide credit limit from $2.5 million to $5 million. Prior to the COVID-19, this program has met the annual statewide credit limit.
- Based on the November 2020 forecast, B&O tax growth is minimal for Calendar Year 2021 and begins to slowly increase through 2023. As businesses recover, expect to see more credit requested and therefore meet the $5 million statewide limit by Calendar Year 2026.
- Businesses contributing to a program will receive 90 percent of the contribution as a credit instead of 75 percent. The increase in credit will increase credit requests.
- Businesses contributing to the Main Street Trust Fund will receive 90 percent of the contribution as a credit instead of 50 percent. The increase in credit will increase credit requests.
- The additional credit provided to businesses who contributed in 2020, will be claimed equally between Calendar Year 2022 and 2023.
- The additional credit must be claimed by December 31, 2023.

DATA SOURCES
- Department of Revenue excise tax returns.
- Economic Revenue Forecast Council, November 2020 forecast

REVENUE ESTIMATES
This bill decreases state revenues by an estimated $350,000 in Fiscal Year 2022, and by $960,000 in Fiscal Year 2023.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2022 - ($ 350)
FY 2023 - ($ 960)
FY 2024 - ($ 1,360)
FY 2025 - ($ 1,750)
FY 2026 - ($ 2,250)
FY 2027 - ($ 2,500)

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 bill affects 600 taxpayers.

FIRST YEAR COSTS:
The Department will incur total costs of $188,600 in Fiscal Year 2022. These costs include:

Labor Costs – Time and effort equates to 1.0 FTEs.
- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email and web message and paper correspondence.
- Examine accounts and make corrections as necessary.
- Computer system testing indefinitely, implementation meetings, monitor requirements, reports.
- Set up, program, and test computer system changes.

Object Costs - $70,400.
- Contract computer system programming.

SECOND YEAR COSTS:
The Department will incur total costs of $53,200 in Fiscal Year 2023. These costs include:

Labor Costs – Time and effort equates to 0.5 FTEs.
- Computer system testing indefinitely, monitor requirements, reports.
- Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email and web message and paper correspondence.
- Examine accounts and make corrections as necessary.

ONGOING COSTS:
Ongoing costs for the 2023-25 Biennium equal $32,500 and include similar activities described in the second year costs. Time and effort equates to 0.15 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	1.0	0.5	0.8	0.2	
A-Salaries and Wages	72,500	34,400	106,900	21,300	
B-Employee Benefits	26,100	12,400	38,500	7,700	
C-Professional Service Contracts	70,400		70,400		
E-Goods and Other Services	12,600	5,800	18,400	3,200	
J-Capital Outlays	7,000	600	7,600	300	
Total $	$188,600	$53,200	$241,800	$32,500	

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
EXCISE TAX EX 3	59,688	0.2	0.1	0.2		
IT SYS ADM-JOURNEY	89,916	0.2		0.1		
MGMT ANALYST4	70,956	0.6	0.4	0.5	0.2	
Total FTEs		1.0	0.5	0.8	0.2	

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