Individual State Agency Fiscal Note

Bill Number: HB 1743	Bill Title: AN ACT Relating to expanding employee ownership	Agency: 140 Department of Revenue

Part I: Estimates

[ ] No Fiscal Impact

Estimated Cash Receipts to:

Fund	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
GF-State Business and Occupation Tax		(229,000)	(229,000)	(852,000)	(925,000)
Total		(229,000)	(229,000)	(852,000)	(925,000)

Estimated Expenditures from:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
FTE Staff Years	2.43	.2	1.32	.2	.2
Fund					
GF-State 001	462,600	20,900	483,500	41,800	41,800
Total	462,600	20,900	483,500	41,800	41,800

The revenue and expenditures 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:

[X] 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.

Legislative Contact:	**CASSIE JONES**	**Phone:**	**360-786-7303**	**Date:**	**2/6/2023**
Agency Preparation:	**SARA DEL MORAL**	**Phone:**	**(360) 534-1525**	**Date:**	**2/6/2023**
Agency Approval	**Marianne McIntosh**	**Phone:**	**(360) 534-1505**	**Date:**	**2/8/2023**
OFM Review:		**Phone:**		**Date:**	

Part II: Narrative Explanation

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

This fiscal note addresses sections 4 and 5 of the bill, which impact the Department of Revenue (department).

CURRENT LAW:
The business and occupation (B&O) tax is a gross receipts tax. It is measured on the value of products, gross proceeds of sale, or gross income of each business. The tax rate varies by classification. Rates for the major classifications range from 0.471% to 1.750%. Preferential rates are available for certain activities.

Several credits against the B&O tax are available. However, state law does not allow a credit for the cost of converting a business to an employee-owned structure.

PROPOSAL:
A credit against the B&O tax is provided for each qualifying business that converts to using any of the following employee ownership structures:
- employee stock ownership plan (ESOP)
- worker-owned cooperative
- employee ownership trust

For each business that converts to using an ESOP, the credit is equal to the greater of the following:
- 50% of conversion costs
- $100,000

For each business converting to a worker-owned cooperative or employee ownership trust, the credit is equal to the greater of the following:
- 50% of conversion costs
- $25,000

Each business may carry over unused credit to subsequent tax periods, as long it does so within 12 months of conversion.

Statewide, the total amount of credits authorized is $2 million for each calendar year.

“Conversion costs” means amounts spent on accounting, legal and other professional services to pay for a feasibility study and/or a transition to an employee-owned structure.

“Qualified business” means an entity that is:
- subject to the B&O tax
- does not already have one of employee-owned structures for which the credit is available
- approved by the department for the credit.

The credit expires on July 1, 2030.

EFFECTIVE DATE:
The bill takes effect 90 days after final adjournment of the session, except for the sections that create the credit, which take effect on July 1, 2024.

II. B - Revenue Impact

ASSUMPTIONS:
- The department conducts significant outreach about the credit, leading to a greater number of conversions.
- The number of businesses annually converting to employee ownership is:
  - 13 during the first year the credit is available
  - 15 for subsequent years
- All converting businesses use the credit.
- For each converted business that uses the credit, the credit equals:
  - $45,000 for an employee stock ownership plan
  - $25,000 for a worker-owned cooperative
- Businesses using the credit in Washington are similar to Colorado businesses granted a credit for conversions during 2022 with regards to annual revenues and type of employee ownership.
- The B&O tax base grows as forecasted by the Economic and Revenue Forecast Council.
- Currently, tribes with compacts receive a share of certain business and occupation taxes (RCW 43.06.523). Under this proposal the amount of revenue shared with tribes and local governments may decline.

DATA SOURCES:
- Colorado Office of Economic Development and International Trade
- Economic and Revenue Forecast Council, November 2022 forecast
- National Center for Employee Ownership

REVENUE ESTIMATES:
This bill decreases state revenues by an estimated $229,000 in the 11 months of impacted collections in fiscal year 2025, and by $417,000 in fiscal Year 2026, the first full year of impacted collections.

STATE GOVERNMENT IMPACT:
State Government (cash basis, $000):
FY 2024 - $ 0
FY 2025 - ($ 229)
FY 2026 - ($ 417)
FY 2027 - ($ 435)
FY 2028 - ($ 453)
FY 2029 - ($ 472)

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

II. C - Expenditure Impact

ASSUMPTIONS:
This bill affects less than 20 taxpayers annually.

FIRST YEAR COSTS:
The department will incur total costs of $462,600 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 2.4 FTEs.
- Adopt one new administrative rule.
- Set up, program and test computer systems for a new credit type. This includes a new credit ID and associated return processing and system indicator codes, a new E-file worksheet, and modifications to reports and data files.
- Gathering requirements, implementation meetings, documentation, and testing of system changes due to new credit.

- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

Object Costs - $132,000.
- Computer system changes, including contract programming.

SECOND YEAR COSTS:
The department will incur total costs of $20,900 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 0.2 FTE.
- Continued computer system testing, monitoring and maintenance for new credit.
- Process returns, verify credits taken and all associated work items, including issuing assessments for return errors and underpayments.

ONGOING COSTS:
Ongoing costs for the 2026-27 biennium equal $41,800 and include similar activities described in the second-year costs. Time and effort equate to 0.2 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object or Purpose:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Salaries and Wages	208,000	13,500	221,500	27,000	27,000
Benefits	68,600	4,500	73,100	9,000	9,000
Personal Service Contracts	132,000		132,000		
Supplies & Material	37,100	2,300	39,400	4,600	4,600
Office Equipment	16,900	600	17,500	1,200	1,200
Total	462,600	20,900	483,500	41,800	41,800

III. B - FTE Detail:

Job Classification	Salary	FY 2024 FTEs	FY 2025 FTEs	2023 - 2025 Total	2025 - 2027	2027 - 2029
EMS BAND 4	126,619	.01		.01		
EMS BAND 5	147,919	.01		.01		
EXCISE TAX EX 3	61,632	.1	.1	.1	.1	.1
IT SYS ADM-JOURNEY	92,844	1.6		.8		
MGMT ANALYST4	73,260	.61	.1	.36	.1	.1
TAX POLICY SP 2	75,120	.01		.01		
TAX POLICY SP 3	85,020	.07		.04		
TAX POLICY SP 4	91,524	.01		.01		
WMS BAND 3	107,685	.01		.01		
Total		2.43	.2	1.35	.2	.2

III. C - Expenditures by Program (optional):

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Total					

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

Should this legislation become law, the department will use the standard process to adopt WAC 458-20-NEW, titled: "New rule on employee ownership". Persons affected by this rulemaking would include qualifying businesses that convert to worker-owned cooperatives, employee ownership trusts, or employee stock ownership plans.

Revenue Impact Detail

			First Biennium		Second Biennium		Third Biennium	
FUND	SOURCE	CODE	1st YEAR	2nd YEAR	3rd YEAR	4th YEAR	5th YEAR	6th YEAR
GF-State	Business and Occupation Tax	0105		(229,000)	(417,000)	(435,000)	(453,000)	(472,000)
Total				(229,000)	(417,000)	(435,000)	(453,000)	(472,000)
OTHER								
Total								
Net				(229,000)	(417,000)	(435,000)	(453,000)	(472,000)

Revenue Impact - by Biennium

FUND	SOURCE	CODE	1st Biennium	2nd Biennium	3rd Biennium
GF-State	Business and Occupation Tax	0105	(229,000)	(852,000)	(925,000)
Total			(229,000)	(852,000)	(925,000)
OTHER					
Total					
Net			(229,000)	(852,000)	(925,000)