

Summary of House Bill 2186

Tax	Current Law	HB 2186	State Revenue Impact Dollars in thousands
<p>Capital Gains</p> <p>(Part I)</p> <p>Effective date: July 1, 2017, but tax does not apply until January 1, 2018</p>	<p>No current capital gains tax</p>	<p>Beginning January 1, 2018</p> <p>7% tax on an individual for privilege of selling long-term capital asset.</p> <p>Exempts first \$25K (individual) or \$50K (filing jointly).</p> <p>Exempts:</p> <ul style="list-style-type: none"> • Residences (single family, a condo unit, a co-op unit or floating house plus ADU). • Certain retirement assets (401K, deferred comp, tax sheltered annuities/custodial accounts, IRAs, Roth IRAs, employee defined contribution program, employee defined benefit program or similar retirement vehicles). • Assets condemned by government. • Cattle, horses or breeding livestock held for more than 12 months if 50% of taxpayer's gross income for the year is from farming or ranching. • Certain agricultural or timber lands (continuous and substantial involvement; "material participation" requirements). • Property used in a trade or business if it qualifies for depreciation under federal law. • Timber or receipts from a Real Estate Investment Trust. <p>Allocation:</p> <ul style="list-style-type: none"> • <u>Real property</u>: if real property sold or exchanged is in WA or the majority of the fair market value of the real property is in state • <u>Tangible personal property</u>: if property was located in WA at time of sale/exchange. Can also be allocated if: (1) property was located in WA at any time during the current or immediately preceding taxable year, (2) taxpayer was a WA resident at time of sale/exchange 	<p><i>Annual impact</i></p> <p>FY 18 - 0 FY 19 - 715,100 FY 20 - 784,200 FY 21 - 825,200</p> <p><i>Biennial impact</i></p> <p>2017-19 - 715,100 2019-21 - 1,609,400</p>

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		<p>and (3) not subject to income or excise tax on the adjusted capital gain by another taxing jurisdiction.</p> <ul style="list-style-type: none"> • <u>Intangible personal property</u>: if taxpayer was domiciled in WA at the time of sale/exchange <p>All revenues deposited into Education Legacy Trust Account</p> <p>B&O Deduction for capital gains tax paid</p>	
<p>B&O Changes</p> <p>Part II; Part III (B) & (D)</p> <p>Effective date: July 1, 2017</p>	<p>Small Business Credit of \$35/month multiplied by the number of months in reporting period.</p> <p>Partial credit is allowed to phase out.</p>	<p>Repeals SBC</p> <p>Deduction:</p> <ul style="list-style-type: none"> • Provides deduction/credit of \$250K for businesses with gross income for calendar year immediately preceding current CY of less than \$250K. • Provides a deduction/credit of \$100k if gross income for CY immediately preceding is equal to or greater than \$250K but less than \$500K. <p>If taxpayer claims MATC, can claim credit instead of deduction. Credit for CY will be equal to lesser of tax due or the amount:</p> <ul style="list-style-type: none"> • for person with gross income of less than \$250K, \$250K multiplied by highest applicable B&O rate; or • For person with gross income of \$250K-\$500K, \$100k multiplied by highest applicable B&O rate. 	<p><i>Annual impact</i></p> <p>FY 18 - 555,970 FY 19 - 641,270 FY 20 - 677,790 FY 21 - 716,430</p> <p><i>Biennial impact</i></p> <p>2017-19 - 1,197,240 2019-21 - 1,394,220</p>

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	<p>Major B&O classifications & rates:</p> <ul style="list-style-type: none"> • Retailing: .471% • Wholesaling: .484% • Manufacturing: .484% • Service & Other Activities: 1.5% <p>Filing threshold is less than \$28K or \$46,667 if taxable income from certain activities.</p> <p>B&O Rate for warehousing and reselling prescription drugs: 0.138%</p> <p>B&O Rate for International Investment Management Services: 0.275%</p>	<p>Adds a 20% surcharge on B&O tax for selected business activities with gross proceeds of at least \$250K</p> <ul style="list-style-type: none"> • Beginning 7/1/17: extractors, manufacturers, most retailers, real estate brokers, digital products/services, nonprofit R&D, insurance producers, hospitals, salmon canning, radioactive waste clean-up, wholesalers, insurance agents, radio & TV broadcasters, government contractors, printers, publishers highway contractors, extracting or processing for hire, warehousing, contest of chance, international investment management, custom software, loan interest, royalties, professional employer organizations, day care, chemical dependency services, grocery distribution coops. • Beginning 7/1/24: meat slaughter/processing for wholesale. <p>Filing Threshold increased to gross income of at least \$150K</p> <p>B&O rate for warehousing and reselling prescription drugs now general wholesaling rate of 0.484%</p> <p>B&O rate for International Investment Management Services is now general service rate of 1.5%</p>	
<p>Sales & Use Tax Part III (A), (C) & (E) Effective date: July 1, 2017</p>	<p>Bottled water is exempt from retail sales tax.</p>	<p>Repeals sales tax exemption for bottled water Exceptions:</p> <ul style="list-style-type: none"> • medically prescribed water • a person's primary source of drinking water is considered unsafe. 	<p>Bottled Water Exemption</p> <p><i>Annual impact</i> FY 18 - 26,988 FY 19 - 30,112 FY 20 - 30,797 FY 21 - 31,499</p> <p><i>Biennial impact</i> 2017-19 - 57,100 2019-21 - 62,296</p>

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	<p>Use tax exemption for self-produced fuel</p> <p>Nonresident sales tax exemption</p>	<p>Exemption narrowed to biomass fuels.</p> <p>Use tax for refinery fuel gas is most recent US natural gas wellhead or 3.852%.</p> <p>Remittance program: yearly filing, must be for more than \$25.</p>	<p>Use tax exemption for self- produced fuel <i>Annual impact</i> FY 18 - 13,810 FY 19 - 16,950 FY 20 - 18,980 FY 21 - 21,020</p> <p><i>Biennial impact</i> 2017-19 - 30,760 2019-21 - 40,000</p> <p>Nonresident sales tax exemption <i>Annual impact</i> FY 18 - 23,110 FY 19 - 26,078 FY 20 - 26,949 FY 21 - 27,697</p> <p><i>Biennial impact</i> 2017-19 - 49,188 2019-21 - 54,646</p>
<p>REET (Part IV) Effective date: July 1, 2017</p>	<p>State REET is 1.28%</p> <p>Does not apply to foreclosures, enforcement of judgments, or sheriff's auction.</p>	<p>Graduated REET:</p> <ul style="list-style-type: none"> • 0.75% if selling price is less than \$250K. • 1.028% if selling price is equal to or greater than \$250K and less than \$1M. • 2% if the selling price is equal to or greater than \$1M but less than \$5M. • 2.5% if the selling price is equal to or greater than \$5M. <p>Applies to foreclosures, enforcement of judgments, or sheriff's auction.</p>	<p><i>Annual impact</i> FY 18 - 206,084 FY 19 - 229,273 FY 20 - 236,783 FY 21 - 244,213</p> <p><i>Biennial impact</i> 2017-19 - 435,357 2019-21 - 480,996</p>

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<p>Local Government/Building Permits</p> <p>(Part V)</p> <p>Effective date: July 1, 2017</p>	<p>No reporting of subcontractor info.</p>	<p>Requires local government as part of final inspection of residential dwelling, to obtain subcontractor info and send it to DOR..</p>	<p><i>Annual impact</i> FY 18 - 2,440 FY 19 - 5,322 FY 20 - 7,983 FY 21 - 10,645</p> <p><i>Biennial impact</i> 2017-19 - 7,762 2019-21 - 18,628</p>
<p>Remote Sellers, Referrers, & Marketplace Facilitators</p> <p>(Part VI)</p> <p>Effective Date: January 1, 2018.</p>	<p>If seller has physical presence or "click through nexus" must collect & remit sales tax on retail sales to WA consumers.</p>	<p>Beginning January 1, 2018, remote sellers, referrers, & marketplace facilitators that meet the statutory criteria must remit sales or use tax or comply with the notice and reporting requirements.</p> <p><u>Reports & Notices:</u></p> <ul style="list-style-type: none"> • Notices are intended to tell consumers that if they are in WA, they may owe use tax if seller does not collect and remit. • Report to consumer from seller that is not a referrer: intended to give them information about their purchases from seller in order to file use tax as well as remind them to file. • Report to seller from a referrer: remind sellers that referrers do not collect sales tax, a potential purchaser from WA was sent to seller and that seller may have requirements under act. • Reports to DOR by sellers that are not referrers: list of consumers who may owe use tax. • Reports to DOR by referrer: seller that may have to comply <p><u>Penalties for failure to provide notices or reports.</u></p> <ul style="list-style-type: none"> • \$20K if seller/referrer fails to provides notices. • 8.5% of gross taxable WA sales if seller, other than referrer, fails to send reports to consumers. • 8.5% of gross income from referral services sourced to WA if referrer fails to send annual report to its sellers. 	<p><i>Annual impact</i> FY 18 - 80,900 FY 19 - 248,300 FY 20 - 309,200 FY 21 - 335,600</p> <p><i>Biennial impact</i> 2017-19 - 329,200 2019-21 - 644,800</p>

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		<ul style="list-style-type: none"> \$25/failure to report consumer/seller to DOR in annual report. (no less than \$20K) <p>All penalties are cumulative.</p> <p>Definitions</p> <p><u>"Marketplace Facilitator"</u>: a person that contracts with sellers to facilitate, for consideration, regardless of whether deducted as fees from transaction, the sale of the seller's products through a catalog or a physical or electronic marketplace, and engages:</p> <ul style="list-style-type: none"> Directly or indirectly, through one or more affiliated persons in: communicating offer/acceptance between buyer and seller; owning or operating the infrastructure (electronic or physical) that brings buyers and sellers together; providing virtual currency; or software development or R&D related to marketplace operated. <p>AND</p> <ul style="list-style-type: none"> Payment processing services; fulfillment or storage services; listing for sale for consideration; setting prices; branding sales as those of the marketplace facilitator; order taking; advertising/promotion; or providing customer service/assisting with returns and exchanges. <p><u>"Referrer"</u>: a person who contract (or otherwise agrees) with a seller to list or advertise for sale items in any medium, receives a commission, fee or other consideration from seller for listing/advertising, transfers a purchaser to a seller (or affiliated person) to complete the sale and does not collect receipts from the purchasers for the transaction.</p> <p><u>"Remote Seller"</u>: mean any seller who does not have a physical presence in this state and makes sales to purchasers.</p>	

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Expanding Liability for Unpaid Taxes (Part VII) Effective date: July 1, 2017	Officers of the business or other persons with the responsibility to remit trust fund taxes to the state are liable for the unpaid taxes.	Extends liability to other taxes, including sales and use tax, B&O tax, cigarette tax and other tobacco products tax.	<i>Annual impact</i> FY 18 - 4,763 FY 19 - 5,452 FY 20 - 5,689 FY 21 - 5,992 <i>Biennial impact</i> 2017-19 - 10,215 2019-21 - 11,681
Interest Rate on Refunds (Part VIII) Effective date: January 1, 2018	Interest rate applied to refunds is the federal short term rate plus 2%	Interest on refunds will be the federal short term rate	General Fund <i>Annual impact</i> FY 18 - 1,340 FY 19 - 3,100 FY 20 - 3,800 FY 21 - 4,200 <i>Biennial impact</i> 2017-19 - 4,440 2019-21 - 8,000
Transfers to the Education Legacy Trust Fund (Part IX) Effective date: July 1, 2017		Increase in revenues from B&O changes (Parts II and III) sales and use tax changes (Part III and VI) transferred to ELTA twice per year. Increase in revenue from REET change is transferred to ELTA quarterly.	
Conforming Amendments (Part X) Effective date: July 1, 2017	RCW 82.04.293 RCW 82.04.440 RCW 82.04.4463 RCW 82.04.280 RCW 82.32.790	Makes statutory changes to the B&O Rate to reflect repeal of international investment management service preferential rate. Makes definitional changes related to the repeal of preferential B&O rate for warehousing and reselling prescription drugs Updates semi-conductor tax cross-references	