

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 2945 HB	<b>Title:</b> Aerospace B&O taxes/WTO	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

**No Fiscal Impact**

### Estimated Cash Receipts to:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	18,000,000	116,000,000	134,000,000	229,000,000	225,000,000
<b>Total \$</b>	18,000,000	116,000,000	134,000,000	229,000,000	225,000,000

### Estimated Expenditures from:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.4	0.3	0.4		
GF-STATE-State 001-1	66,900	27,800	94,700		
<b>Total \$</b>	66,900	27,800	94,700		

### 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: Don Gutmann	Phone: 360-534-1510	Date: 02/24/2020
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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.*

#### CURRENT LAW:

The general manufacturing business and occupation (B&O) tax rate is 0.484%, and aerospace manufacturing B&O tax rate (specifically for commercial airplanes, component, and tooling) is 0.2904%.

Out-of-state manufacturers who sell their manufactured goods in Washington, pay B&O tax for retailing (0.471%) and wholesaling (0.484%) activities.

Out-of-state aerospace manufacturers who sell their aerospace manufactured goods in Washington pay B&O tax for both retailing and wholesaling activities at a single B&O tax rate of 0.2904%.

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 B&O tax 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 MATC credit is allowed so that B&O tax is paid only once.

#### PROPOSAL:

Beginning April 1, 2020, this bill makes the preferential B&O tax rate for aerospace manufacturers inapplicable and, instead, taxes all general and aerospace manufacturing and wholesaling at the standard B&O tax rate of 0.484% and retailing at a B&O tax rate of either 0.471% for tooling or 0.484% for commercial airplanes and their component parts, unless certain conditions are met to reinstate the preferential rates.

Specifically, the preferential B&O tax rate for aerospace manufacturers will be applicable again if all of the following conditions are met:

- (1) The United States and the European Union reach an agreement resolving certain disputes before the World Trade Organization that would allow the preferential tax rate for aerospace manufacturers;
- (2) A taxpayer certifies to the Department of Revenue (Department) that it meets the requirements that agreement; and
- (3) The Department issues a determination that conditions (1) and (2) have been met.

If all of these conditions are met, the preferential rate for aerospace manufacturers becomes applicable again as of the date that condition (2) is met.

A business that both manufactures and sells a product at retail or wholesale in Washington continues to take MATC, and will not pay both manufacturing and retailing/wholesaling B&O tax for the same product.

#### EFFECTIVE DATE:

This bill contains an emergency clause and takes effect immediately upon the Governor's approval.

### 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 April 1, 2020, impacting 2 months of collections in Fiscal Year 2020.
- Growth rates based on the Economic and Revenue Forecast Council November 2019 forecast for B&O tax and the IHS

Markit November 2019 forecast for Aerospace Products & Parts.  
- The preferential rates are not reinstated within the scope of this estimate.

#### DATA SOURCES

- Department of Revenue Fiscal Year 2019 Excise Tax Return data.
- Economic and Revenue Forecast Council November 2019 B&O tax forecast.
- IHS Markit November 2019 forecast for Aerospace Products & Parts.

#### REVENUE ESTIMATES

This bill increases state revenues by an estimated \$134 million in the 2019-21 Biennium and by \$229 million in the 2021-23 Biennium. This bill does not impact local revenues.

#### TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2020 -	\$ 18,000
FY 2021 -	\$ 116,000
FY 2022 -	\$ 115,000
FY 2023 -	\$ 114,000
FY 2024 -	\$ 113,000
FY 2025 -	\$ 112,000

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 approximately 335 taxpayers.

#### FIRST YEAR COSTS:

The Department will incur total costs of \$66,900 in Fiscal Year 2020. These costs include:

Labor Costs - Time and effort equates to 0.4 FTE.

- Test and verify computer system changes to expire three preferential line codes.
- Update or create letter and web messages.
- Update paper returns, templates, forms and scanning programming.
- Create a Special Notice and identify publications and information that needs to be created or updated on the Department's website.
- Respond to letter ruling requests, email inquiries, and more difficult call backs from the telephone information center.
- 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.

Object Costs - \$26,400.

- Contract computer system programming.

#### SECOND YEAR COSTS:

The Department will incur total costs of \$27,800 in Fiscal Year 2021. These costs include:

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Labor Costs - Time and effort equates to 0.3 FTE.

- Update performance reports.
- Amend one Excise Tax Advisory.
- Amend two administrative rules.
- 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:**

There are no ongoing costs.

**Part III: Expenditure Detail**

**III. A - Expenditures by Object Or Purpose**

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.4	0.3	0.4		
A-Salaries and Wages	25,400	18,600	44,000		
B-Employee Benefits	7,700	5,500	13,200		
C-Professional Service Contracts	26,400		26,400		
E-Goods and Other Services	4,700	2,800	7,500		
J-Capital Outlays	2,700	900	3,600		
<b>Total \$</b>	\$66,900	\$27,800	\$94,700		

**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 2020	FY 2021	2019-21	2021-23	2023-25
EMS BAND 4	119,061		0.0	0.0		
EMS BAND 5	139,090		0.0	0.0		
EXCISE TAX EX 3	57,948	0.1	0.1	0.1		
MGMT ANALYST3	59,436		0.0	0.0		
MGMT ANALYST4	68,892	0.1	0.1	0.1		
RECORDS MGMT SUPV	65,592	0.1		0.1		
TAX INFO SPEC 4	62,460	0.1		0.1		
TAX POLICY SP 2	70,632		0.0	0.0		
TAX POLICY SP 3	79,944		0.0	0.0		
TAX POLICY SP 4	86,064		0.0	0.0		
WMS BAND 3	101,257		0.0	0.0		
<b>Total FTEs</b>		0.4	0.3	0.4		

**III. C - Expenditures By Program (optional)**

NONE

**Part IV: Capital Budget Impact**

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 458-20-267, 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 aerospace manufacturers.