

FISCAL IMPACT FOR INITIATIVE 1098

Beginning calendar year 2012, the income tax and tax relief are estimated to generate a net increase in state revenue of \$11.16 billion over five calendar years to be used exclusively for education and health services. The 20 percent state property tax levy reduction will allow some local property tax districts to levy an increased amount; this revenue impact is expected to be minimal. State implementation costs are estimated at \$39.3 million over five fiscal years; one-time computer programming costs are estimated at \$50,000 for the state and each university and local government with employees subject to the income tax.

STATE REVENUES

State revenues are estimated to increase by \$11.16 billion over five calendar years, as described below.

State Revenue Increase

Calendar Year	2012	2013	2014	2015	2016
Income Tax	\$2,213,000,000	\$2,937,000,000	\$3,025,000,000	\$3,116,000,000	\$3,209,000,000
Business & Occupation Tax Credit	(\$250,000,000)	(\$259,000,000)	(\$261,000,000)	(\$271,000,000)	(\$281,000,000)
Property Tax Relief	(\$383,000,000)	(\$393,000,000)	(\$403,000,000)	(\$414,000,000)	(\$425,000,000)
Total Net Revenue to Trust Fund	\$1,580,000,000	\$2,285,000,000	\$2,361,000,000	\$2,431,000,000	\$2,503,000,000

State Income Tax Assumptions

- The tax will be based on the 2012 federal tax year and first imposed January 1, 2012. Therefore, employer withholding of tax and quarterly estimated tax payments begins in 2012. The first tax return will be due April 15, 2013.
- Since 2005, the Washington State Department of Revenue has maintained an income tax model to estimate the revenue impacts of proposed legislation. This estimate is based on that model, which was most recently used during the 2010 legislative session to estimate the revenue impacts of Senate Bill 6250.
- The model contains data for 2006 income for the 2007 federal tax year from 3.2 million state tax returns. Adjustments are made in the model for the June 2010 Washington State Economic and Revenue Forecast for personal income average growth of 3.6 percent, wages and salaries average growth of 3.44 percent and the United States implicit deflator. Adjustments are also made to the model for IHS Global Insight's national forecast for dividends and interest income average growth of 7.8 percent, and proprietors income average growth of 7.4 percent.
- It is estimated that the tax will be paid on an estimated 38,400 Washington state tax returns — 12,400 individual tax returns and 26,000 married joint, head of household and widower returns.
- Growth in the tax is assumed to be 3 percent each year.
- Compliance with the income tax is assumed at 90 percent for the first tax year.

State Property Tax Assumptions

- The state property tax levy reduction begins with the 2011 state levy, which is collected in 2012.
- The state property tax levy reduction occurs after the levy is calculated each year, and does not affect the base levy amount.
- Calendar years 2012 and 2013 state property tax levies are based on the June 2010 Washington State Economic and Revenue Forecast. For calendar years 2014–2016, the levies are estimated to increase, assuming that property market values and new construction grow at 6 percent per year, and state assessed properties grow at 3 percent per year.

State Business and Occupation Tax Credit for Small Business

- The increase in the tax credit begins with tax returns filed after January 1, 2012. For annual taxpayers, this includes the 2011 tax return; for quarterly taxpayers, this includes the fourth quarter tax return; and for monthly taxpayers, this includes the December 2011 tax return.
- Using Washington State Department of Revenue excise tax return data for fiscal year (FY) 2009, the estimate assumes that the increased tax credit will exempt an estimated additional 118,000 taxpayers from all state business and occupation (B&O) taxes, and an additional 39,000 taxpayers will have a portion of their B&O tax liability reduced.
- Growth in the tax credit is assumed to be 3.75 percent each year.
- The amount of tax relief from the tax credit to be replaced in the State General Fund is the difference between current tax credit and the increased tax credit in the initiative.

LOCAL REVENUES

The state Constitution limits the amount of property taxes that may be imposed on an individual parcel of real or personal property without voter approval to 1 percent of its true and fair value. When the 1 percent constitutional limit is exceeded, junior taxing district levies are prorated (reduced) as provided in RCW 84.52.010. The 20 percent reduction in the state property tax levy will create additional property tax capacity and allow some local property tax districts to levy an increased amount. This impact is expected to be minimal because few taxing districts are currently prorating due to the 1 percent constitutional limit. Additionally, this estimate assumes no local revenue impact from the state income tax or increased state B&O tax credit for small business.

STATE EXPENDITURES

Seventy percent of net revenue received by the Trust Fund must be deposited into the Education Legacy Trust Account to be used exclusively for education purposes described in RCW 83.100.230. Thirty percent of net revenues received by the Trust Fund are to be used exclusively for health services.

Before computing or spending net revenue in the Trust Fund, the State Treasurer must certify each year the revenue that would have been deposited into the State General Fund but for the state property tax levy reduction and the increased B&O tax credit for small business. The State Treasurer must then make deposits from the Trust Fund to the State General Fund as necessary to replace this revenue. Using these assumptions, the following are estimates of the additional amounts that are available for state expenditure. Estimates are described using the state's fiscal year (July 1, 2011, through June 30, 2012, is the fiscal year 2012).

- The Washington State Department of Revenue will calculate the state property tax levy reduction in the normal levy process, which is completed by January 15 of each year. Therefore, it is assumed that the State Treasurer will certify and deposit to the State General Fund those amounts necessary to replace this revenue on February 1, 2012, and each February 1 thereafter.
- Using filed excise tax returns, the Washington State Department of Revenue will calculate every six months the reduced revenue from the increased B&O tax credit for small business. Assuming the Washington State Department of Revenue supplies this information to the State Treasurer on August 15 and March 15 of each year, the State Treasurer will certify and make deposits to the State General Fund to replace this revenue on September 1, 2012, and April 1, 2013, and each September 1 and April 1 thereafter.
- The timing of deposits affects available funds, but does not generate new revenue to the State General Fund.
- Assuming all deposits into the State General Fund must be completed before net revenues can be spent, the estimate assumes that net spending from the Trust Fund begins in FY 2013.

Additional Funds Available for State Expenditure

Fiscal Year	2012	2013	2014	2015	2016
Education Legacy Account	\$0	\$1,106,000,000	\$1,599,500,000	\$1,652,700,000	\$1,701,700,000
Net Revenue in Trust Fund for Health Services	\$0	\$474,000,000	\$685,500,000	\$708,300,000	\$729,300,000
Total Revenue Available for Spending	\$0	\$1,580,000,000	\$2,285,000,000	\$2,361,000,000	\$2,431,000,000

STATE AND LOCAL COST ESTIMATE – ASSUMPTIONS

The Washington State Department of Revenue will incur additional costs to administer the income tax. The largest cost will occur in FY 2012 from the purchase of computer hardware and off-the-shelf computer software to collect the tax, accept and audit tax returns, and process tax refunds and assessments. Costs also include additional staff, rule-making and policy activities, taxpayer mailings and workshops, supplies and materials. The increased state B&O tax credit for small business will result in cost savings from 41,000 taxpayers no longer being required to file excise tax returns who will be placed on active non-reporting status.

The Board of Tax Appeals will have jurisdiction over appeals related to income tax. Using appeal statistics from boards in other states with a state income tax to determine workload and staffing requirements, the board assumes 300 appeals each fiscal year. Costs are for additional staff, information technology upgrades, training, supplies and materials.

The following are net costs to the state, excluding costs for payroll system changes:

State Net Costs

Fiscal Year	2012	2013	2014	2015	2016
Department of Revenue	\$16,723,700	\$6,709,700	\$4,995,900	\$4,994,400	\$5,026,900
Board of Tax Appeals	\$0	\$41,000	\$260,000	\$257,000	\$259,000
Total State Costs	\$16,723,700	\$6,750,700	\$5,255,900	\$5,251,400	\$5,285,900

Based on the Washington State Office of Financial Management's 2009 Personnel Detail Report and information from the Washington State Department of Personnel, University of Washington, Washington State University, Washington State Association of Counties and Association of Washington Cities, costs are estimated up to \$50,000 total for computer programming changes to each payroll system for each jurisdiction with employees who are subject to tax. No costs are associated with the Washington State Department of Retirement Systems, assuming that the initiative does not require withholding of tax from public employee pensions.