

Fiscal Estimate: I-1366 - Reduce state sales tax rate to 5.5%

Request Information

Request Date:	7/8/2015
Requested By:	Shane Hamlin
Due Date:	7/22/2015

Description

This initiative reduces the state sales tax rate to 5.5 percent effective April 15, 2016, unless the Legislature refers to the ballot for a vote a constitutional amendment requiring two-thirds legislative approval or voter approval to raise taxes and majority legislative approval for fee increases.

The initiative, if passed, will become effective 30 days after the general election.

Revenue Analyst

Name:	ERIN VALZ
Phone Number:	(360) 534-1522

Estimated Cash Receipts The table shows the source of the revenues and the fund impacted by this proposal:

Fund - Source	FY 2016	FY 2017	2015 - 2017 Biennium	2017 - 2019 Biennium	2019 - 2021 Biennium
GF-State - Retail Sales Tax	(163,804,000)	(1,432,025,000)	(1,595,829,000)	(3,076,101,000)	(3,340,396,000)
GF-State - Business and Occupation Tax	818,000	7,149,000	7,967,000	15,356,000	16,676,000
Performance Audit - Retail Sales Tax	(263,000)	(2,295,000)	(2,558,000)	(4,930,000)	(5,353,000)
Total	(163,249,000)	(1,427,171,000)	(1,590,420,000)	(3,065,675,000)	(3,329,073,000)

Revenue Estimates

ASSUMPTIONS

- This estimate shows the impact if legislators do not make a constitutional change in voting requirements for a tax or fee increase.
- The increase in the business and occupation (B&O) tax and local government revenue is due to the increase in taxable sales due to the lower tax rate (elasticity).
- Estimate assumes price elasticity of 0.990.
- The effective date of the initiative is 30 days after the general election. However, the effective date for the change in the sales tax rate is April 15, 2016.

DATA SOURCES

- Washington State Economic and Revenue Forecast Council May 2015 forecast

Fiscal Estimate: I-1366 - Reduce state sales tax rate to 5.5%

- Department of Revenue (Department) excise tax return data
- Price elasticity calculated based on Department data

REVENUE ESTIMATES

This initiative decreases state revenues by an estimated \$163.2 million in the 1.5 months of impacted collections in Fiscal Year 2016 and by \$1.43 billion in Fiscal Year 2017, the first full year of impacted collections.

This initiative increases local revenues by an estimated \$4.6 million in the 1.5 months of impacted collections in Fiscal Year 2016 and by \$40.4 million in Fiscal Year 2017, the first full year of impacted collections.

TOTAL REVENUE IMPACT

TOTAL State Government (cash basis, \$000):

FY 2016 -	(\$ 163,249)
FY 2017 -	(\$ 1,427,171)
FY 2018 -	(\$ 1,499,075)
FY 2019 -	(\$ 1,566,600)
FY 2020 -	(\$ 1,647,971)
FY 2021 -	(\$ 1,681,102)

State Government, General Fund, Sales Tax (cash basis, \$000):

FY 2016 -	(\$ 163,804)
FY 2017 -	(\$ 1,432,025)
FY 2018 -	(\$ 1,504,173)
FY 2019 -	(\$ 1,571,928)
FY 2020 -	(\$ 1,653,576)
FY 2021 -	(\$ 1,686,820)

State Government, General Fund, B&O Tax (cash basis, \$000):

FY 2016 -	\$ 818
FY 2017 -	\$ 7,149
FY 2018 -	\$ 7,509
FY 2019 -	\$ 7,847
FY 2020 -	\$ 8,255
FY 2021 -	\$ 8,421

State Government, Performance Audit, Sales Tax (cash basis, \$000):

FY 2016 -	(\$ 263)
FY 2017 -	(\$ 2,295)
FY 2018 -	(\$ 2,411)
FY 2019 -	(\$ 2,519)
FY 2020 -	(\$ 2,650)
FY 2021 -	(\$ 2,703)

Fiscal Estimate: I-1366 - Reduce state sales tax rate to 5.5%

Local Government, if applicable (cash basis, \$000):

FY 2016 -	\$ 4,623
FY 2017 -	\$ 40,414
FY 2018 -	\$ 42,451
FY 2019 -	\$ 44,363
FY 2020 -	\$ 46,667
FY 2021 -	\$ 47,605

CONFIDENTIAL TAX INFORMATION

This estimate does not contain any confidential tax information.

**Expenditure
Impact Analyst**

Name:	BETH LEECH
Phone Number:	(360) 534-1513

**Estimates
Expenditures**

The table shows the FTE staff years and expenditures for this proposal:

	Fiscal Year 2016	Fiscal Year 2017	2015-2017 Total	2017-19 Biennium	2019-21 Biennium
	2.2	2.2	2.2	0.7	0.1
Fund					
GF-State 001	314,700	166,600	481,300	101,700	14,500
Total	314,700	166,600	481,300	101,700	14,500

**Assumptions
and
Expenditures**

ASSUMPTIONS

- This proposal affects 200,000 taxpayers.
- The Department is assuming that the rate change will begin April 15, 2016.

NOTE

This rate change is in conflict with the Streamlined Sales and Use Tax Agreement, Section 304, and as codified in RCW 82.08.064, which provides that a member state makes a reasonable effort to limit the effective date of a rate change to the first day of a calendar quarter and after notice. Also, RCW 82.08.064(1) requires that any rate change must be on the first day of each calendar quarter, and no sooner than 75 days after the rate change is enacted into law.

FIRST YEAR COSTS

The Department will incur total costs of \$314,700 in Fiscal Year 2016. These costs include:

Labor Costs - Time and effort equates to 2.2 FTEs.

- Additional staff to create a special notice and update publications and

Fiscal Estimate: I-1366 - Reduce state sales tax rate to 5.5%

- web pages,
- Respond to additional telephone questions, email and written correspondence,
- Set up, program and test computer system changes, and
- Resolve additional error and out of balance and amended returns; prepare refunds and assessments; and respond to secure messages, correspondence, and telephone questions.

Object Costs - \$130,000.

- Printing and mailing a special notice to affected taxpayers.

SECOND YEAR COSTS

The Department will incur total costs of \$166,600 in Fiscal Year 2017. These costs include:

Labor Costs - Time and effort equates to 2.2 FTEs.

- Additional staff to respond to additional telephone questions, email and written correspondence, and
- Resolve additional error and out of balance and amended returns; prepare refunds and assessments; and respond to secure messages, correspondence, and telephone questions.

ONGOING COSTS

Ongoing costs for the 2017-19 Biennium equal \$101,700 and include similar activities described in the second year costs. Time and effort equates to 0.7 FTEs.

New Rule Making Required

No rule making required.

Exp Detail

Expenditures by Object or Purpose:

	Fiscal Year 2016	Fiscal Year 2017	2015-2017 Biennium	2017-19 Biennium	2019-21 Biennium
Salaries and Wages	109,400	99,300	208,700	64,400	9,300
Benefits	32,900	29,800	62,700	19,300	2,800
Supplies & Material	158,000	26,600	184,600	15,800	2,100
Office Equipment	14,400	10,900	25,300	2,200	300
Total	314,700	166,600	481,300	101,700	14,500

Fiscal Estimate: I-1366 - Reduce state sales tax rate to 5.5%

Exp Detail FTE Detail:

	Fiscal Year 2016 FTEs	Fiscal Year 2017 FTEs	2015 - 2017 Biennium	2017 - 2019 Biennium	2019 - 2021 Biennium
COMMUNICATIONS CNSLT 3	0.1	0	0.05	0	0
EXCISE TAX EX 2	0.5	1.5	1	0.4	0.05
EXCISE TAX EX 3	0.2	0.7	0.45	0.3	0.05
EXCISE TAX EX 4	0.1	0	0.05	0	0
FORMS AND RECORDS ANALYST 3	0.1	0	0.05	0	0
IT SPEC 4	0.1	0	0.05	0	0
IT SPEC 5	0.4	0	0.2	0	0
TAX INFO SPEC 1	0.5	0	0.25	0	0
TAX INFO SPEC 4	0.2	0	0.1	0	0
Total	2.2	2.2	2.2	0.7	0.1

Note Please note that our review, comments and any estimates provided are not intended to reflect a policy position by the Department and are solely to assist you in exploring options under development.

**Further
Information** KATHY OLIVE
Research and Fiscal Analysis Division
(360) 534-1534
