

GOVERNMENTAL OPERATIONS

Agency 140

Department of Revenue

Recommendation Summary

Dollars in Thousands

	Annual FTEs	General Fund State	Other Funds	Total Funds
2005-07 Expenditure Authority	1,071.4	183,064	16,418	199,482
Total Maintenance Level	1,059.3	184,809	19,107	203,916
Difference	(12.1)	1,745	2,689	4,434
Percent Change from Current Biennium	(1.1)%	1.0%	16.4%	2.2%
Performance Changes				
Vehicle Licensing and Registration Enforcement	1.0	228		228
County Auditor Filing Fees		528		528
Timber Tax Program Reduction			(250)	(250)
Simplifying Tax Programs #	(.3)	(42)		(42)
Excise Tax Technical Correction #		12		12
High Technology Research Development Incentives #	.1	6		6
Exemption for Brokered Gas #	.1	6		6
Clarifying Taxation on Printing and Publishing #	.1	26		26
Tax Credit for Rural Businesses #	.1	6		6
Tax Survey and Data	1.0	179		179
Streamlined Sales Tax #	1.0	278		278
Annual Property Tax Re-Evaluation	3.0	508		508
Revise Pension Gain-Sharing #		(415)	(22)	(437)
Nonrepresented Staff Health Benefit		188	9	197
WPEA Collective Bargaining Agreement		10,049	641	10,690
Nonrepresented Staff Salary Change		2,160	79	2,239
Self Insurance Premium		(12)		(12)
Subtotal	6.0	13,705	457	14,162
Total Proposed Budget	1,065.2	198,514	19,564	218,078
Difference	(6.2)	15,450	3,146	18,596
Percent Change from Current Biennium	(0.6)%	8.4%	19.2%	9.3%
Total Proposed Budget by Activity				
Administrative	68.4	18,325	128	18,453
Property Tax Administration	57.9	12,740	93	12,833
State and Local Revenue Collection and Distribution	551.5	91,720	10,391	102,111
Tax Auditing	284.7	47,975	497	48,472
Tax Policy Research, Analysis, and Interpretation	47.2	8,894	76	8,970
Taxpayer Appeals	25.4	3,657	39	3,696
Unclaimed Property Management	30.2		6,874	6,874
Other Statewide Adjustments		15,203	1,466	16,669
Total Proposed Budget	1,065.2	198,514	19,564	218,078

GOVERNMENTAL OPERATIONS

PERFORMANCE LEVEL CHANGE DESCRIPTIONS

Vehicle Licensing and Registration Enforcement

Funding is provided for the Department to implement legislation enacted in 2005 regarding vehicle licensing and registration enforcement. It will work with the State Patrol and Department of Licensing to increase the enforcement of laws requiring Washington residents to obtain their driver's licenses and register their vehicles in the state. These efforts are expected to generate \$2.8 million in General Fund-State revenue.

County Auditor Filing Fees

To collect unpaid taxes, the Department may assert a claim on an individual's real estate property by filing a lien with the county auditor. Without a lien, there is no legal obligation for a taxpayer's debt to be considered in the escrow disbursement of excess proceeds on real estate sales. There is a \$29 fee for recording a lien and an additional \$29 charge to release it. The Department currently does not file liens; this funding would allow it to do so to collect taxes owed to the state.

Timber Tax Program Reduction

Because of increased efficiencies and reduced workload, the Timber Tax Program's budget can be reduced by \$250,000 during the 2007-09 Biennium. (Timber Tax Distribution Account-State)

Simplifying Tax Programs #

Proposed legislation will reduce costs by simplifying several tax program requirements and administrative procedures. Current law requires assessments and other notices to be mailed to taxpayers; this legislation would allow the Department to send notices electronically with the taxpayer's consent. The property tax exemption program also would be revised to allow non-profit organizations to submit renewal applications electronically (thereby eliminating the \$35.00 application and \$8.75 renewal fee). Finally, the Department would no longer be required to inspect each property before approving applications.

Excise Tax Technical Correction #

Proposed legislation makes technical corrections to excise tax laws. It also removes obsolete language.

High Technology Research Development Incentives #

Existing law provides a credit for certain qualifying research and development (R&D) spending by high technology firms. Prior to 2004, the amount of the credit was based upon a firm's total research and development expenditures. In 2004, when the credit was reauthorized, the calculation of the credit amount was changed to consider only R&D spending in excess of 0.92 percent of the firm's taxable amount. Proposed legislation reverts to the original calculation for determining the business and occupation credit.

Exemption for Brokered Gas #

The brokered natural gas use tax is paid by any person who purchases natural gas from a non-utility supplier when the gas is delivered by pipeline. Agency request legislation would exempt income received from the resale of brokered natural gas from the business and occupation tax by amending the statutory exemption for public utilities to include non-utility suppliers.

Clarifying Taxation on Printing and Publishing #

Legislation is proposed to clarify application of the business and occupation (B&O) tax on printing and publishing. The Department has received a number of taxpayer questions and appeals regarding the distinction between periodicals (taxable under the printing and publishing B&O tax) and advertising publications (taxable under the service and other business B&O tax). Questions have also been raised about taxation of advertising in periodicals and electronic publications, the possible application of the multiple activities tax credit, and the apportionment of advertising and other publishing income.

Tax Credit for Rural Businesses #

The business and occupation tax credit for job creation by eligible business projects in rural counties or community empowerment zones is based on job growth. Growth in jobs is measured by the percentage increase in jobs from the previous calendar year. This results in the unequal treatment of businesses. Businesses that create jobs in the early part of the year are more likely to qualify for credits than businesses creating jobs late in the year. Agency request legislation increases fairness to taxpayers and eases requirements to qualify for and receive B&O tax credits in the rural jobs credit program.

Tax Survey and Data

Legislation enacted in 2006 requires the Department to supply information to the Joint Legislative Audit and Review Committee to assist in its review of tax preferences. Because some data are not currently produced by the Department and other data have not yet been identified, staff time is needed to define what data is needed, to assemble and analyze data from several agencies, and prepare a detailed report. Additional legislation enacted in 2006 requires taxpayers to submit annual data survey reports. These reports, coupled with taxpayer reports required by 2005 legislation, will result in an increase of annual surveys that must be summarized and reported to the Legislature each year. One additional full-time FTE staff is provided to meet this workload increase.

Streamlined Sales Tax #

Proposed legislation brings Washington into full conformity with the Streamlined Sales and Use Tax Administration Agreement. This will allow the Department to become a voting member of the national Streamlined Sales Tax Project which has the goal of simplifying tax administration for both retailers and state tax agencies.

Annual Property Tax Re-Evaluation

A three-member project team will assist counties in implementing an annual property tax re-evaluation cycle. Twenty-one counties assess property on a two-, three-, or four-year cycle. Multi-year property tax re-evaluation cycles are inadequate in providing fair and uniform assessments because taxpayers are often faced with several years of market appreciation in one year's assessment. With rising property values statewide, the impact to taxpayers is becoming even more severe.

Self Insurance Premium

Funding for the Department's self insurance premium is decreased to reflect claims experience.

ACTIVITY DESCRIPTIONS

Administrative

Internal services include the cost of overall management of the agency, internal audit, accounting, budget, cash management, facilities management, purchasing, personnel, employee training, quality improvement, and legal services provided by the Attorney General's Office. A significant portion of the costs in this category represent the legal costs associated with the defense of the state's tax system.

Property Tax Administration

The Department of Revenue has a statutory obligation to ensure uniformity within the state's property tax system and oversee the administration of property taxes at both the state and local levels. The department also determines the state school levy; conducts complex appraisals on commercial, industrial, and special use properties; administers property tax exemptions and deferral programs; and provides guidance, training, and assistance on property tax issues to county officials.

State and Local Revenue Collection and Distribution

The Department of Revenue is responsible for the fair, efficient, and uniform administration of state tax laws. Primary activities include taxpayer registration, tax return processing collection activities, accounting for and distributing state and local tax revenues, and promotion of voluntary compliance through taxpayer education, information, and assistance. These activities are conducted from offices throughout the state and are supported by a statewide computer network.

GOVERNMENTAL OPERATIONS

Tax Auditing

The department's audit function is carried out in Washington and throughout the country. Auditors are given one of three assignments: permanent in-state locations, permanently assigned out-of-state locations, or short-term out-of-state tours. The auditors review the records of registered businesses for the proper reporting and payment of taxes. Taxes routinely audited include sales and use, business and occupation, and public utility taxes.

Tax Policy Research, Analysis, and Interpretation

Tax policy activities involve coordinating interdepartmental services and providing information and guidance to the public, employees, and all levels of government. Specific functions include preparing fiscal notes; analyzing and drafting legislation; reviewing and drafting rule revisions; forecasting non-General Fund revenues; and analyzing proposed changes to tax statutes and tax law changes on small business.

Taxpayer Appeals

The department hears approximately 900 taxpayer appeals each year. When an appeal is concluded, the Department issues written determinations, renders formal and informal tax law interpretations, mediates and negotiates settlements of tax disputes, and executes settlement closing agreements when appropriate.

Unclaimed Property Management

The department administers the provisions of the State Uniform Unclaimed Property Act. The department receives the transfer of abandoned property to the state and tries to locate the owners through advertising and providing public access to abandoned property information. The department's role is to act in the interest of the property owners and return the abandoned property to the rightful owners whenever possible. Examples of abandoned property include utility deposits, insurance policies, safety deposit box contents, dividends, and savings accounts. (Unclaimed Personal Property Account-Nonappropriated)

Other Statewide Adjustments

This item reflects proposed compensation and other adjustments that were not allocated to individual agency activities. The agency will assign these costs to the proper activities after the budget is enacted.