7.0% Capital Gains Tax on Individuals

Description

This proposal imposes a tax on individuals for the privilege of selling or exchanging capital assets. The tax is equal to 7.0 percent multiplied by a person's capital gains for each taxable year.

The following threshold exemptions are allowed in determining the tax:

- $25,000 or
- $50,000 for individuals filing joint returns.

The capital gains tax does not apply to the following:

- The gain on the sale of a long-term principal residence if used by a person as the person's principal residence for periods aggregating at least 10 years and owned by the person for at least the 20-year period ending on the date of the sale or exchange of the property; or
- For those not qualifying for the long-term principal residence exemption above, the exclusions provided under section 121 of the Internal Revenue Code would apply:
    - Up to $250,000 on the gain of a sale of a primary residence for those filing single or married filing separately;
    - Up to $500,000 on the gain of a sale of a primary residence for those married filing jointly. Under state law, state registered domestic partnerships are made eligible for the married filing jointly exclusion of up to $500,000.
- Capital gains received from retirement accounts.
- The sale or exchange of cattle, horses or breeding livestock held for more than 12 months by farmers.
- The sale of agricultural land that meets the criteria under IRC section 469(h) for the 10 years prior to the date of the sale.
- The sale of tangible personal property used in a business and that would qualify for an income tax deduction under IRC sections 167 or 179.
- The sale of timber under IRC section 631 (a) and (b).

Individuals will file annually with the department all capital gains.

Individuals can take a credit equal to the amount of tax paid to another taxing jurisdiction on capital gains derived from sources within the other taxing jurisdiction.

This proposal would tax capital gains earned starting Jan. 1, 2016.

Current Law

There is no capital gains tax on individuals in current law.

Continued on next page

7.0% Capital Gains Tax on Individuals, Continued

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
32,000		$798.0	$798.0	$845.0	$903.0	$1,748.0

- *Estimates assume a January 1, 2016 effective date with the first annual returns due in April 2017.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Increase cigarette tax by 50 cents per pack

Description

The current cigarette tax per pack is $3.025. This proposal increases the combined state cigarette tax by 50 cents per pack.

Current Law

On May 1, 2010, the combined state cigarette tax increased from $2.025 per pack to $3.025. This tax is deposited to the General Fund.

- The tax is imposed on the first sale, use, consumption, handling, possession or distribution of cigarettes within the state.
- Under cigarette tax compacts between the state and Indian tribes, the tribes do not collect state and local cigarette and sales taxes but impose tribal taxes in an equal, or agreed upon, amount.

Revenue Impact

General Fund Impacts ($ millions):

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
6,500	$18.3	$19.5	$37.8	$18.9	$18.3	$37.2

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic & Revenue Forecast Council revenue forecast.*

Excise tax on e-cigarettes and vapor products

Description

This proposal would impose the following new tax and regulations on e-cigarettes and vapor products:

- New excise tax on vapor products at 95 percent of the taxable sales price (generally the taxpayer's purchase price), collected by the Department of Revenue from distributors.
- Vapor products would be defined to include all e-cigarettes, e-liquid and stand-alone vaporizing paraphernalia, even if the product does not contain nicotine.
- Distributors and retailers of vapor products would have to be licensed with the Liquor Control Board (LCB) and comply with recordkeeping and audit requirements similar to those applicable to the other tobacco products (OTP) tax.
- Internet sales of vapor products directly to consumers in Washington would be banned.

Current Law

Under current law, the OTP tax rate is generally 95 percent of the taxable sales price (generally the taxpayer's purchase price). However, there are specific rates that apply to:

- Little cigars ($0.15125 per cigar or $3.025 per pack of 20).
- Cigars other than little cigars (the lesser of 95 percent of the taxable sales price or 65 cents per cigar).
- Moist snuff ($2.526 per single unit of 1.2 ounces or less and a proportionate rate for larger units).

The department collects the OTP taxes, and the LCB ensures that tobacco sellers are properly licensed and in compliance with the laws governing the sale and transportation of OTP.

Currently, vapor products are not subject to any specific excise tax, although general state taxes apply (e.g., retail sales tax and B&O tax). There is no licensing requirement for sellers of vapor products.

Continued on next page

Excise tax on e-cigarettes and vapor products, Continued

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
6,700	$4.3	$13.8	$18.1	$28.3	$50.1	$78.4

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Repeal sales tax exemption for trade-ins valued over $10,000

Description

This proposal would limit the exclusion of trade-in value from retail sales and use tax to $10,000 for motor vehicles, recreational vehicles, boats and other items.

Current Law

When a consumer purchases tangible personal property, the measure of sales or use tax excludes the value of like-kind property traded in at the time of sale. Consequently, the trade-in value is deducted from the selling price that is subject to sales tax. (RCW 82.08.010(1) and 82.12.010(1))

Original Purpose and Current Analysis

The trade-in exclusion was approved by voter initiative in 1984 to encourage purchases of new items, especially motor vehicles.

Trade-ins of motor vehicles average $7,500, so limiting deductible trade-in values to $10,000 benefits most households. The current unlimited deduction primarily benefits high-income purchasers with the lowest tax burdens in Washington. Setting a limit would reduce the regressivity of the current tax system.

Citizen Commission Recommendation

The Citizen Commission has not reviewed the trade-in exclusion.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
85,000	$48.4	$57.0	$105.3	$61.6	$66.4	$128.0

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Repeal use tax exemption for extracted fuel, except hog fuel

Description

This proposal would limit the use tax exemption for fuel produced by the extractor or manufacturer when the fuel is directly used in the same extracting or manufacturing operation that produced the fuel. Only wood byproducts, also referred to as "hog fuel," would be eligible for the exemption.

Current Law

Fuel consumed by manufacturers or extractors is exempt from use tax when the fuel is used in the process of manufacturing or extracting at the same plant.

- The fuels for which the exemption applies are generally wood byproducts, also referred to as "hog fuel," and refinery fuel.
- Approximately 180 wood product manufacturers and five petroleum products refineries are eligible for the exemption.
- In its preliminary 2011 Tax Preference Review Report, the Joint Legislative Audit and Review Committee notes that while no refineries existed in the state when the exemption was enacted in 1949, refinery fuels account for approximately 98 percent of the estimated value of the exemption.

Original Purpose and Current Analysis

To support certain manufacturing and extracting industries.

However, the biggest beneficiaries of this exemption are oil refineries that did not exist when this statute was originally enacted. Other industries pay tax when they use materials that they manufacture themselves.

Citizen Commission Recommendation

The Citizen Commission recommended that the Legislature review and clarify this preference because the public policy objective and intended beneficiaries are not clear.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
5	$24.3	$26.8	$51.1	$27.1	$27.3	$54.4

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Refund state portion of sales tax to nonresidents

Description

This proposal would change the current nonresident sales tax exemption to a refund program for the state portion (6.5%) of the sales tax only. This would require qualified nonresidents (both businesses and individuals) to apply for a refund of state sales tax (not local sales tax) from the Department of Revenue instead of receiving the exemption at the point of sale.

The sales tax exemption at the point of sale would cease. In addition:

- Applications for state sales tax refunds would be made electronically once a year for purchases made in the preceding calendar year;
- Applications would be accepted only for refunds of $25 or more; and
- Sales receipts, addresses of the places of purchase and other documentation as required by the Department of Revenue would need to be submitted.

Current Law

Under RCW 82.08.0273, bona fide residents of a state, U.S. possession or territory, or province of Canada that does not impose a sales tax or similar consumer tax of 3 percent or more may purchase tangible personal property for use outside this state without paying Washington's sales tax.

The seller is not required to make a tax-free sale to a nonresident, but if the seller does:

- The purchaser must provide proof of exemption to the seller and
- The seller must retain a record of the proof.

Original Purpose and Current Analysis

To enable Washington sellers, especially along the Oregon border, to compete with merchants in other states that either: (1) do not levy a retail sales tax or (2) levy a sales tax with a low rate.

Citizen Commission Recommendation

The Citizen Commission recommended the Legislature review and clarify this preference because there is no explicitly stated public policy objective.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
132,000	$24.1	$27.4	$51.5	$28.5	$29.4	$57.9

Notes:

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Repeal sales tax exemption on bottled water

Description

This proposal would repeal the sales tax exemption on sales of bottled water to consumers. The tax would apply to both portable-sized bottles *and* to bulk bottled water sales (sales of water in large, reusable containers).

Current Law

Under current law, sales tax does not apply to retail sales of bottled water.

- Until Jan. 1, 2004, sales of bottled water were subject to sales tax. At that time, legislation to conform to the Streamlined Sales and Use Tax Agreement (SSUTA) took effect and sales of bottled water became exempt from sales tax. In 2010, SSUTA was amended to allow member states to separately tax bottled water sales.
- In 2010, Senate Bill 6143 imposed sales tax on sales of bottled water beginning July 1, 2010, until Dec. 2, 2010, when the sales tax on bottled water was repealed by Initiative 1107.

Original Purpose and Current Analysis

To conform to definitions of SSUTA. However, SSUTA has been amended to allow taxation of bottled water.

Citizen Commission Recommendation

Not reviewed by the Citizen Commission.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
195,000	$21.4	$23.0	$44.4	$22.6	$22.2	$44.9

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Repeal preferential B&O tax rate for royalties

Description

This proposal would eliminate the preferential B&O tax rate for income from royalties. The tax rate on royalty income would increase from 0.484% to 1.5%.

Current Law

- Gross income from royalties is subject to B&O tax at a rate of 0.484%.
- Royalties include all income earned from licensing the use of intangible property to others.
- Washington taxes only that portion of royalty income related to the use of intangible property in this state.

Original Purpose and Current Analysis

The preferential rate clarified the treatment of royalty income by recognizing the mobility of these funds.

Note: Prior to July 1, 1998, royalty income was subject to the service and other activities B&O tax rate.

- At the time, Washington taxed 100% of a taxpayer's royalty income regardless of where the intangible property was used. Taxpayers domiciled in Washington were subject to B&O tax on worldwide royalty income.
- With the 2010 adoption of single factor apportionment, royalty income is now attributed to the state in which the intangible property is used. The 2010 legislation did not restore the pre-1998 tax rate.

Citizen Commission Recommendation

Not reviewed by the Citizen Commission.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
1,300	$13.8	$15.8	$29.6	$16.5	$17.2	$33.7

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Extend high tech research and development B&O tax credit with $500,000 annual cap

Description

This proposal would extend the current high-technology research and development (R&D) B&O tax credit until July 1, 2025, but limit the credit to $500,000 annually.

Current Law

- Under current law, the B&O tax credit is capped at $2 million per calendar year for each eligible firm.
- Eligible firms must be engaged in at least one of five fields of high technology: advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology.
- The credit is allowed for eligible spending on R&D activities that exceed 0.92 percent of the firm's taxable income.
- Beginning in 2011, the credit was limited to 1.5 percent of eligible R&D spending.
- The current program is scheduled to expire Jan. 1, 2015.

Original Purpose and Current Analysis

The credit was created originally to stimulate the creation of high-wage jobs in high-technology industries and encourage firms to proceed from the R&D phase to actual manufacturing of new products. The current proposal has the same purpose.

Citizen Commission Recommendation

The Citizen Commission's last review of the high-technology B&O tax credit took place in 2012. The Commission recommended the Legislature review and clarify the policy objectives because it was unclear whether progress toward its high-technology R&D objectives was sufficient. The Legislative Auditor recommended the Legislature identify targets for investment and employment.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
625	($25.0)	($26.3)	($51.3)	($27.4)	($28.5)	($55.9)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Extend and modify the high technology R&D sales/use tax deferral program

Description

This proposal creates a new sales and use tax deferral program for businesses engaged in research and development (R&D) or pilot-scale manufacturing that:

- Provides a deferral of the payment of state retail sales/use tax due on the construction, expansion and renovation of buildings, but limits the amount of tax eligible for deferral to $1 million;
- Is limited to one project per year, per business, including all affiliates;
- Requires that firms be engaged in one of five areas related to high technology: advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology;
- Specifically excludes costs associated with machinery and equipment, parking areas, food and beverage areas, amusement and recreation areas, and other commercial areas;
- Requires taxpayers to initiate construction within two years after applying or apply for an extension not to exceed five years; and
- Allows the deferral to become a waiver of the tax if the business maintains qualified activities for eight years once the facility becomes operationally complete.

Current Law

- Under current law, a deferral of the payment of state and local retail sales/use tax is allowed for the construction of buildings and acquisition of machinery and equipment for projects involving R&D or pilot-scale manufacturing.
- The deferral becomes a waiver of the tax if the business maintains qualified activities for eight years once the facility becomes operationally complete.
- The firm must be engaged in one of five areas related to high technology: advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology.
- The current program is scheduled to expire Jan. 1, 2015.

Original Purpose and Current Analysis

The deferral was created originally to stimulate the creation of high-wage jobs in high-technology industries and encourage firms to move from the R&D phase to actual manufacturing of new products. The current proposal has the same purpose.

Continued on next page

Extend and modify the high technology R&D sales/use tax deferral program

Continued

Citizen Commission Recommendation

The Citizen Commission's last review of the high-technology deferral program took place in 2012. The commission recommended the Legislature review and clarify the policy objectives because it was unclear whether progress toward its high-technology R&D objectives was sufficient. The Legislative Auditor recommended the Legislature identify targets for investment and employment.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
33	($7.5)	($8.0)	($15.4)	($8.4)	($8.9)	($17.3)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

B&O tax credit for carbon fiber and carbon-fiber composite manufacturing/wholesaling

Description

The carbon-fiber composite industry is growing rapidly. This industry provides well paying manufacturing and technical jobs. Bio-based carbon-fiber composites have a lower carbon footprint.

To promote the continued growth of the carbon-fiber composite industry in Washington, this proposal would provide a B&O tax credit equal to 40 percent of B&O tax paid on the manufacture and/or wholesale sale of carbon-fiber, carbon-fiber composites, and carbon-fiber composite products manufactured by the seller.

- The credit has a statewide cap of $4 million per calendar year.
- The credit has a per taxpayer cap of $500,000 per calendar year.
- The cap will be administered on a "first in time" basis.
  - The credit is limited to the manufacture and wholesale of carbon fiber, carbon-fiber composites, and carbon-fiber composite products manufactured by the seller. Qualified carbon-fiber composites include those composites that are bio-based.

Current Law

Under current law, persons who manufacture or sell at wholesale carbon fiber, carbon-fiber composites or their product derivatives are subject to the B&O tax at the general manufacturing and wholesaling rate of 0.484%.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
300	$ (2.0)	$ (2.0)	$ (4.0)	$ (2.0)	$ (3.0)	$ (5.0)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Extend agricultural processor tax exemptions

Description

This proposal would extend, until July 1, 2025, the expiration date of the following tax exemptions:

- Dairy product businesses (RCW 82.04.4268)
- Seafood product businesses (RCW 82.04.4269)
- Fresh fruit and vegetable businesses (RCW 82.04.4266)

Upon their expiration, the exemptions would be replaced with a preferential B&O tax rate of 0.138 percent.

- The expiration date for the preferential rate for dairy product sales to a purchaser who uses the dairy product as an ingredient or component in the manufacturing of another dairy product would be extended to July 1, 2029.
- The preferential rate for the other qualifying activities would not expire.

Current Law

Dairy product businesses

Dairy product businesses are exempt from B&O tax until July 1, 2015, on the following activities:

- The manufacturing of dairy products;
- The sale of dairy products manufactured by the seller to a customer that either:
  - Transports the product outside this state in the ordinary course of business, or
  - Uses such dairy products as an ingredient or component in the manufacturing of another dairy product.

After July 1, 2015, the exemption is replaced with a preferential tax rate of 0.138 percent on these activities. The preferential rate expires July 1, 2023, but only for sales to a purchaser who uses the dairy product as an ingredient or component in the manufacturing of another dairy product.

Seafood businesses

Seafood businesses are exempt from B&O tax until July 1, 2015, on the following activities:

- The manufacturing of seafood that remains in a raw, raw frozen or raw salted state at the completion of the manufacturing, and
- The sale of such manufactured seafood products by the manufacturer to a customer that transports the product outside this state in the ordinary course of business.

After July 1, 2015, the exemption is replaced with a preferential tax rate of 0.138 percent on these activities. This preferential tax rate does not expire.

Continued on next page

Current Law, continued

Fruit and vegetable businesses
Fruit and vegetable businesses are exempt from B&O tax until July 1, 2015, on the following activities:

- Manufacturing by canning, preserving, freezing, processing or dehydrating fresh fruits or vegetables, and
- The wholesaling of such manufactured fruits and vegetables by the manufacturer to a customer that transports the products outside this state in the ordinary course of business.

After July 1, 2015, the exemption is replaced with a preferential tax rate of 0.138 percent. This preferential tax rate does not expire.

Original Purpose and Current Analysis

- For dairy, to create additional jobs in the dairy processing industry.
- For seafood, it appears the original purpose may have been to create additional jobs in the seafood processing industry.
- For fruit and vegetable manufacturers, it appears the original purpose may have been to provide parity with the dairy and seafood processing industries.

Citizen Commission Recommendation

Although the three tax preferences appear to satisfy their objectives, the Citizen Commission recommended that the Legislature should consider other factors in evaluating the effectiveness of these preferences, such as "locational choice."

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
250	$ (7.2)	$ (7.8)	$ (15.0)	$ (7.8)	$ (7.8)	$ (15.6)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Extend Commute Trip Reduction tax credit

Description

This proposal would extend the Commute Trip Reduction (CTR) tax credit through June 30, 2020.

Current Law

Under current law, employers and property managers who provide CTR incentives to or on behalf of their own or other employees are eligible for a credit against their B&O or public utility tax liability.

- The credit equals 50 percent of the incentive payments paid by the employer or property manager, not to exceed $60 per employee per year.
- No employer or property manager may receive more than $200,000 of credit per fiscal year.
- The employer or property manager applies to the Department of Revenue the following January for a credit based on the incentives paid in the prior calendar year.
- Each applicant's available credit is prorated based on the statewide cap (currently $1.5 million).
- The credit is set to expire June 30, 2015.

Original Purpose and Current Analysis

The Legislature did not specify a public policy objective for this tax preference. The Joint Legislative Audit and Review Committee (JLARC) inferred that the public policy objective of the credit is to encourage businesses to provide financial incentives to their employees who participate in CTR programs that reduce single-occupancy vehicle travel in Washington.

Citizen Commission Recommendation

In 2012, the Citizen Commission did not endorse JLARC's recommendation that the CTR tax credit be "reviewed and clarified" and instead recommended that the credit be allowed to expire. The commission believed that expiration of this tax preference would be unlikely to result in a material reduction in businesses' provision of CTR financial incentives to employees.

Continued on next page

Extend Commute Trip Reduction (CTR) Tax Credit, Continued

Revenue Impact

General Fund Impact ($ in millions)

FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
$ (1.6)	$ (1.9)	$ (3.5)	$ (1.9)	$ (2.1)	$ (4.0)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Extend biodiesel, ethanol and biomass tax incentives

Description

This proposal would extend several biofuel-related tax incentives to July 1, 2025.

Current Law

Under current law, the following incentives expire July 1, 2015:

- RCW 82.04.4334, which provides a B&O tax deduction for the retail sale or distribution of biodiesel fuel or E85 motor fuel.

- RCW 82.04.4494, which provides a B&O tax credit of $5.00 for each harvested green ton of forest-derived biomass sold, transferred or used for the production of electricity, steam, heat or biofuel.

- RCW 82.08.955 and 82.12.955, which provide sales and use tax exemptions for:
  - The sale, installation and repair of machinery and equipment used directly for the retail sale of a biodiesel blend or E85 motor fuel.
  - The construction, repair or improvement of structures used directly for the sale of retail sale of a biodiesel blend or E85 motor fuel.
  - The sale of tangible personal property that is incorporated in a structure, machinery or equipment if used directly for the retail sale of a biodiesel blend or E85 motor fuel.
  - The sale and repair of fuel delivery vehicles if at least 75 percent of the fuel distributed by the vehicles is a biodiesel blend or E85 motor fuel.

The following exemptions expire Dec. 31, 2015:

- RCW 82.29A.135, which provides a leasehold excise tax exemption for six years for all leasehold interests in real and personal property (excluding land used to grow crops) used primarily for the manufacturing of alcohol fuel, wood biomass fuel, biodiesel fuel or biodiesel feedstock, or the operation of an anaerobic digester.
- RCW 84.36.635, which provides a property tax exemption for six years for real and personal property (excluding land used to grow crops) used primarily for the manufacturing of alcohol fuel, biodiesel fuel or biodiesel feedstock, or the operation of an anaerobic digester.

Continued on next page

Extend biodiesel, ethanol, and biomass tax incentives
Continued

Original Purpose and Current Analysis

These exemptions were enacted to support the production and sale of biofuels.

Citizen Commission Recommendation

The Citizen Commission has not reviewed these exemptions.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
80	$ (1.0)	$ (1.1)	$ (2.1)	$ (1.1)	$ (1.1)	$ (2.2)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Extend exemption for energy conservation payments from BPA

Description

This proposal would extend the B&O tax exemption for amounts received from the Bonneville Power Administration (BPA) for implementing energy conservation programs.

Current Law

RCW 82.04.310(4) provides a B&O tax exemption for amounts received as credits against power contracts or funds provided by the BPA for implementing energy conservation programs or demand-side management programs.

This provision expires July 1, 2015.

Original Purpose and Current Analysis

This B&O tax exemption was enacted to support energy conservation.

Citizen Commission Recommendation

The Citizen Commission has not reviewed this exemption.

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
50	$ (0.3)	$ (0.3)	$ (0.6)	$ (0.3)	$ (0.3)	$ (0.6)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*

Simplifying the taxation of amusement, recreation and physical fitness services

Description

This proposal simplifies the taxation of amusement and recreation activities and physical fitness services by:

- Maintaining the current retail sales tax treatment for many amusement and recreation activities.
- Making instruction charges for specified retail activities retail sales.
- Specifying that instructional charges for golf, horseback riding, swimming and non-motorized snow sports are not retail sales.
- Making charges for karaoke, cycling events, running events, the opportunity to dance and most league fees subject to service and other activities B&O tax and not subject to retail sales tax.
- Simplifying the taxation of physical fitness services by:
  - Providing that generally all charges for the use of an athletic or fitness facility are retail sales, including charges for associated services and amenities.
  - Defining the term "athletic or fitness facility" as a facility or portion of a facility where one or more specified physical fitness activities occur.
- Maintaining current exemptions for yoga, tai chi or qigong where no other physical fitness activities occur, but expanding the treatment as a retail sale to other martial arts.

Current Law

Under current law, a retail sale includes "amusement and recreation services" that include but are "not limited to golf, pool, billiards, skating, bowling, ski lifts and tows, day trips for sightseeing purposes, and others, when provided to consumers." The sale of physical fitness services is also a retail sale. In addition, under the Department of Revenue's historical interpretations:

- Participatory activities — those activities for which a person pays to participate — are amusement and recreation services and are subject to retail sales.
- Passive or spectator activities — activities for which a person pays to watch or listen to — are not sales-taxable amusement and recreation services.
- Charges for instruction to learn how to do various activities, such as golf, swimming and skiing, are neither amusement and recreation services nor physical fitness services, and are not subject to retail sales tax.

Continued on next page

Simplifying the taxation of amusement, recreation and physical fitness services, Continued

Revenue Impact

General Fund Impacts ($ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
6,100	($0.6)	($1.4)	($2.0)	($1.7)	($1.8)	($3.5)

- *Estimates assume a July 1, 2015, effective date, representing 11 months of collections for FY 2016.*
- *Estimates reflect the September 2014 Economic and Revenue Forecast Council revenue forecast.*