

SENATE BILL REPORT

SB 5571

As Reported by Senate Committee On:
Ways & Means, February 24, 2009

Title: An act relating to requiring the use of electronic methods for taxes administered by the department of revenue, including filing of taxes, payment of taxes, assessment of taxes, and other taxpayer information.

Brief Description: Requiring the use of electronic methods for taxes administered by the department of revenue, including filing of taxes, payment of taxes, assessment of taxes, and other taxpayer information.

Sponsors: Senators Oemig and Kohl-Welles; by request of Department of Revenue.

Brief History:

Committee Activity: Ways & Means: 2/05/09, 2/24/09 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5571 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Tom, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, McDermott, Murray, Oemig, Pridemore, Rockefeller and Schoesler.

Staff: Dianne Criswell (786-7433)

Background: The Department of Revenue (DOR) collects the major state excise taxes, such as the retail sales tax and the business and occupation (B&O) tax. The general administrative provisions for the collection of excise taxes are provided in chapter 82.32 RCW, including payment schedules, payment types, assessments, and notice provisions. The payment schedule, in general, is for businesses to report and pay excise taxes on a monthly basis, although smaller businesses may report taxes quarterly or annually.

Taxpayers with an annual tax liability of more than \$1,800,000 must make payment of their excise tax returns using electronic funds transfer (EFT). By rule, DOR requires taxpayers with annual tax liabilities above \$240,000 to make payment of their excise tax returns using

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

EFT. Taxpayers with annual tax liabilities below \$240,000 may make payments using EFT, but are not required to do so.

Direct pay is a program that allows certain businesses to buy goods without payment of sales tax to the seller at the time of purchase. Businesses with a direct pay permit may pay the applicable sales and use taxes due directly to DOR. Businesses eligible to apply for direct pay permits are firms making purchases over \$10,000,000 in one calendar year or are required to pay by EFT.

Summary of Bill (Recommended Substitute): DOR must send all assessments, notices, or other information electronically, but may waive this requirement for any taxpayer for cause, temporarily or permanently.

All taxpayers must file returns and pay taxes electronically, but DOR may waive this requirement for any taxpayer for cause, temporarily or permanently. Payment of the tax must be by EFT or other forms of electronic payment authorized by DOR, such as credit card or e-check.

DOR may implement these requirements in phases.

The refund provisions are amended to clarify that DOR must have the necessary account information to provide refunds to taxpayers by EFT.

Businesses with an annual tax liability over \$240,000 are eligible to apply for a direct pay permit.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute):

- For the purposes of notice by DOR to taxpayers, defines "good cause" as the agency lacking necessary information to send information electronically; also includes the inability of a person to receive information because the person does not have the necessary equipment or software, the equipment or software is not functioning, or the person does not have internet access.
- For the purposes of taxpayers filing tax returns and remitting payment electronically, defines "good cause" as the inability of taxpayers to receive information because they do not have the necessary equipment or software, the equipment or software is not functioning, or they do not have internet access; includes taxpayers who do not have a bank account, credit card, or whose bank is unable to send or receive EFT.
- Electronic payment is required only if the taxpayer is required to file and remit taxes monthly.
- Electronic filing and payment are allowed for taxpayers on the quarterly and annual basis.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: The bill balances efficiency with equity. Paper tax returns have many errors and require a lot of resources to process. Currently, over half of businesses file tax returns electronically with the DOR. This bill makes electronic tax return filing the default and would raise e-filing rates to approximately 75 percent. Further, it makes electronic payments the default method of tax payments. It also provides exceptions for these requirements when there is good cause, such as when electronic filing is a hardship to the business. There are many benefits, such as increasing the efficiency of processing and improving filing for taxpayers. Electronic tax returns include information which is relevant to the individual taxpayer, rather than all information in a paper format. Filing and paying electronically will also be a quicker process, with fewer errors. Depositing payments into the General Fund through electronic means creates, in general, two days more interest on those payments. This will result in approximately \$1 million additional revenue from interest income. Further, the savings on paper, postage, and labor is \$2.3 million for the current biennium and \$2.5 million for the next biennium.

CON: In general, the Association of Washington Business (AWB) supports electronic tax return filing because of its benefits. However, small businesses may be uncomfortable with making payments electronically. The "good case" exceptions to these requirements should be defined. There are concerns about charges for use of credit cards and government intervention. Some businesses might want to keep the interest on these payments in their own accounts. Some businesses have some fears about the unintended consequences of these changes.

Persons Testifying: PRO: Drew Shirk, DOR.

CON: Amber Carter, AWB.