

SENATE BILL REPORT

SB 5565

As of February 2, 2023

Title: An act relating to modifying tax and revenue laws by making technical corrections, clarifying ambiguities, easing compliance burdens for taxpayers, and providing administrative efficiencies.

Brief Description: Modifying tax and revenue laws by making technical corrections, clarifying ambiguities, easing compliance burdens for taxpayers, and providing administrative efficiencies.

Sponsors: Senators Schoesler, Rolfes, Dozier, Nobles and Wellman.

Brief History:

Committee Activity: Ways & Means: 2/02/23.

Brief Summary of Bill

- Makes a number of administrative and technical changes to the state tax and licensing codes.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Alia Kennedy (786-7405)

Background: Each year, the Department of Revenue (DOR) identifies technical and administrative changes to the tax and licensing sections in the Revised Code of Washington (RCW) for consideration by the Legislature. Technical revisions to state law may be required for multiple reasons. Sections of the RCW may be repealed, recodified, or amended in a way changing their internal or statutory numbering or terminology. The language in these sections, as well as references to these sections in other provisions of the RCW, then become incorrect. Statutes may become obsolete with the passage of time, evolution of technology, improvement of administrative processes, or adoption of state or federal legislation. Administrative agencies occasionally suggest statutory revisions to

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increase clarity or improve administration.

Revised Uniform Unclaimed Property Act. In 2022, the Legislature made a number of changes to the Uniform Unclaimed Property Act. The Revised Uniform Unclaimed Property Act (RUUPA) took effect January 1, 2023. Changes address programmatic coverage, dormancy, and other specifics for new types of intangible property, including new types of investment vehicles, as well as changes in technology.

Tax Preferences. All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. An automatic ten-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Businesses claiming certain tax preferences must file an annual tax preference performance report with DOR. The report contains the dollar value of the tax preference claimed in addition to employee wage and benefit data.

Newspaper Printing and Publishing Preferential Rate. The business and occupation (B&O) tax rate for businesses who print or publish newspapers, or both, is 0.35 percent. This rate expires July 1, 2024, when it will increase to 0.484 percent.

Motion Picture Competitiveness Program Business and Occupation Tax Credit. Persons who make a cash contribution to an approved Motion Picture Competitive Program, such as to Washington Filmworks, can claim a B&O tax credit. The credit is for 100 percent of the contribution, not to exceed \$1 million per calendar year. Total credits may not exceed a statewide cap of \$15 million each calendar year. The credit program expires June 30, 2030.

Working Families Tax Credit Program. The Working Families Tax Credit is a credit in the form of a refund of sales and use tax that is provided to eligible low-income individuals. The credit is based in part on the federal Earned Income Tax Credit. To be eligible, individuals must qualify for the earned income credit and have lived in Washington for over half the year. The credit amount varies depending on the number of qualifying children and income level. The maximum credit amounts range from \$300 to \$1,200. These amounts are then reduced based on income thresholds. The minimum credit amount is \$50, regardless of the number of qualifying children.

Use Tax. Use tax is a tax on the use of goods or certain services in Washington when sales tax has not been paid. Goods used in this state are subject to either sales or use tax, but not both. Use tax is determined on the value of the goods sourced to Washington. Generally, this is the purchase price, which includes any freight, delivery, or shipping charges paid to the seller.

Main Street Tax Credit. The Main Street tax credit incentive program provides a B&O or public utility tax credit for private contributions given to eligible downtown organizations. The tax credit is for 50 to 100 percent of the contribution made to designated main street communities or the Main Street Trust Fund. DOR may not approve credits for contributions made to a program that is located in a city or town with a population above 190,000.

Enhanced Food Fish Tax. This is a tax on who first commercially possesses certain fish within the state. The tax is calculated by the value of the fish when first landed at a rate that varies depending on the species of the fish. The tax also applies to byproducts and parts of seafood.

Summary of Bill: Revised Uniform Unclaimed Property Act. Several outdated references to the repealed Uniform Unclaimed Property Act are replaced with references to RUUPA.

An abandonment period is added for excess proceeds from the sales of certain property for purposes of RUUPA as follows:

- sales of property by an owner of a self-service storage facility is six months from the date of sale;
- income from the sale of tenant property by a landlord is one year from the date of sale; and
- funds from the sale of an abandoned vessel by an operator of a private moorage facility is one year from the date of sale.

Tax Preference Performance Requirements. The 10-year automatic expiration date for tax preferences does not apply to the:

- newspaper printing and publishing preferential B&O tax rate of 0.484 percent, which goes into effect July 1, 2024; or
- use tax exemption for tangible personal property transferred from a parent company to a wholly owned subsidiary, created by the act.

The requirement that claimants of the motion picture B&O tax credit file an annual tax preference performance report is removed.

Working Families Tax Credit Program. The Working Families Tax Credit payment amount is \$50 when the payment is calculated at greater than zero but less than one cent, as is consistent with the statutory minimum payment under the credit program.

Use Tax Exemption for Transfers of Property by a Parent Company. A use tax exemption is created for circumstances where tangible personal property is transferred from a parent company to a wholly owned subsidiary when there is no change in the beneficial ownership. The exemption applies even if the parent company does not pay sales or use tax on the property.

Main Street Tax Credit. The Main Street Tax Credit population threshold is determined at the time of a local government's designation as a Main Street Community.

Other Clarifications and Technical Corrections. The following administrative changes, technical corrections, and statutory clarifications are made:

- removes the requirement that DOR continue reporting annually on the progress of its efforts to partner with all cities that impose a general business license beyond the January 1, 2023, report, as this work was completed in 2022;
- clarifies that the Legislature intends for state sales and use tax exemptions to apply to local sales and use taxes in an identical manner unless explicitly stated otherwise;
- clarifies that repayment of deferred taxes under the Rural County Investment Program only happens if a project ceases to meet the requirements of the deferral;
- replaces the term tolled with the term suspended for the tax deferral for rural county projects;
- clarifies that the enhanced food fish tax addendum is due at the same time as the combined excise tax return;
- clarifies that the \$125,00 tax return filing relief threshold is based on the business's annual value of products, gross proceeds of sales, and gross income of the business, from all business activities subject to the B&O tax; and
- repeals certain outdated, expired, erroneous, or redundant provisions, cross-references, and statutes.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony: PRO: This bill provides technical cleanups to the tax code sections that will allow for clearer readings of the statute, easier compliance for taxpayers, and more efficient administration for the DOR. It is neutral in terms of policy and fiscal impact.

Persons Testifying: PRO: Senator Mark Schoesler, Prime Sponsor; Steve Ewing, Department of Revenue; Andre Unicume, Department of Revenue.

Persons Signed In To Testify But Not Testifying: No one.