

[Details of New House & Senate Revenue Packages](#)

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On Saturday, a new package of revenue enhancements was approved on the floor of the Washington State House of Representatives. This latest revenue proposal comes one day after the State Senate passed a slightly different revenue package.

Both proposals would apply a temporary surcharge on certain business services and would repeal or restrict a number of costly tax exemptions and preferences. But the Senate's package includes a temporary 0.2 percentage point increase in the state sales tax, which is not part of the House version. And unlike the Senate proposal, the latest House proposal would limit large preferences for banks and custom software. In total, the current House package would raise about \$788 million in new revenues needed to preserve fundamental public priorities while the economy recovers. The Senate package would generate about \$819 million in additional resources.

The two packages have following elements in common:

- *A B&O tax surcharge on business services (House = \$201 million, Senate = \$160 million): Both proposal would apply a temporary 0.25 percent surcharge on most businesses that currently pay the 1.5 percent "Service and Other Activities" B&O tax rate. Under both proposals, public and nonprofit hospitals along with research and development firms would be exempt from the surcharge. The surcharge would take effect on July 1, 2010 under the Senate proposal. It would take effect on May1, 2010 under the House version.*
- *Direct sellers exemption ("Dot Foods") (\$155 million): A recent ruling from the State Supreme Court greatly expanded a B&O exemption originally intended to apply only to businesses such as Avon and Mary Kay that sell products exclusively through door-to-door sales persons or in-home parties. Both measures would repeal and retroactively clarify this exemption.*
- *Increasing taxes on cigarettes and tobacco products (House = \$109 million, Senate = \$92 million).*
- *Adopting "economic nexus" (House = \$84 million, Senate = \$72 million): Under current law, numerous multistate businesses are not required to pay B&O taxes on their activities conducted in Washington State. Economic Nexus would create a more level playing field between in-state and out-of-state businesses, requiring some out-of-state firms to pay B&O taxes on transactions occurring in Washington. For more information, [click here](#).*
- *Extending the sales tax to bottled water (House = \$38 million, Senate = \$35 million).*
- *Eliminating, restricting, or altering the following business tax preferences: The Convention Center sales tax credit (House = \$10 million, Senate = \$20 million); a B&O tax preference for manufacturing certain agricultural products (House = \$4.8 million, Senate = \$4.1 million); a B&O preference for corporate directors (Both = \$2.1 million); a sales tax preference on livestock nutrient equipment and facilities (House = \$1.6 million, Senate = \$1.3 million); clarifying the PUD privilege tax (House = \$1.2 million, Senate = \$1.1 million); and a B&O exemption for property management salaries (House = \$8.3 million, Senate = \$7.2 million).*

Differences between the curret House and Senate approaches include:

- *A temporary (3-year) sales tax increase (Senate = \$224 million): The current senate package would increase the state sales tax rate by 0.2 percentage points to 6.7 from 6.5 percent. The increase would be in effect until June 30, 2013. The House plan does not include a sales tax increase.*
- *Repealing the sales tax exemption on custom software (House = \$77 million): The current house proposal would extend the sales tax to purchases of custom software. Currently, 11 states tax custom software under the sales tax. The Senate's proposal does not include this action.*
- *Limiting the "first mortgage deduction" (House = \$50.7 million): The House proposal would cap a costly deduction claimed by banks on interest earnings from first home mortgage loans. The current proposal would cap the deduction at \$120 million, which would ensure that local community banks are held harmless. (The previous House revenue proposal would have capped the deduction at \$100 million.) The current Senate proposal does not include a limitation on the first mortgage deduction. For more information on this deduction, [click here](#).*

- *Repealing the nonresident sales tax exemption (House = \$42 million): Under current law, visiting shoppers from other states or Canadian provinces that have sales tax rates of 3 percent or lower are exempt from paying Washington's sales tax. The current House revenue package would eliminate this exemption; the Senate version would not.*
- *Restricting abusive tax avoidance transactions (Senate = \$12.3 million): The current Senate proposal includes a measure that would make it more difficult for firms to engage in tax avoidance activities. Earlier versions of the House proposal included this item as well. The current House proposal does not include it, however.*
- *Modifying and increasing the Aircraft Excise Tax (House = \$4.0 million): The current house proposal would increase the aircraft excise tax and create a new category for large multiengine turbojet aircraft. Under current law, the aircraft excise tax is series of fees assessed on personal aircraft, depending on the size and type of aircraft. This fee structure has not been altered in decades. The House proposal would create a new fee structure that differentiates private aircraft according to their size, type, and year they were built. Small aircraft built before 1970 would see the smallest fee increases while newer aircraft would experience slightly larger increases. Finally, a new category is created for multiengine turbojet aircraft (i.e. Lear Jets); these aircraft would be assessed considerably larger fees compared to small, single-engine aircraft.*
- *Smaller Senate-only measures (\$27 million): Limitations on smaller tax exemptions and preferences found in the current Senate proposal include: Repealing the sales tax exemption on coal used in thermal electricity generation facilities (\$11 million); eliminating an exemption on machinery used to create electricity from wind (\$8 million); ending a Real Estate Excise Tax (REET) exemption on foreclosed properties (\$6 million); limiting a B&O deduction on bad debts (\$2 million); and eliminating a B&O deduction for fees and dues paid to certain nonprofit organizations (\$1 million).*