

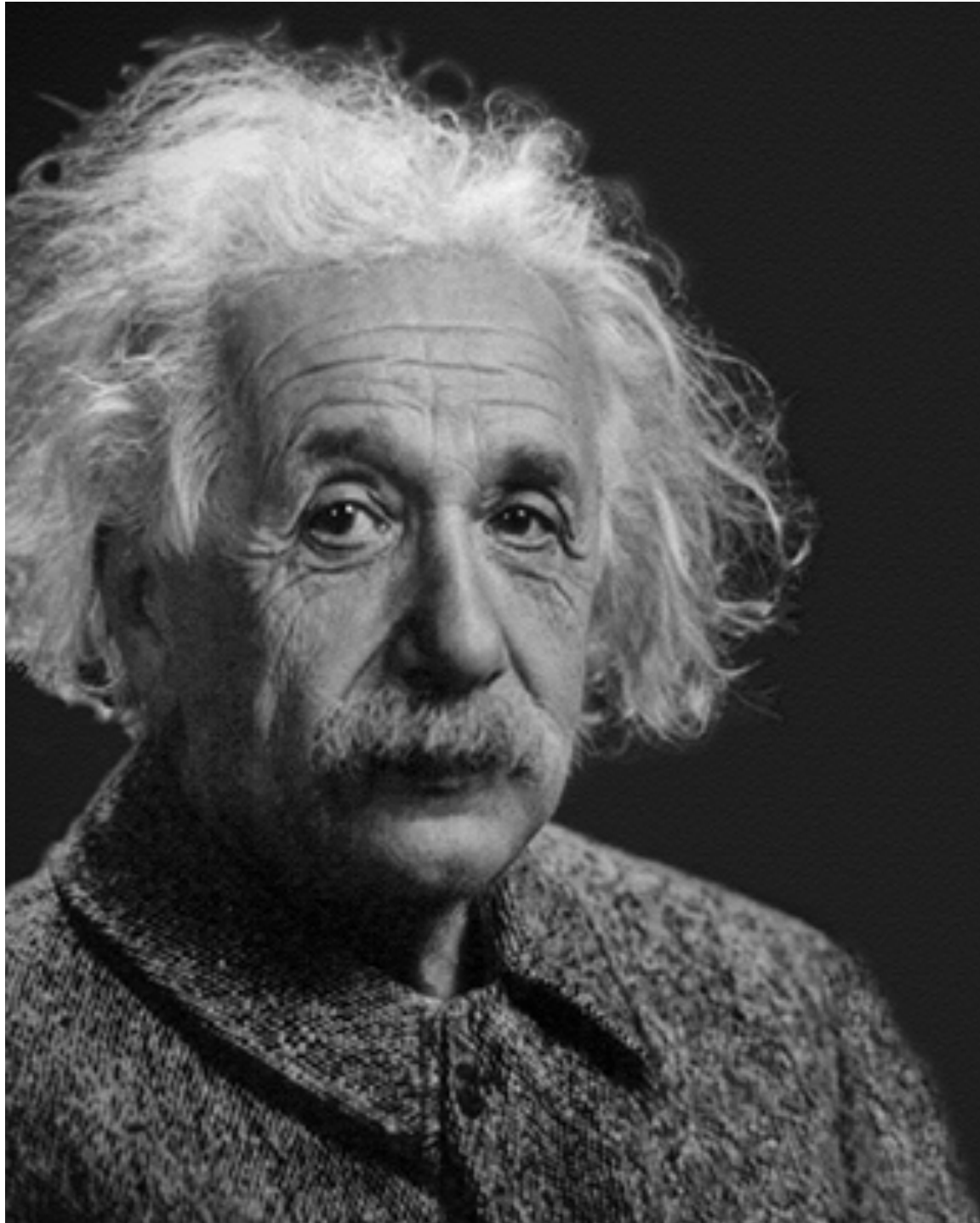


Department of
Revenue
Washington State

*"Working together to
fund Washington's future"*

2020 Tax Exemption Analyzing exemptions in Washington State Study

Kim Davis
September 23, 2019



“Creativity
is
intelligence
having fun.”
-Albert Einstein

A surreal landscape painting depicting a person in a red shirt standing on a beach, painting a massive, multi-colored cloud over a large, leafless tree. The cloud is composed of various colors including red, orange, yellow, green, blue, and purple. The scene is set against a clear blue sky and a calm sea with white-capped waves. The person is holding a long, thin brush that extends into the cloud, suggesting the act of painting the scene.

With technology:

- People expect more
- It is easier to share information with others

Goal of the exemption study

- ✓ Analyze exemptions for major state and local taxes in Washington
- ✓ Provide information to our customers



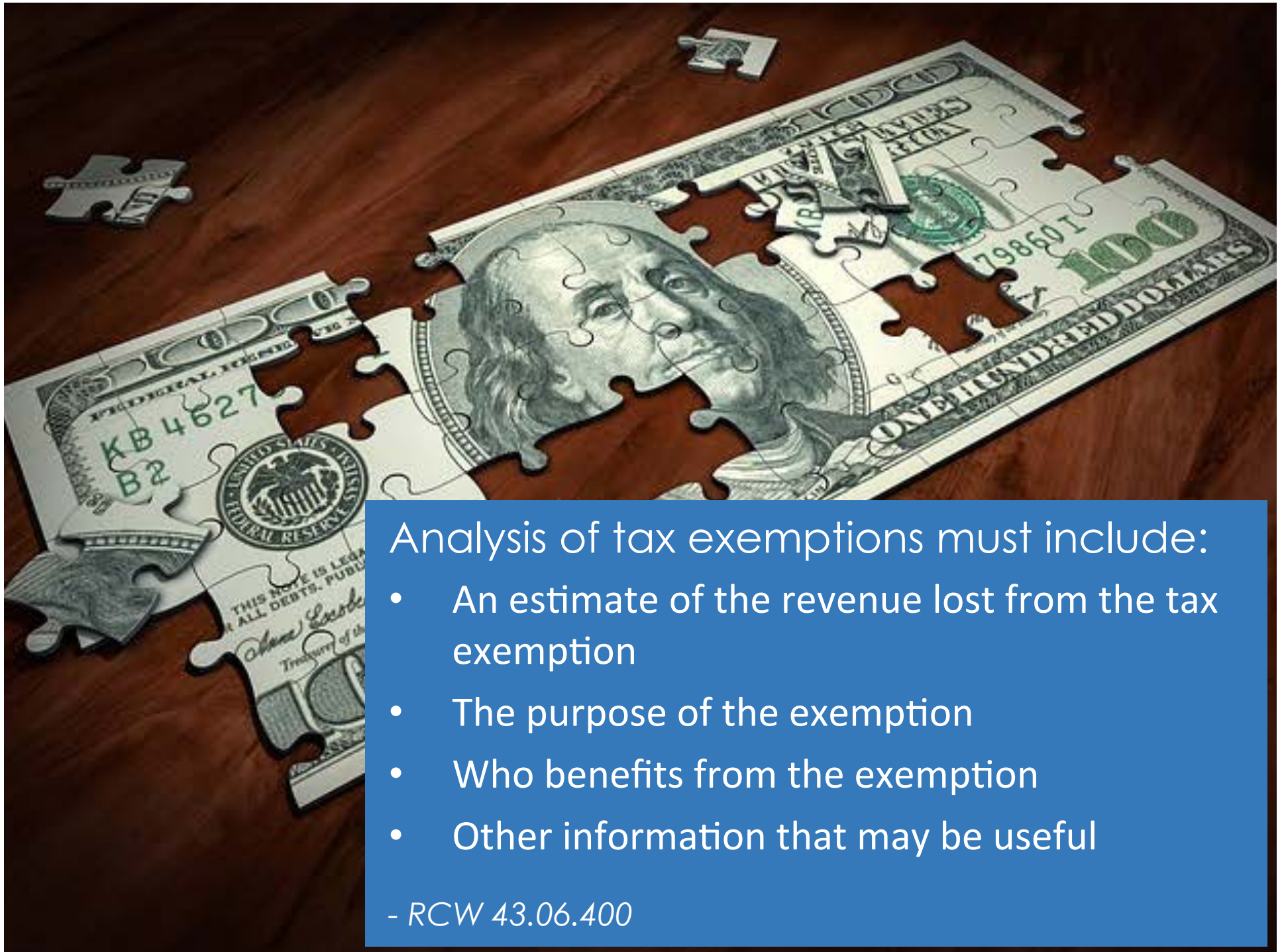
Analyzing exemptions

A “tax exemption” is:

- an exemption, exclusion, or deduction from the tax base of a tax;
- a credit against a tax;
- a deferral of a tax; or
- a preferential tax rate.

- RCW 43.06.400





Analysis of tax exemptions must include:

- An estimate of the revenue lost from the tax exemption
- The purpose of the exemption
- Who benefits from the exemption
- Other information that may be useful

- RCW 43.06.400



How
Many?



748

Estimate the revenue impact of exemption

- Read the law and look for legislative or other changes
- Describe the exemption
- Find data to estimate revenues
- Provide assumptions needed to complete estimates
- Calculate taxpayer savings
- Explain whether a repeal of exemption increases state revenues
- Calculate state revenues realized from a full repeal of exemption



Read the law

RCW 82.08.803

Exemptions—Nebulizers.

(1) An exemption from the tax imposed by RCW **82.08.020** in the form of a refund is provided for sales of nebulizers, including repair, replacement, and component parts for such nebulizers, for human use pursuant to a prescription. In addition, the tax levied by RCW **82.08.020** shall not apply to charges made for labor and services rendered in respect to the repairing, cleaning, altering, or improving of nebulizers. "Nebulizer" means a device, not a building fixture, that converts a liquid medication into a mist so that it can be inhaled.

(2) Sellers shall collect tax on sales subject to this exemption. The buyer shall apply for a refund directly from the department in a form and manner prescribed by the department.

[**2007 c 6 § 1103; 2004 c 153 § 104.**]



Describe the incentive

DESCRIPTION:

A nebulizer is a device that converts a liquid medication into a mist that the patient inhales. Nebulizers prescribed for human use by a physician are exempt from retail sales and use tax. The exemption includes repair and replacement parts for nebulizers, as well as labor and service charges for cleaning, repairing, etc. Sellers must collect the sales tax, and the buyer must apply to the Department of Revenue for a refund.

PURPOSE:

Reduces the cost of nebulizers.

Find data - U.S. nebulizer market size



U.S. Nebulizer Market Size, Share & Trends Analysis Report By Product (Pneumatic (Standalone, Portable), Ultrasonic, Mesh), Competitive Landscape, And Segment Forecasts, 2018 - 2025

Published Date: Feb, 2018 | Base Year for Estimate: 2016 | Report ID: GVR-2-68038-085-9
Format: Electronic (PDF) | Historical Data: 2014 - 2015 | Number of Pages: 78

Report Summary

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Segmentation

Methodology

Request a Free Sample

Industry Insights

The U.S. nebulizer market size was valued at USD 254.2 million in 2016 and is expected to expand at a CAGR of 6.2% over the forecast period. Rising geriatric population, increasing incidence of chronic respiratory diseases, and surging demand for [home healthcare devices](#) have been contributing to market growth.

According to statistics published by the Centers for Disease Control and Prevention (CDC), approximately 18.4 million adults in U.S. suffer from asthma. Initiatives such as the “Global Alliance Against Chronic Respiratory Diseases” are likely to improve diagnosis and treatment rates of respiratory disorders, which may in turn boost the U.S. market for nebulizers. In addition, factors such as unhealthy diet, overconsumption of tobacco and alcohol, lack of physical activity, and rising rate of obesity are likely to lead to increasing incidence of respiratory disorders, which in turn, will contribute to market growth over the forecast period.

Source: <https://www.grandviewresearch.com/industry-analysis/us-nebulizer-market>

Find data – U.S. and Washington population

Table 1. Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2018

Geographic Area	April 1, 2010		Population Estimate (as of July 1)	
	Census	Estimates Base	2017	2018
United States	308,745,538	308,758,105	325,147,121	327,167,434
Northeast	55,317,240	55,318,430	56,072,676	56,111,079
Midwest	66,927,001	66,929,743	68,156,035	68,308,744
South	114,555,744	114,563,045	123,598,424	124,753,948
West	71,945,553	71,946,887	77,319,986	77,993,663
Washington	6,724,540	6,724,540	7,425,432	7,535,591
Puerto Rico	3,725,789	3,726,157	3,325,001	3,195,153

Question Resolution program and geographic program revisions. See Geographic Terms and Definitions at <http://www.census.gov/programs-surveys/popest/guidance-geographies/terms-and-definitions.html> for a list of the states that are included in each region. All geographic boundaries for the 2018 population estimates series except statistical area

Suggested Citation:

April 1, 2010 to July 1, 2018 (NST-EST2018-01)

Source: U.S. Census Bureau, Population Division

Release Date: December 2018

Sources:

<https://www.census.gov/newsroom/press-kits/2018/pop-estimates-national-state.html>

[NST-EST2018-01: Table 1. Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2018](#)

Find data – U.S. nebulizer sales

Global Anesthesia, Respiratory x Global Nebulizer Market Size x

https://www.grandviewresearch.com/industry-analysis/nebulizers-market

Home » Medical Devices » Global Nebulizer Market Size, Share, Industry Trends Report 2019-2026

Market Research Report

Nebulizer Market Size, Share & Trends Analysis Report By Type (Pneumatic, Ultrasonic, Mesh), By Region (North America, Asia Pacific, Europe, Latin America, MEA), And Segment Forecasts, 2019 - 2026

Published Date: May, 2019 | Base Year for Estimate: 2018 | Report ID: GVR-2-68038-069-9
Format: Electronic (PDF) | Historical Data: 2015 - 2017 | Number of Pages: 79

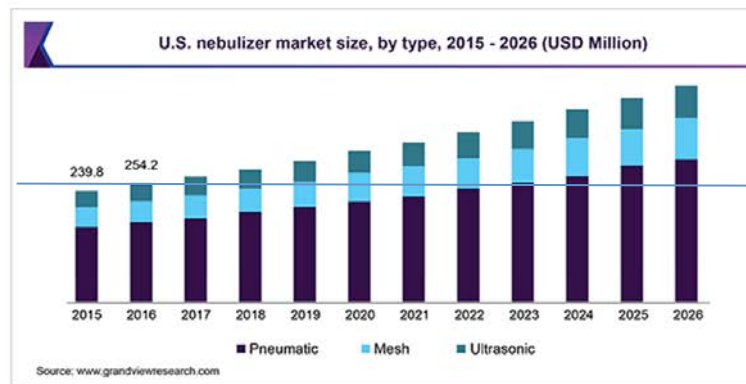
Report Summary | Table of Contents | Segmentation | Methodology | **Request a Free Sample**

Industry Insights

The global nebulizer market size was valued at USD 870.1 million in 2018 and is expected to expand at a CAGR of 6.5% over the forecast period. High prevalence of chronic respiratory diseases, increasing demand for home healthcare, and rising geriatric population across the globe are some of the major factors driving the growth. Technological advancements are anticipated to further fuel the growth.

High prevalence of chronic diseases is one of the major driving factors for the market growth. For instance, as per the Global Burden of Disease Study, an estimated 251 million people worldwide were suffering from Chronic Obstructive Pulmonary Disease (COPD) in 2016. In addition, as per the World Health Organization (WHO), around 3.17 million deaths were reported due to COPD in 2015.

Source:
<https://www.grandviewresearch.com/industry-analysis/nebulizers-market>



The line I drew through the chart represents \$254.2 million (2016). Thus, assume that 2018 is about \$270 million.

Assumptions

Task:	
	Estimate the taxpayer savings of the nebulizer sales tax exemption
	Estimate the revenue increase of repealing the tax exemption
Assumptions:	
	July 1, 2020 effective date, impacting 11 months of collections in Fiscal Year 2021
	2018 sales equal \$270 million
	Population used to determine WA share of sales
Data Sources:	
	U.S. Census
	Market Research Report
	Washington State Economic and Revenue Forecast Council February 2019 forecast
Repeal of Exemption:	
	Repealing this exemption would increase revenues

Assumptions

Taxpayer count:					
	7,535,591	WA population			
	327,167,434	US population			
	2.3%	WA as % of US population			
	18,400,000	Count of US persons with asthma			
	2.3%	WA as % of US population			
	424,000	WA count of persons with asthma			
Taxable sales:					
	270,000,000	Estimated US nebulizer sales			
	2.3%	WA as % of US population			
	6,218,863	Estimated WA nebulizer sales			

Calculate – taxpayer savings

FY	2018	2019	2020	2021	2022	2023
Growth Rate		6.6%	4.2%	3.5%	3.4%	3.4%
Taxable	6,218,863	6,626,206	6,907,592	7,150,823	7,397,019	7,646,866
Sales tax	404,226	430,703	448,993	464,803	480,806	497,046
Sales tax - perf audit	647	689	718	744	769	795
Sales tax - gen fund	403,579	430,014	448,275	464,060	480,037	496,251
Retailing BNO						
Service BNO						
Total State	404,226	430,703	448,993	464,803	480,806	497,046
Local	175,742	187,254	195,206	202,079	209,037	216,097
Sales tax						
Sales tax - perf audit	1,000	1,000	1,000	1,000	1,000	1,000
Sales tax - gen fund	404,000	430,000	448,000	464,000	480,000	496,000
BNO total	-	-	-	-	-	-
Total State	405,000	431,000	449,000	465,000	481,000	497,000
Local	176,000	187,000	195,000	202,000	209,000	216,000
Months collected, taxpayer savings			12	12	12	12
Taxpayer savings, state impact			449,000	465,000	481,000	497,000
Taxpayer savings, local impact			195,000	202,000	209,000	216,000

Calculate – revenue from repeal of exemption

FY	2018	2019	2020	2021	2022	2023
Growth Rate		6.6%	4.2%	3.5%	3.4%	3.4%
Taxable	6,218,863	6,626,206	6,907,592	7,150,823	7,397,019	7,646,866
Months collected, revenue (for LTS)				11	12	12
Elasticity	1	1	1	1	1	1
Taxable with elasticity	6,218,863	6,626,206	6,907,592	7,150,823	7,397,019	7,646,866
Sales tax	404,226	430,703	448,993	464,803	480,806	497,046
Sales tax - perf audit	647	689	718	744	769	795
Sales tax - gen fund	403,579	430,014	448,275	464,060	480,037	496,251
Retailing BNO						
Service BNO						
Local	175,742	187,254	195,206	202,079	209,037	216,097
ROUNDED (for LTS)						
Sales tax						
Sales tax - perf audit				1,000	1,000	1,000
Sales tax - gen fund				425,000	480,000	496,000
BNO total				-	-	-
Revenue gains, state impact				426,000	481,000	497,000
Revenue gains, local impact				185,000	209,000	216,000

Calculate – revenues shown in study

Taxpayer savings (\$ in millions):				
	FY 2020	FY 2021	FY 2022	FY 2023
State Taxes	0.449	0.465	0.481	0.497
Local Taxes	0.195	0.202	0.209	0.216
Potential Revenue Gains (\$ in millions):				
	FY 2020	FY 2021	FY 2022	FY 2023
State Taxes	0	0.426	0.481	0.497
Local Taxes	0	0.185	0.209	0.216

Credit unions

RCW 82.04.405

Exemptions—Credit unions.

This chapter shall not apply to the gross income of credit unions organized under the laws of this state, any other state, or the United States.

[1998 c 311 § 4; 1970 ex.s. c 101 § 3.]



Credit unions

DESCRIPTION:

Credit unions organized pursuant to state law are exempt from B&O tax.

PURPOSE:

To provide comparable tax treatment with federally-chartered credit unions.

DATA:

National Credit Union Association (NCUA) - Call Report for Washington State Chartered Credit Unions

Credit unions

ASSUMPTIONS:

Based on the interest and non-interest revenue sources for credit unions, this estimate grows total revenues by 11.5 percent.

Credit unions tax savings includes savings from the interest income on first mortgages and if this exemption was repealed, first mortgage interest income would become taxable.

Tax rate for credit union savings and potential revenues is 1.5 percent service and other B&O rate plus the higher education surcharge.

No credit unions would meet the criteria for the additional financial institutions tax.

If this exemption was repealed, large and medium sized credit unions would become federally chartered resulting in only 5 percent of the taxpayer savings becoming taxable.

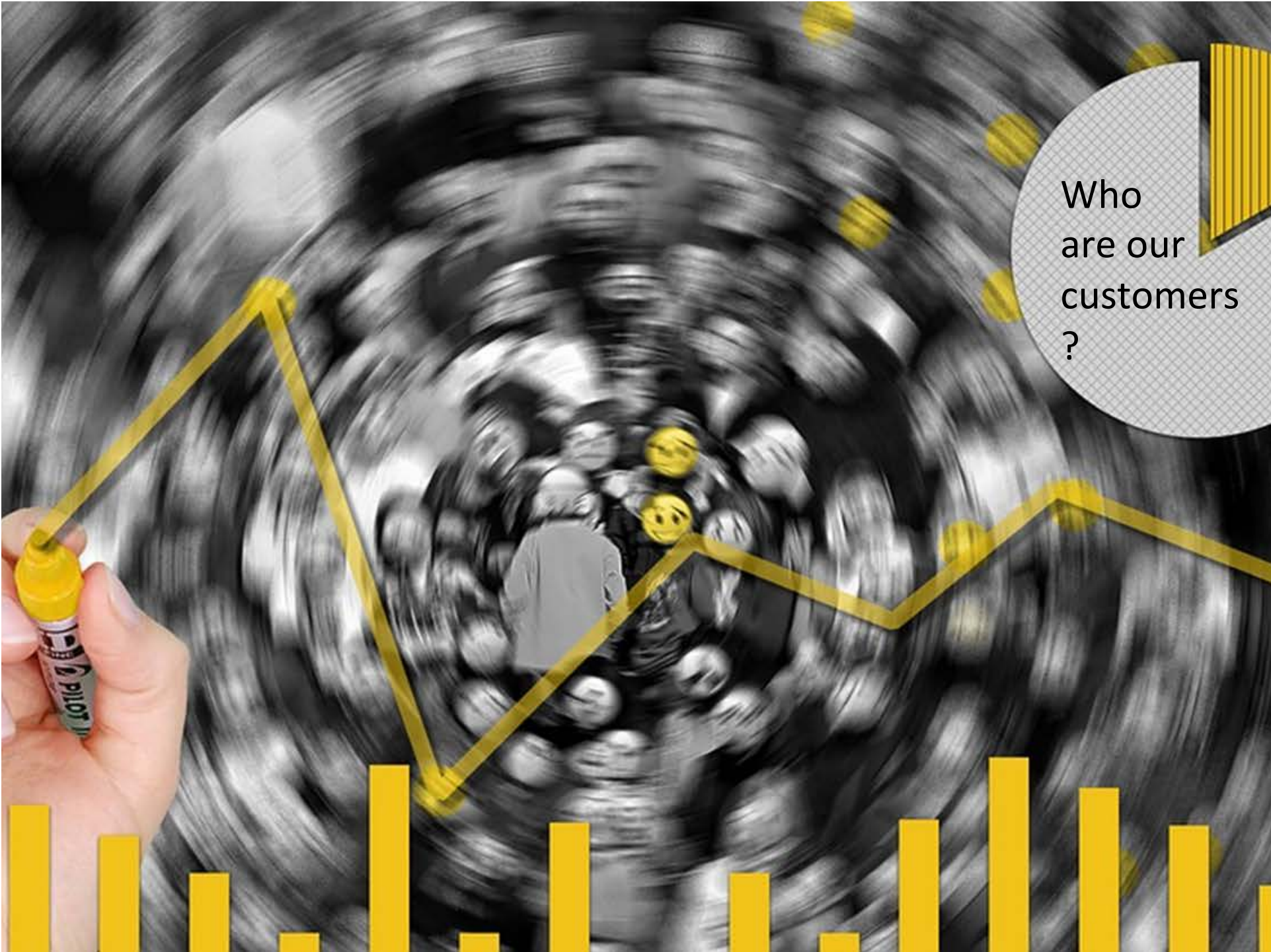
Credit unions

Taxpayer savings (\$ in millions):				
	FY 2020	FY 2021	FY 2022	FY 2023
State Taxes	48.308	59.626	63.317	70.640
Local Taxes	0.000	0.000	0.000	0.000
Potential Revenue Gains (\$ in millions):				
	FY 2020	FY 2021	FY 2022	FY 2023
State Taxes	0.000	2.700	3.200	3.500
Local Taxes	0.000	0.000	0.000	0.000

Revenues realized may be different from taxpayer savings for various reasons, such as:

- Elasticity
- Compliance factors
- Change in taxpayer behavior

Providing information to our customers



Who
are our
customers
?



Our customers are:

- Legislators and legislative staff
- State and local government staff
- Lobbyists
- General public

Bottom line –
Our customers
are busy people



PRIORITIES

1.

Know the cost of exemptions to the state

2.

Ability to find information quickly

3.

Also be able to easily answer their own questions

RESULTS!

- Report
- List of all exemptions
- Data visualization

Information provided in exemption study

83.100.020(1) - Estate tax exclusion

Description Through Calendar Year 2013, there is a \$2 million exclusion from the value of an estate in determining the amount of estate tax, if any. Legislation passed in 2013 annually adjusts the exclusion amount. The adjustment is determined using the Seattle-Tacoma-Bremerton metropolitan area consumer price index. For estates of decedents dying in Calendar Year 2015, the exclusion amount is \$2,054,000.

Purpose Moderate value estates are not subject to the tax.

Taxpayer savings (\$ in millions):

	FY 2016	FY 2017	FY 2018	FY 2019
State Taxes	\$3,810,700	\$3,953,100	\$4,311,400	\$4,467,800
Local Taxes	\$0.000	\$0.000	\$0.000	\$0.000

Repeal of exemption Repealing this exemption would increase revenues.

Potential revenue gains from full repeal (\$ in millions):

	FY 2016	FY 2017	FY 2018	FY 2019
State Taxes	\$0.000	\$0.000	\$1,030,300	\$1,540,900
Local Taxes	\$0.000	\$0.000	\$0.000	\$0.000

- Assumptions**
- No exclusion amount for deaths occurring on or after January 1, 2017
 - All payments are made timely at the 9-month due date
 - The first payments would be due on October 1, 2017, which will result in 9 months of impact in Fiscal Year 2018
 - Approximately 53,000 deaths in Washington in 2015, increasing to almost 60,000 deaths in 2019
 - Percent of deaths by age based on Washington life expectancy data
 - Washington net worth 166 percent of national net worth
 - Approximately 35 percent of estates go through probate
 - For probated estates, a high compliance factor is used:
 - 90 percent revenue collections in Fiscal Year 2018, and
 - 95 percent revenue collections in Fiscal Year 2019 and thereafter
 - For non-probated estates, a compliance factor of 5 percent is used for all years

- Data Sources**
- Office of Financial Management, November 2014 forecast of the state population by age and sex, 2010-2040
 - Washington Life Expectancy, Washington causes of death by age and gender
 - United States Census Bureau wealth and marital data
 - Consumer Price Index (CPI), Real Income, Seattle CPI, Percent Change

Continued

83.100.020(1) - Estate tax exclusion

Additional Information

Additional Information	
Category:	Individuals
Year Enacted:	2005; exclusion increases, 2013
Primary Beneficiaries:	Individuals who receive benefits from the estate
Taxpayer Count:	54,000 to 60,000 per year
Program Inconsistency:	None evident
JLARC Review:	JLARC has scheduled to review in 2016

The exemption study includes:

- Detailed information about each exemption.
- How much taxpayers save.
- Revenues that would be realized if the exemption was repealed
- Major assumptions used to estimate revenue impacts.
- Data sources.

List of all exemptions

2016 Ord.	2016 FE#	RCW	Title	Tax Type	Preference Type	Category	Year Enacted
594	E1603-1	82.08.207; 82.12.207	Standard Financial Information	Retail Sales & Use Tax	Exemption	Business	2013
610	E1621-1	82.08.830	Nonprofit camps and conference centers	Retail Sales & Use Tax	Exemption	Nonprofit	1997
611	E1622-1	82.08.832; 82.12.832	Gun safes	Retail Sales & Use Tax	Exemption	Individuals	1998
614	E1625-1	82.08.855; 82.12.855	Farm machinery replacement parts and repair	Retail Sales & Use Tax	Exemption	Agriculture	2006
617	E1628-1	82.08.875; 82.12.875	Automotive adaptive equipment	Retail Sales & Use Tax	Exemption	Other	2013
623	E1634-1	82.08.925; 82.12.925	Dietary supplements	Retail Sales & Use Tax	Exemption	Individuals	2003
629	E1642-1	82.08.962; 82.12.962	Renewable energy equipment	Retail Sales & Use Tax	Exemption	Business	2009
630	E1643-1	82.08.963; 82.12.863	Solar energy equipment	Retail Sales & Use Tax	Exemption	Business	2009
634	E1647-1	82.08.975; 82.12.975	Airplane pre-production computer expenditures	Retail Sales & Use Tax	Exemption	Business	2003
645	E1714-1	82.08.9996; 82.12.9996	Vessel deconstruction	Retail Sales & Use Tax	Exemption	Business	2014

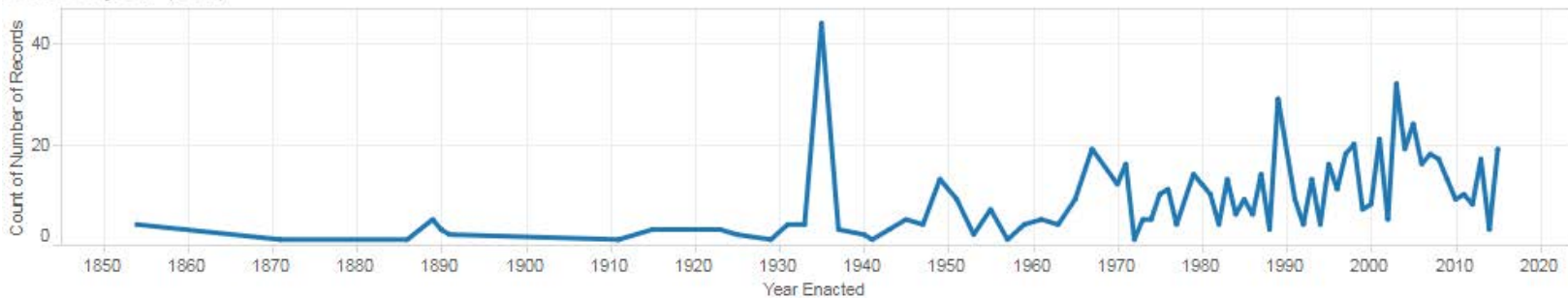
Data visualization

2016 State of Washington Tax Exemption Study

Filtered results based on your selections below:

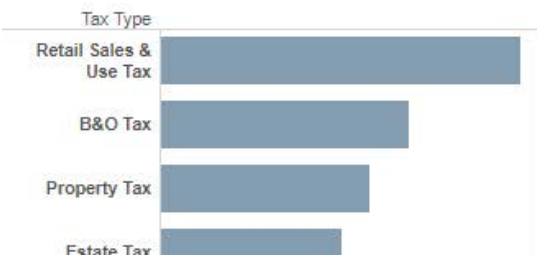
Number of Incentives	STATE Taxpayer Savings	STATE Revenues Realized from Repeal
694	27,434,705,000	15,542,010,000

Select a year (694)

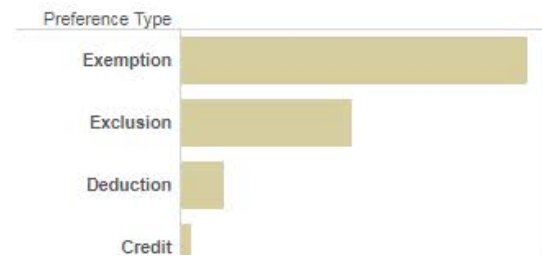


Fiscal Year: View:

Select a tax (23)
STATE Taxpayer Savings in FY 2019



Select a preference type (9)
STATE Taxpayer Savings in FY 2019



Select a category (8)
STATE Taxpayer Savings in FY 2019



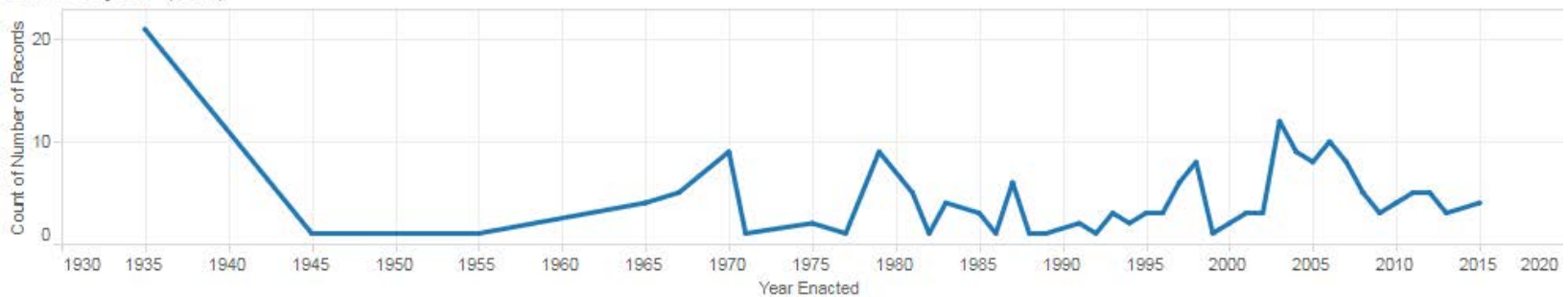
Data visualization

2016 State of Washington Tax Exemption Study

Filtered results based on your selections below:

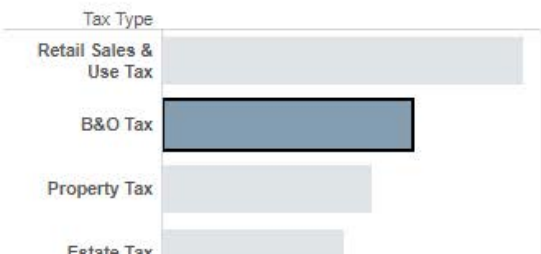
Number of Incentives	STATE Taxpayer Savings	STATE Revenues Realized from Repeal
190	6,385,343,000	4,702,042,000

Select a year (190)

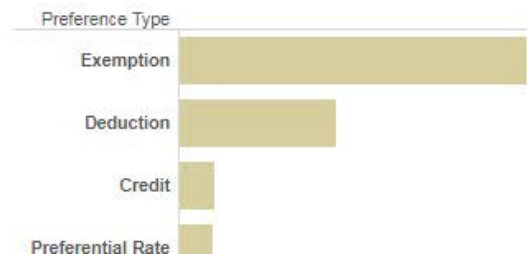


Fiscal Year: View:

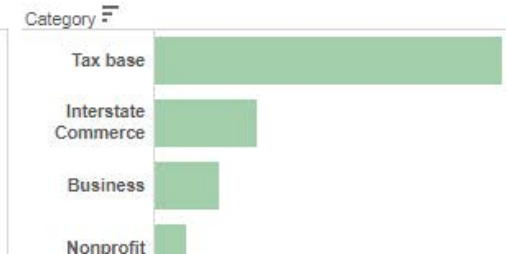
Select a tax (23)
STATE Taxpayer Savings in FY 2019



Select a preference type (6)
STATE Taxpayer Savings in FY 2019



Select a category (7)
STATE Taxpayer Savings in FY 2019



Data visualization

2016 State of Washington Tax Exemption Study

Filtered results based on your selections below:

Number of Incentives

29

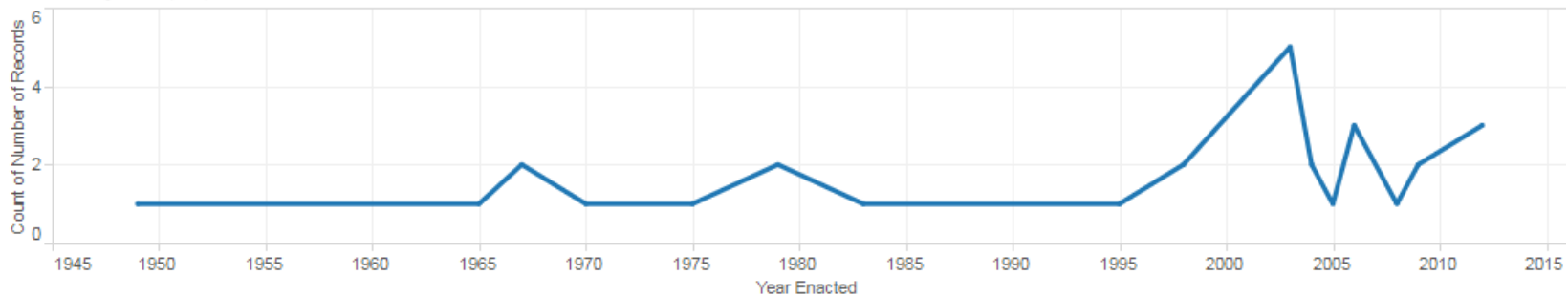
STATE Taxpayer Savings

378,932,000

STATE Revenues Realized from Repeal

378,932,000

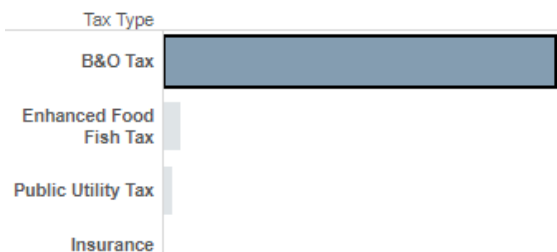
Select a year (29)



Fiscal Year: View:

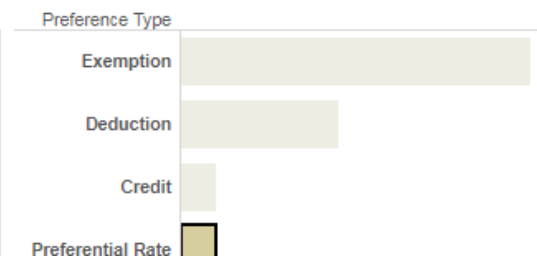
Select a tax (5)

STATE Taxpayer Savings in FY 2019



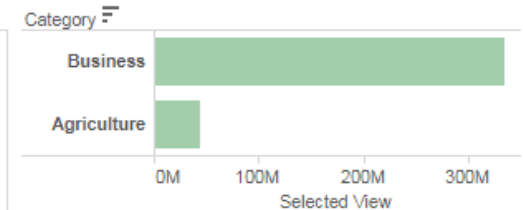
Select a preference type (6)

STATE Taxpayer Savings in FY 2019



Select a category (2)

STATE Taxpayer Savings in FY 2019



Data visualization

Detail of FY 2019 Impacts for Incentives Enacted in 1854 to 2015

Exemptions with no value are (1) not disclosable, (2) minimal, or (3) unknown

Title	RCW	¹ / ₂	STATE Taxpayer Savings	STATE Revenues from Repeal	LOCAL Taxpayer Savings	LOCAL Revenues from Repeal
2nd Narrows bridge	47.46.060		0	0	0	0
	82.04.416				0	0
	82.16.046		0	0	0	0
	82.29A.132		0	0	0	0
	82.45.190		0	0	0	0
	84.36.010(1)		0	0	0	0
84.33.0776 - Timber harvest excise tax agreement - Quinault Nation	84.33.0776		0	0	0	0
\$15,000 of nonresidential personal property	84.36.110(2)		417,000	0	1,984,000	60,000
\$50 minimum timber tax	84.33.086		1,000	1,000	4,000	4,000
Academic transcripts	82.04.399		10,000	10,000	0	0
	82.08.02537; 82.12.0347		139,000	139,000	53,000	53,000
Accommodation sales	82.04.425		928,000	742,000	0	0
Accommodation sales of automobiles	82.04.422(2)		1,070,000	1,070,000	0	0
Active duty military penalty waiver	82.32.055				0	0
Additional tax, interest, and penalty on removal of classified land, ..	84.34.108(6)		599,000	599,000	3,352,000	3,352,000
Adult family homes	82.04.327		3,048,000	3,048,000	0	0
Aerospace pre-production expenditures	82.04.4461		105,805,000	105,805,000	0	0
Aerospace product development	82.04.290(3)		2,207,000	2,207,000	0	0
Agricultural crop protection products	82.21.040		300,000	300,000	0	0
Agricultural fairs	82.04.335		603,000	603,000	0	0
Agricultural producers	82.04.330		58,300,000	58,300,000	0	0
Agricultural products	82.19.050(2)		1,398,000	1,398,000	0	0
	84.36.470		22,934,000	0	109,151,000	11,380,000
Air pollution control facilities	82.08.810; 82.12.810		0	0	0	0



Let's
Talk

Information

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2016 Tax Exemption Study

<https://dor.wa.gov/about/statistics-reports/tax-exemptions-2016>

2020 Tax Exemption Study will be available on our website in
January 2020