A LEGISLATIVE GUIDE TO WASHINGTON STATE'S TAX STRUCTURE

2015

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TABLE OF CONTENTS

Introduction

A Legislative Guide to Washington State's Tax Structure is offered as a resource to members of the Senate, their staff, and other interested persons to provide an overview of the tax system in this state. It describes the evolution and characteristics of our tax structure and provides practical information on state tax uses, credits and exemption programs.

The *Legislative Guide to Washington State's Tax Structure* was prepared by the Senate Ways and Means Committee staff (within Senate Committee Services) and the Legislative Evaluation and Accountability Program (LEAP) to provide answers to many of the typical questions regarding taxes. This *Legislative Guide to Washington State's Tax Structure* is a summary of our tax system intended to assist its readers in understanding basic terminology and gain a perspective with which to evaluate potential reforms.

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MAJOR CATEGORIES OF STATE REVENUE IN WASHINGTON

Taxes are the most important revenue source for Washington, comprising almost all of the general fund but slightly less than 50 percent of all revenues. Other sources of revenue include federal and other grants, license and permit fees, charges for services, and borrowing. Washington relies on the sales tax, the business and occupation (B&O) tax, and property tax. Unlike most states, Washington does not have either a personal or corporate net income tax. The following chart shows the general fund share of each major tax source.

State Government Tax Revenue Fiscal Year 2014

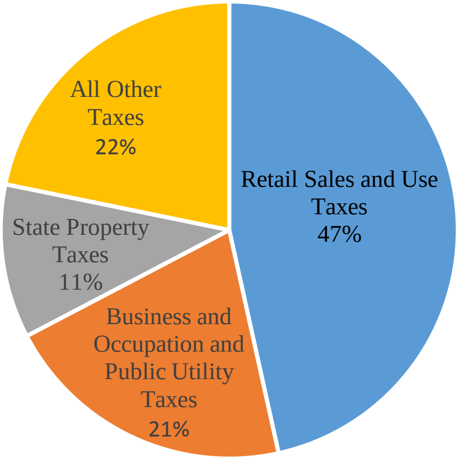

Table 3.11 from the Economic and Revenue Forecast Council - http://www.erfc.wa.gov/

MAJOR EXCISE TAXES

Sales and Use Tax

The largest source of tax revenue to the general fund is the retail sales and use tax. Sales and use taxes are estimated to generate $15.8 billion in the 2013-15 biennium and comprise 47 percent of general fund revenue.

Tax Base:
The sales tax is paid on each retail sale of most articles of tangible personal property and certain services. Examples of taxable services include construction, repair, telephone, lodging of less than 30 days, physical fitness, and some recreation and amusement services. In addition, the sales tax applies to extended warranties.

The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms.

Rate:
6.5 percent applied to the total selling price of the article or service. An additional sales tax of 5.9 percent applies to car rentals (not leases). An additional sales and use tax of 0.3 percent applies to sales of motor vehicles other than farm tractors or farm vehicles, off-road and non-highway vehicles, and snowmobiles.

Major Exemptions:
Major items not taxed include:

- groceries,
- prescription drugs,
- motor vehicle fuel,
- utility services,
- professional services (e.g. medical, legal),
- certain business services (e.g. accounting, engineering),

Major Exemptions (continued):

- manufacturing and research and development machinery and equipment (including repair and replacement),
- machinery and equipment used in a testing operation for manufacturers,
- printer and publisher computer equipment (including repair and replacement),
- certain machinery and equipment to reduce field burning sold to qualified farmers,
- and items that become a component part of a final product for sale.

Deferral/Exemption Programs:

There are two major sales tax deferral/exemption programs.

The rural county deferral/exemption program targets small rural counties, counties smaller than 225 square miles, community empowerment zones, and counties containing a community empowerment zone. Manufacturing, research and development, and computer service businesses may defer sales and use taxes on building construction and expansion if the floor space or production capacity is increased. The business is required to create at least one job per $750,000 of investment if the project qualifies because it is in a community empowerment zone or in a county containing a community empowerment zone. The deferred taxes are forgiven if the investment project meets the program criteria during the repayment period. This program expires July 1, 2020.

The food manufacturing deferral/exemption program is available statewide to businesses engaged in fruit and vegetable, dairy product, and seafood product manufacturing, cold storage warehousing, and related research and development businesses for these products. The businesses may defer sales and use taxes on buildings, machinery and equipment, and installation labor. The deferred taxes are forgiven if the investment project meets the program criteria for eight years after the project is complete.

Distribution of Revenues:
All state sales and use tax revenues are deposited in the state general fund, except the additional sales tax on car rentals and the additional tax on motor vehicle sales are deposited in the multimodal transportation account.

<u>Local Sales and Use Taxes</u>
General Taxes: Local governments may impose local sales and use taxes at the following rates on the same base as the state (except where noted).

Cities/Counties	up to 1.0%	Notes
County Health Treatment	0.10%	Chemical dependency/mental health treatment services/therapeutic court programs
County Criminal Justice*	0.10%	(90% to cities/county per capita)
County Juvenile Detention/Jails*	0.10%	(Counties below 1 million in population)
County Emerg. Communications Systems/Facilities*	0.10%	
County Zoo/Aquarium/Parks*	0.10%	(Counties 500k to 1.5 million in population w/ national park)

Cities/Counties	**up to 1.0%**	**Notes**
County Public Safety*	up to 0.3%	(40% to cities per capita - not imposed on motor vehicles)
Transit Districts*	up to 0.9%	
Public Transportation Benefit Areas*	up to 0.4%	(for passenger-only ferries; not authorized in King, Pierce, or Snohomish Counties)
High Capacity Transit*	up to 1.0%	(0.9% if criminal justice tax imposed)
Regional Transportation Investment District*	up to 0.5%	(King, Pierce, Snohomish Counties - not on motor vehicles other than farm vehicles, off-road vehicles, and non-highway vehicles but use tax of 0.5% applies in these counties)
Transportation Benefit District*	up to 0.2%	Up to 10 years w/voter approval two times
Counties with a Public Stadium Authority (football)	up to 0.016% (credited against the state tax)	

Cities/Counties	up to 1.0%	Notes
Rural Counties	up to 0.09% (credited against the state tax)	
Cities	up to 0.2% (for municipal services in annexed areas - King, Pierce, Snohomish Counties - not Seattle - credited against the state tax)	
Public Facilities Districts		
County	0.20%	
City	0.20%	
City or County	up to 0.033% (credited against the state tax - not authorized in King County - construction must commence by 2/1/07)	

* Voter approval required.

Taxes on Car Rentals: Local governments may impose additional local sales and use taxes on car rentals at the following rates:

Counties	up to 1.0%	
High Capacity Transit *	up to 2.172%	
High Occupancy Transit*	up to 0.8%	(King, Pierce, Snohomish counties - deducted from high capacity transit rate)
City Transportation Authority	up to 1.944%	(Seattle only - For monorail)

* Voter approval required.

Business and Occupation Tax

The business & occupation (B&O) tax is levied for the privilege of doing business in Washington and is the second largest revenue source for the general fund. It is estimated to generate $6.7 billion in the 2013-15 biennium and comprises 20.3 percent of general fund revenues.

Tax Base:
The tax is levied on the gross receipts of all business activities (except utility activities) conducted within the state. Unlike a corporate net income tax, there are no deductions for the costs of doing business.

Rates:
Currently, there are several different B&O tax rates.
The three principal rates are:

- Manufacturing, wholesaling, & extracting: 0.484%
- Retailing: 0.471%

- Services: 1.5%

Major Exemptions:
Non-retailing businesses with incomes of $12,000 per year or less do not need to register with the Department or Revenue or file tax returns. Non-retailing businesses with incomes of $28,000 per year or less are required to register with the Department but do not need to file tax returns. Other exemptions include public utility activity, agricultural production, rental of real property, and investment income earned by businesses other than financial institutions.

Tax Credits:

A small business tax credit is authorized. Under the credit, if the amount of tax due is less than $420 per year, then the credit is equal to the amount of tax due. If the amount of tax due is greater than $420 per year, then the amount of the credit is equal to $840 minus the amount of tax due. For businesses under the service category of the B&O tax these thresholds are doubled. The credit results in a certain amount of income being exempt from tax, but the exemption is phased out on a dollar for dollar basis until no exemption remains at twice the amount of the exemption. The following table shows the exemption amounts and the amount at which the exemption is phased out for most businesses.

B&O Tax Credit - Exemption Equivalents		
Tax Category	**Exemption**	**Phased-out**
Manufacturing, wholesaling, &	$86,777	$173,554
Retailing	$89,172	$178,344
Services	$56,000	$112,000

A credit for Job Creation in Rural Counties is authorized for manufacturing and research and development located in rural counties (population density of less than 100 per square mile), counties smaller than 225 square miles, or community empowerment zones if they create employment at least 15 percent above the prior year. Businesses may claim $2,000 as a credit against the tax for each new job created, except the credit is $4,000 if the wages and benefits exceed $40,000 per year. No more than $7.5 million may be taken in any fiscal year by all businesses. No credit is available if a B&O tax credit is taken for international services job creation. (See following.)

A credit for International Services Job Creation is available equal to $3,000 per year for a five-year period for each net new job created after July 1, 1998, for businesses providing international services if the jobs are created inside community empowerment zones or designated areas in cities or contiguous cities larger than 80,000 that meet the unemployment and poverty criteria of empowerment zones. An international service is a service for a person outside the United States or is for use primarily outside the United States.

A credit for Job Training in Rural Counties is available to manufacturing, research and development, and computer service businesses located in rural counties (population density of less than 100 per square mile), counties smaller than 225 square miles, community empowerment zones, and counties containing a community empowerment zone that provide job related training at no charge to their employees. The tax credit is equal to 20 percent of the value of the job training not to exceed $5,000 per business per year.

A credit for Commercial District Revitalization became available January 1, 2006, for 75 percent of the amount donated directly to a revitalization program operated by a nonprofit organization or 50 percent of the contribution amount to the Main Street Trust Fund administered by the Department of Commerce. Total credits cannot exceed $100,000 per calendar year for an individual program or $250,000 per calendar year for a business, and may only be claimed against tax due in the calendar year following approval. The total amount of credits per year statewide is capped at $1.5 million per calendar year. Credits may not be approved for cities with populations of 190,000 or more.

Distribution of Revenues:
All B&O tax revenues are deposited in the general fund.

Local B&O Taxes:
Cities and towns may also levy a municipal business tax. The tax may be levied on the type of business, the number of employees, the amount of floor space used, or on gross receipts. The maximum rate for the municipal business tax on gross receipts is 0.2 percent.

Real Estate Excise Tax

Sales of real property are subject to the real estate excise tax. This tax is estimated to generate $1.2 billion in the 2013-15 biennium and comprises 3.8 percent of state general fund revenues.

Tax Base:
The tax is applied to the selling price of real property and is paid by the seller. The tax also applies to the transfer or acquisition for a valuable consideration within any 12-month period of a controlling interest in any entity with an interest in real property in this state. The tax is applied to the value of the real estate transferred.

Rate: 1.28%

Major Exemptions:
Sales of property by a governmental entity, and property acquired by gift, inheritance, or a similar transfer.

Distribution of Revenues:
2.0 percent of revenues are dedicated to local public works projects, 1.6 percent of revenues are dedicated to city-county assistance, 4.1 percent of revenues are deposited into the education legacy trust account, and the remainder is deposited into the state general fund. Beginning July 1, 2019, 6.1% goes to local public works projects and 1.6% to city-county assistance.

Local Real Estate Excise Tax:
Cities and counties may levy a tax of 0.25 percent for capital improvements. Cities and counties may impose an additional 0.5 percent for general purposes if they do not impose the second 0.5 percent of the local sales tax, but this tax is subject to referendum. Cities and counties may levy additional taxes of up to 0.25 percent for growth management programs, but cities and counties not required but choosing to plan under the Growth Management Act must obtain voter approval before imposing the tax. Counties may impose a tax of up to 1.0 percent to finance the acquisition of conservation areas, subject to voter approval. Counties may levy additional taxes of up to 0.5 percent for the development of affordable housing, subject to voter approval, if the county imposes the 1.0 percent tax for conservation areas at the maximum rate and imposed the tax by January 1, 2003. City taxes are imposed in the city and county taxes are imposed in the unincorporated areas of the county, except the taxes for conservation areas and affordable housing, which are county-wide. The taxes are paid by the seller, except the conservation area tax is paid by the buyer and the affordable housing tax is paid by both the buyer and the seller, as determined by the county legislative authority, with at least one-half of the tax paid by the buyer. The

typical combined state and local tax rate is 1.53 percent or 1.78 percent.

Public Utility Tax

Public utility activity is exempt from the B&O tax and is subject to a gross receipts public utility tax instead. The tax is passed directly on to customers through the rate structure. Therefore, it effectively becomes a sales tax. The public utility tax is estimated to generate $798.7 million in the 2013-15 biennium and comprises 2 percent of state general fund revenues.

Tax Base:
Public utility activities, including electricity, water, natural gas, sewerage collection, and various transportation services.

Rates:
There are five state tax rates, but most public utilities pay at the 3.852% rate. The following table lists the rates for various activities.

Public Utility	Rate
Express, telegraph, natural gas, and sewerage	3.852%
Light and power companies	3.873%
Water distribution companies	5.029%
Taxicabs, limousine services, other urban transportation carriers, and marine vessels for hire under 65 ft. (except tugboats)	0.642%
Motor transportation (except urban transportation), railroad, railroad car, tugboat firms, and public utilities not elsewhere classified	1.926%

Major Exemptions:
Public utilities with gross receipts of less than $2,000 per month are exempt from taxation. Also, two major exemptions include telephone services, which are subject to sales tax, and solid waste collection, which is subject to a separate tax.

Credits:
A low-income home energy assistance program (LIHEAP) credit is available against the public utility tax due from gas and electric utilities for qualifying contributions and billing discounts offered to qualifying low-income customers. To qualify for the credit, the amount of billing discounts or qualifying contributions must be at least 125 percent greater than discounts or contributions given by the utility in 2000 or the first year after 2000 in which qualifying contributions are given. The amount of the credit for each utility is equal to one-half the discount or contribution given in a fiscal year. The maximum total credit available state-wide each year is $8.8 million. Each utility is also limited to a maximum credit amount based on its proportional share of energy assistance grants received by its low-income customers. Any credit that is not used in a fiscal year lapses for that utility and may be reapportioned to other qualifying utilities. The total credit available to a utility is its maximum available credit plus any portion of unused credits that are reapportioned to it.

A credit for International Services Job Creation is available equal to $3,000 per year for a five-year period for each net new job created after July 1, 1998, for businesses providing international services if the jobs are created inside community empowerment zones or designated areas in cities or contiguous cities larger than 80,000 that meet the unemployment and poverty criteria of empowerment zones. An international service is a service for a person outside the United States or is for use primarily outside the United States.

A credit for Commercial District Revitalization is available January 1, 2006, for 75 percent of the amount donated directly to a revitalization program operated by a nonprofit organization or 50 percent of the contribution amount to the Main Street Trust Fund administered by the Department of Commerce. Total credits cannot exceed $100,000 per calendar year for an individual program or $250,000 per calendar year for a business, and may only be claimed against tax due in the calendar year following approval. The total amount of credits per year statewide is capped at $1.5 million per calendar year. Credits may not be approved for cities with populations of 190,000 or more.

Distribution of Revenues:
The majority of the revenues collected from the public utility tax are deposited in the state general fund. Twenty percent of the revenues collected from water distribution and 60 percent of the revenues collected from sewerage collection businesses are deposited in the public works assistance account.

Local Public Utility Taxes:
Cities and towns may levy a municipal business tax of up to 6.0 percent on electricity, telephone, natural gas, and steam energy utilities, unless a higher rate is approved by voters. There is no rate limit on other services (garbage, water, sewer, and cable TV).

Insurance Premiums Taxes

Insurance premiums are exempt from the B&O tax and are subject to an insurance premiums tax instead. The insurance premiums tax is estimated to generate $943.7 million in the 2013-15 biennium and comprises 2.9 percent of general fund revenues.

Tax Base:
Net premiums received by authorized insures, except title insurers, after deduction of premiums returned to policyholders. Ocean marine and foreign trade insurers are taxed on their gross underwriting profit.

Rates:
The tax rate is 2.0%, except on ocean marine and foreign trade insurance the rate is 0.95%.

Major Exemptions:
Title insurers; pensions, annuities, and profit-sharing plans; health insurance pool premiums; and fraternal benefit societies.

Tax Credits:
Insurance companies that pay an assessment to the Washington Insurance Guaranty Association or the Washington Life and Disability Insurance Guaranty Association for insurance companies that become insolvent after July 27, 1997, receive a tax credit against premium taxes equal to 100 percent of the assessment. The tax credit is taken over five years.

Distribution of Revenues:
Revenues are deposited in the general fund with the following exception:

- 40 percent of the taxes on fire insurance premiums is deposited into the volunteer firemen's relief and pension fund
- 25 percent of the taxes on fire insurance premiums is deposited into city firemen's pension funds
- 20 percent of the taxes on fire insurance premiums is deposited into the fire service training account.

Cigarette and Tobacco Products Taxes

The cigarette and tobacco products taxes are added directly to the price of these goods before the sales tax is applied. The cigarette and tobacco products taxes are estimated to generate $886.8 million in the 2013-15 biennium and comprise 2.7 percent of state general fund revenues.

Tax Base:
Cigarettes and tobacco products sold in Washington.

Rate:

- Cigarettes (per pack): $3.025
- Tobacco products: 95.09% of the sales price (but no more than $0.65 per cigar); moist snuff is $2.56 per unit or 83.5% of cigarette tax rate

Major Exemptions:
Sales to persons in other states, foreign countries, instrumentalities of the U.S., or to established governing bodies of any Indian tribe recognized as such by the U.S. Department of the Interior. (Sales by Indian tribes to non-Indians are taxable.)

Distribution of Revenues:
The revenues are deposited into the state general fund.

Alcoholic Beverages Taxes

State liquor taxes are imposed on hard liquor, beer, and wine. For the 2013-15 biennium, it is estimated that $495.2 million of liquor taxes will be distributed to the general fund, comprising 1.7 percent of state general fund revenues.

Tax Base:
Taxes on hard liquor or spirits are imposed on a volume and sales tax basis. Taxes on beer and wine are imposed on a volume basis.

Rates:
<u>Hard Liquor or Spirits</u>
Liquor Liter Tax

- Sales for consumption on premises $2.4408/liter
- All other liquor sales $3.7708/liter

<u>Liquor Sales Tax</u>

- Sales for consumption on premises 13.7%
- All other liquor sales 20.5%

<u>Wine:</u>

- Fortified wine excise tax $0.4536/liter
- Unfortified wine excise tax $0.2292/liter

<u>Fermented Apple/Pear Cider:</u>
Wine excise tax $0.0814/liter ($9.55 per 31 gallons)

<u>Beer:</u>
Beer excise tax - Large breweries $8.08/31 gallons
Beer excise tax - Microbreweries $4.782/31 gallons

Major Exemptions:
Sales to the armed services are exempt.

Distribution of Revenues:
<u>Liquor Liter:</u> Revenues from the tax are deposited into the state general fund.

<u>Liquor Sales:</u> Most of the revenues from the tax are distributed to the state general fund. The remainder is distributed to counties and cities based on population.

Wine Excise/Fermented Apple and Pear Cider: The wine excise tax and the tax on fermented apple and pear cider is split in a complex manner between the state general fund, local law enforcement programs, counties and cities, Washington State University wine research, the Washington Wine Commission, and youth violence prevention and drug enforcement.

Beer Excise: Revenues are split between the state general fund and cities and counties based on population.

Marijuana Excise Tax

The marijuana excise tax was created with the passage of Initiative 502 (I-502) which legalized the recreational use of marijuana and marijuana infused products. The initiative imposed an excise tax on each successive sale of recreational marijuana to be paid by the seller. Sales of marijuana to the public began in July of 2014. For fiscal year 2015, the total tax collected is expected to be $37.5 million with $5.7 million distributed to the state general fund.

Tax Base:
The tax is levied on the gross sales price of marijuana by each type of licensee: Producer, Processor, and Retailer.

Tax Rate:
25% on each successive sale.

Major Exemptions:
Medical marijuana is exempt from the tax.

Distribution of Revenues:
All revenue collected from the marijuana excise tax is deposited into the dedicated marijuana fund. Under I-502, money deposited into the General Marijuana Fund is earmarked in fixed, quarterly distributions as follows:

- $175,000 to the Department of Social and Health Services for use in healthy youth surveys and a cost-benefit analysis of the implementation of I-502;
- $5,000 to the University of Washington's Alcohol and Drug Abuse Institute for web-based public education materials regarding marijuana use; and$1,250,000 to the Liquor Control Board for costs in administering I-502, as necessary.

Any money remaining after those disbursements are made are distributed as follows:

- 15 percent to the DSHS for programs aimed at prevention of various disorders related to substance use;
- 10 percent to the Department of Health for a marijuana education and public health program that incorporates referrals to drug treatment, grants to local community agencies, and media-based education campaigns targeted at youth and adults;
- 1.0 percent to the University of Washington and Washington State University for studies on the short- and long-term effects of marijuana use;
- 50 percent to the State Basic Health Plan Trust account;
- 5.0 percent to the Health Care Authority to expand access to health and dental care services, migrant health services, and maternity care;
- 0.3 percent to the Office of the Superintendent of Public Instruction for education purposes; and
- The remainder (18.7 percent) to the state general fund.

Estate Tax

The estate tax applies to transfers of property located in Washington on the death of the owner. The tax is estimated to generate $307.9 million in the 2013-15 biennium. Estate taxes are not deposited into the state general fund.

Tax Base:
Transfers of property in Washington at the time of the death of the owner, beginning May 17 2005.

Rates:
The rates range from 10 percent to 20 percent depending on the value of the estate.

Major Exemptions:
Deductions are allowed for decedents dying in 2013 of $2 million and increase by the consumer price index each year thereafter. A deduction is allowed for qualified farm property including the value of any tangible personal property used primarily for farming purposes if 50 percent of the estate is property used for farming. Qualified family owned business interests up to $2.5 million are also allowed.

Distribution of Revenues:
Revenues are deposited in the education legacy trust account.

PROPERTY TAXES AND IN-LIEU PROPERTY TAXES

Property Tax

The property tax is the single largest source of revenue for local governments, generating about $6.4 billion for local governments for calendar year 2014. The property tax is the third largest source of revenue to the state general fund and will generate about $3.9 billion for the state for the 2013-15 biennium. This comprises 11 percent of general fund revenues. The statewide average tax rate for 2014 taxes is $12.25 per $1,000 of valuation. Of this, $2.45 was the state regular levy, $5.17 was for local regular levies, and $4.64 was for voter-approved excess levies.

Tax Base:
The property tax is applied to the assessed value of all property except that which is specifically exempted by law. The tax base is segregated into the two broad classifications of real property and personal property.

Valuation:
All taxable property is valued at 100 percent of its true and fair value and assessed as such unless the law specifically provides otherwise. True and fair value means market value or the amount of money a willing buyer would pay a willing seller. County assessors revalue property on an annual basis. Certain qualified lands (agricultural, open space, and timber lands) are valued on the basis of their current use. Application must be made for current use designation.

Assessment:
Property taxes are imposed on the assessed value of property. The assessed value of property is determined with reference to its true and fair value, unless the property qualifies under a current use valuation program.

Uniformity:
The Constitution requires that the property tax of a taxing district be imposed uniformly throughout its boundaries. This means that taxes must be the same on property of the same market value.

Major Exemptions:
The only class of property which is exempted by the State Constitution is that owned by the United States, the state, its counties, school districts, and other municipal corporations, but the state Constitution allows the Legislature to exempt other property from taxation. The state Constitution also authorizes property tax relief for retired property owners. The parameters of the program are set by the Legislature and are currently based on age and income.

Other exemptions have been enacted in statutory form by legislative action.

Property Tax Limits

Constitutional 1.0 percent Tax Rate Limit

The sum of regular property tax rates is limited to a maximum of 1.0 percent (or $10.00 per $1,000) of the true and fair value of the property.

The limit applies to:

The 1.0 percent limit applies to the total tax rate for any individual parcel of property, not to taxing districts. The total regular (non-voted) tax rate includes the state school levy rate, county levy rates, city or town levy rates, hospital district rates, fire district rates, library district rates, etc.

The limit does not apply to:

The limit does not apply to regular levies by port districts and public utility districts. Port district and public utility district regular levies are each limited separately by statute to 45 cents per $1,000 of assessed value.

Levies in excess of the 1.0 percent limit:

Levies in excess of the 1 percent limit require voter approval and are termed excess or special levies. The levies must be approved by 60 percent of the voters, with a voter validation requirement equal to 40 percent of the number of voters voting in the taxing district in the last general election. These levies are approved in terms of total dollars and are generally for one year only but can be for two to six years with respect to school districts and fire protection districts and as many as 30 years with respect to capital or bond retirement levies. The assessor determines the rate necessary to raise the money approved by the voters every year. This rate is then added to the regular levy rates.

Statutory rate limits:

Statutory rate limits and an aggregate limit are set so that the cumulative total of levy rates cannot exceed the 1.0 percent limit.

These maximum rate limits are expressed in terms of a dollar value per $1,000 of assessed value. The statutory rate limits per $1,000 of assessed value are as follows: state levy for K-12 education ($3.60), counties ($1.80), cities and towns ($3.375), hospital districts (75 cents), fire districts (50 cents /50 cents /50 cents), library districts (50 cents), conservation futures ($6.25), emergency medical services (50 cents), cultural arts/stadium districts (25 cents), park and recreation districts (60 cents), flood control zone districts (50 cents), airport districts (75 cents), ferry districts (75 cents), water districts (50 cents), and cemetery districts ($11.25).

Aggregate $5.90 levy limit: This limit of $5.90 per $1,000 of assessed value is a statutory limit on the aggregate levies of taxing districts, except the state levy for K-12 education. If the cumulative total of these levies exceeds the $5.90 limit, the assessor prorates the levy rates as directed in statute to reduce the levy rates to levels within the $5.90 limit.

Revenue Limit (101 percent Limit

Each year, the regular property tax levies of taxing districts are limited by the limit factor which is a percentage increase over the districts' highest levy of the three preceding years. Added to this is an amount equal to the amount of revenue that new construction, improvements to property, construction of electric generation wind turbine facilities classified as personal property, and changes in state-assessed property would have generated at the preceding year's tax rate. To remove the incentive to maintain a high levy, taxing districts other than the state are assumed to have levied the maximum allowed since 1986.

The limit factor is equal to the lesser of 101 percent or 100 percent plus the percentage change in the implicit price deflator. However, a different limit factor applies in two instances. For a taxing district with a population of less than 10,000, the limit factor is always 101 percent. A taxing district, other than the state, may provide for the use of a limit factor of up to 101 percent for the year if the implicit price deflator is less than 1 percent. In districts with legislative authorities of four members or less, two-thirds of the members must approve the change. In districts with legislative authorities of more than four members, a majority plus one vote must approve the change.

The limit applies to:
The limit applies to the regular levies of each property taxing district. This includes the state, counties, cities, port districts, fire protection districts, library districts, metropolitan park districts, public hospital districts, etc.

The limit does not apply to:
The limit does not apply to excess (voter-approved) levies such as local school maintenance and operation levies and levies to retire bond issues.

Levies in excess of the revenue limit:
Levies in excess of the district's limit factor require voter approval. A ballot proposition can authorize increases for up to six years for cities and counties and one year for all other districts. If such a levy is approved, it becomes the base for calculation of future levies, unless approved for only a limited time or purpose and the ballot measure for the limited time or purpose does not specify that it will be used as a base after expiration of the limited time or satisfaction of the purpose.

The revenue limit does not:

a. Limit an individual taxpayer's property taxes.
b. Limit an individual taxpayer's assessed value.

Calculation of levy tax rate and individual tax bill:
Once the maximum allowable levy amount is determined, the county assessor calculates the tax rate by dividing the total levy amount by the amount of taxable property in the district. This rate

is then multiplied by the assessed value of an individual parcel of property to determine the tax bill for that property.

Timber Excise Tax

The timber excise tax is imposed on all timber harvests. The timber excise tax is expected to generate $28.5 million to the state general fund in the 2013-15 biennium. This comprises 0.1 percent of state general fund revenues.

Tax Base:
The tax is levied on the stumpage value at harvest from all public and private lands.

Rate:
The state tax rate is 5% of the harvest value of the logs from public and private lands. A county may impose a 4% tax on timber harvested from public and privately owned land within the county.

Exemptions:
There is a simplified method of taxation for small harvesters, who are defined as individuals or companies cutting less than 2.0 million board feet per year. Timber harvested by youth character building organizations from their property tax exempt land is exempt from the timber excise tax. In addition, harvesters incurring less than $50 per quarter in tax liability in any calendar year are exempt.

Credits:
A credit is allowed against the state tax for any county tax that is imposed.

A credit is allowed against the state tax for any property taxes paid on privately owned timber on state and local lands.

A credit against the state tax is authorized for timber harvested on land subject to enhanced aquatic resources requirements. The credit is equal to the stumpage value of timber harvested for sale or for commercial or industrial use multiplied by 0.8 percent, except for a small harvester, the credit is equal to 16 percent of the tax otherwise imposed. The credit is reduced by any compensation received from the federal government for reduced timber harvest due to enhanced aquatic resource requirements.

Distribution of Revenues:
Both state and county revenues are deposited in the timber tax distribution account. Funds are distributed quarterly to the state and to counties. County receipts are further distributed to taxing districts by a formula which reflects the assessed value of forest land in the respective districts. Districts that have approved excess property tax levies for capital purposes receive funds first. Next, funds are distributed to school districts in relation to their excess levy rates. Any remaining funds in the timber tax distribution account are shared by all local districts.

Public Utility District Privilege Tax

The public utility district privilege tax applies to the electric generating facilities of public utility districts for the privilege of operating. The tax is in addition to state and local public utility taxes. The tax is estimated to produce $100 million in the 2013-15 biennium for the state general fund. This comprises 0.3 percent of state general fund revenues.

Tax Base:
The tax is based on the gross revenue derived from the sale of energy, the number of kilowatt-hours sold, and the wholesale value of energy produced in thermal electric generating plants.

Rate:
For hydroelectric dams and other facilities, the rate is 2.14% of gross revenues from the sale of power to consumers through the district's distribution system and 5.35% of the first $0.004 per kilowatt-hour 1) of the wholesale value of self-generated energy distributed to consumers by a district and 2) of revenue obtained from sales of self-generated energy for resale. The rate for thermal electric generating facilities (Hanford) is 1.605% of the wholesale value of energy produced for sale or use.

Major Exemptions:
Net uncollectible amounts.

Distribution of Revenues:
Receipts are distributed through a complex formula to the state, the counties, and local taxing districts.

Watercraft Excise Tax

The watercraft excise tax is an annual tax imposed on watercraft in lieu of a property tax. The tax is estimated to produce $25.6 million in the 2013-15 biennium for the state general fund. This comprises 0.1 percent of state general fund tax revenues.

Tax Base:
The tax applies to the fair market value of noncommercial boats which are used on Washington waters. Fair market value is the latest purchase price, reduced according to a depreciation schedule adopted by the Department of Revenue.

Rate:
The rate of tax is 0.5% of the value.

Major Exemptions:
Boats not required to be registered in Washington, commercial fishing boats, boats under 16 feet in length, government vessels, vessels owned by nonprofit youth organizations, and vessels in dealers' inventories which are not regularly rented.

Distribution of Revenues:
Receipts are deposited in the state general fund.