



Multiple Agency Ten-Year Analysis Summary

Bill Number	Title
5628 S SB PL	Heavy equipment rental prop.

This ten-year analysis is limited to the estimated cash receipts associated with the proposed tax or fee increases.

Estimated Cash Receipts

	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	2020-29 TOTAL
Department of Revenue	0	0	4,800,000	12,000,000	12,600,000	13,300,000	13,900,000	14,600,000	15,400,000	16,100,000	102,700,000



Ten-Year Analysis

Bill Number 5628 S SB PL	Title Heavy equipment rental prop.	Agency 140 Department of Revenue
------------------------------------	--	--

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

☐

No Cash Receipts

☐

Partially Indeterminate Cash Receipts

☐

Indeterminate Cash Receipts

Estimated Cash Receipts

Name of Tax or Fee	Acct Code	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	2020-29 TOTAL
heavy equipment rental tax	108			2,400,000	6,000,000	6,300,000	6,650,000	6,950,000	7,300,000	7,700,000	8,050,000	51,350,000
heavy equipment rental tax	218			2,400,000	6,000,000	6,300,000	6,650,000	6,950,000	7,300,000	7,700,000	8,050,000	51,350,000
Total				4,800,000	12,000,000	12,600,000	13,300,000	13,900,000	14,600,000	15,400,000	16,100,000	102,700,000
Biennial Totals				16,800,000	25,900,000	28,500,000	31,500,000	102,700,000				

Narrative Explanation (Required for Indeterminate Cash Receipts)

Note: This fiscal note reflects language in SSB 5628 as passed in the 2020 Legislative Session.

CURRENT LAW:

Personal property held solely for sale or lease is exempt from property tax as inventory. However, leased or rented personal property is subject to property tax.

PROPOSED LAW:

Property Tax:

This bill exempts certain personal property from property tax as heavy equipment rental property when owned by a heavy equipment rental property dealer (dealer).

The bill defines heavy equipment rental property to mean equipment rented by a dealer that is:

- Mobile and not permanently affixed to real property;
- Customarily used for construction, earthmoving, or industrial applications (defined); and
- Rented without an operator.



Ten-Year Analysis

Bill Number	Title	Agency
5628 S SB PL	Heavy equipment rental prop.	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

The bill defines dealer for purposes of the exemption, and prohibits the exemption when a dealer rents to a person whom the heavy equipment rental property dealer is affiliated.

The bill requires a dealer to annually file an application for exemption to the county assessor with the dealer's personal property listing.

Establishes penalties if a dealer claims an exemption but did not otherwise qualify.

Rental Tax:

The bill imposes, in addition to applicable state or local sales tax, a heavy equipment rental tax of 1.25% of the rental price of each rental in this state.

The bill requires that each dealer shall add the heavy equipment rental tax to the rental invoice of any rental subject to the rental tax. All rental taxes shall be reported and remitted to the Department of Revenue (Department) in a manner consistent with the reporting and remittance of state sales taxes consistent with the Department policy.

The bill also specifies the heavy equipment rental tax does not apply to the rental of heavy equipment directly related to the Federal government, the State, or any political subdivision.

The rental tax under the bill applies to all rentals where the customer picks up the equipment or qualified rental from a location where it is delivered in the state of Washington. The tax does not apply to rentals made in this State and delivered outside the State. The rental tax is not subject to state or local sales tax.

The tax preference provisions of RCW 82.32.805 and 82.32.808 do not apply to this act.

EFFECTIVE DATE:

This bill takes effect beginning with property taxes collected in Calendar Year 2022. The rental tax would be effective January 1, 2022.

ASSUMPTIONS:

PROPERTY TAX

-Logging and farming equipment would be included in this exemption as "processing raw materials" equipment.

-There is additional value of heavy rental equipment in Washington that was not captured with the available data especially in the logging and farming industry. It is assumed that the identified equipment only equal 70% of the qualifying equipment in the state.

- Analysis of local property tax levies shows that with a new property tax exemption, 90 percent of local taxes would shift to non-exempt property owners and 10 percent of local taxes would decrease revenues for local taxing districts.



Ten-Year Analysis

Bill Number	Title	Agency
5628 S SB PL	Heavy equipment rental prop.	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

- The total estimated value exempted from the tax roll is \$687 million.
- Based on five years of state property tax collections, 53.13 percent of state property tax collections occur in April and 46.87 percent occur in October. When converting from calendar year to fiscal year, this estimate assumes revenues shifts and losses follow this trend.

SALES/USE TAX

- This proposal passes, with the tax being effective January 1, 2022, impacting 5 months of collections in Fiscal Year 2022.
- Annual industry growth rate of 5%.
- Rentals to the federal government, the State, and political subdivisions of the State account for 24% of heavy equipment rental.
- Compliance:
 - 90 percent revenue collections in Fiscal Year 2022, and
 - 95 percent revenue collections in Fiscal Year 2023 and thereafter.

DATA SOURCES

- Economic and Revenue Forecast Council November 2019 forecasts
- Department of Revenue, State Property Tax Model
- IHS Markit
- Information provided by Bryon Moore.
- Several industry related websites
- Statista, Construction spending in the United States from 1998 to 2018, by sector.
- County assessor data

REVENUE ESTIMATES

The Economic and Revenue Forecast Council predicts the state property tax levy remains below the \$3.60 limit throughout the 2021-23 Biennium. Therefore, a new exemption beginning in 2022 or after results in a shift and no loss to the state levy.

This legislation results in a state levy shift to other taxpayers of an estimated \$0.9 million for Fiscal Year 2022 and \$1.8 million in Fiscal Year 2023, the first full fiscal year.

The rental tax will raise state revenues by \$4.8 million in Fiscal Year 2022 and by \$12 million in Fiscal Year 2023.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):



Ten-Year Analysis

Bill Number	Title	Agency
5628 S SB PL	Heavy equipment rental prop.	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

FY 2020 - \$ 0
FY 2021 - \$ 0
FY 2022 - \$ 4,800
FY 2023 - \$ 12,000
FY 2024 - \$ 12,600
FY 2025 - \$ 13,300

Local Government, if applicable (cash basis, \$000):

FY 2020 - \$ 0
FY 2021 - \$ 0
FY 2022 - (\$ 150)
FY 2023 - (\$ 283)
FY 2024 - (\$ 286)
FY 2025 - (\$ 291)

CALENDAR YEAR DETAIL:

DETAIL OF REVENUE IMPACT FOR PROPERTY TAX BILLS, Calendar Year Basis

State Government, Impact on Revenues (\$000) None

State Government, (\$000), Shift of Tax Burden

CY 2020 - \$ 0
CY 2021 - \$ 0
CY 2022 - \$ 1,838
CY 2023 - \$ 1,822
CY 2024 - \$ 1,824
CY 2025 - \$ 1,836

Local Government, Impact on Revenues (\$000)

CY 2020 - \$ 0
CY 2021 - \$ 0
CY 2022 - (\$ 282)



Ten-Year Analysis

Bill Number	Title	Agency
5628 S SB PL	Heavy equipment rental prop.	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

CY 2023 - (\$ 284)
CY 2024 - (\$ 288)
CY 2025 - (\$ 294)
Local Government, (\$000), Shift of Tax Burden
CY 2020 - \$ 0
CY 2021 - \$ 0
CY 2022 - \$ 4,621
CY 2023 - \$ 4,678
CY 2024 - \$ 4,783
CY 2025 - \$ 4,919

Agency Preparation: Frank Wilson	Phone: 360-534-1527	Date: 5/15/2020 3:21:31 pm
Agency Approval: Don Gutmann	Phone: 360-534-1510	Date: 5/15/2020 3:21:31 pm
OFM Review: Ramona Nabors	Phone: (360) 902-0547	Date: 5/19/2020 9:21:15 am