

Service Model Overview

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Overview

What is the Service Model

- ▶ A system of programs and data sets used to estimate the potential revenue generated by adding services to the sales tax base
- ▶ A selection of services the Department believes are administrable to subject to sales tax
- ▶ Based on a methodology created by the Center on Budget and Policy Priorities, the report is available here:

<https://www.cbpp.org/sites/default/files/atoms/files/2-15-12sfp.pdf>

Data Sources

Department of Revenue Excise Tax Returns

Economic Census Data

- ▶ Updated every five years
- ▶ Most data available by state

IMPLAN (Impact Analysis for Planning)

- ▶ Private industry data and programs purchased by the Department
- ▶ Includes data for Washington State by North American Industry Classification System (NAICS) codes

Programs and Analysis

- ▶ Prepare the base data, by Service Model category
 - ▶ Economic Census data
 - ▶ Department excise tax data

Programs and Analysis

Adjusting the Data

- ▶ Determine the portion of sales for which businesses have physical locations within WA state (Economic Nexus)
- ▶ Determine the portion of services that are provided outside of WA state (Apportionment)
- ▶ Adjust for compliance (Will the department be able to collect 100% of the tax revenue)
- ▶ Determine the portion of sales that are sold at wholesale (also known as Sale for Resale)
- ▶ Increasing price decreases consumption (Elasticity)

Results...

REVENUE Impact of Extending Retail Sales Tax to Selected Services

November 2019 Forecast

Note: Estimates provided do not reflect a policy position by the Department on any proposal listed

Prepared by Research & Fiscal Analysis - November 2019

State General Fund REVENUE Impact ¹
(\$ millions)

#	Description of Category	# of Impacted Taxpayers	FY 2022	FY 2023	2021-23 Biennium
	Extend Retail Sales Tax to Selected Services ²		4,528.9	4,873.0	9,401.9
1	Accountant offices, tax preparation services, bookkeeper offices, auditors, payroll services, and billing offices	9,700	\$121.0	\$127.4	\$248.4
2	Advertising revenues (excludes printing and publishing, and radio and television)	1,600	\$96.0	\$101.0	\$197.0
3	Animal related - boarding, grooming, training, walking, veterinary services, etc (includes pet and farm animals)	1,200	\$54.1	\$56.9	\$111.0
4	Architectural, engineering, surveying, and mapping services	7,000	\$5.0	\$5.2	\$10.2
5	Bail bond services	less than 100	\$1.2	\$1.3	\$2.5
7	Broadcasting - radio and television (line 11)	300	\$26.5	\$27.9	\$54.4
8	Brokering and dealing services	900	\$49.8	\$69.8	\$119.6
9	Business management strategy and planning services	2,200	\$106.5	\$112.1	\$218.6
10	Child day care services (line 14)	4,600	\$7.4	\$7.8	\$15.2
11	Collection and repossession agencies	800	\$11.8	\$12.4	\$24.2
12	Computer related - custom software	10,300	\$75.8	\$79.8	\$155.6
13	Computer related - custom website design, support, and development services	1,400	\$40.5	\$42.7	\$83.2
14	Computer related - information technology related training services, technical support, and other services	1,500	\$59.7	\$62.9	\$122.6
15	Computer related - information technology technical consulting	1,000	\$156.7	\$164.9	\$321.6
EXTEND SALES TAX TO SERVICES NOTES					

¹ Revenues represent state general fund impacts only, unless otherwise noted.

² Extension of retail sales tax to services includes reduction in B&O tax from service to the retailing or wholesaling classification.