

Education Workforce Retention & Recruitment Funding Package

	2015-17 (\$ in millions)	2017-19 (\$ in millions)
Limit Exemption: REET on Foreclosure Sales	\$34.4	\$72.3
Limit Exemption: Sales Tax for Non-Residents	\$21.9	\$55.4
Repeal Exemption: Sales Tax on Bottled Water	\$23.2	\$57.6
Repeal Preferential B&O Rate: Resellers of Prescription Drugs	\$17.6	\$41.6
Repeal Preferential B&O Rate: International Investment Services	\$31.4	\$37.5
Repeal Preferential B&O Rate: Travel Agents & Tour Operators	\$6.1	\$13.1
TOTAL	\$119.5	\$278.4
FOUR-YEAR TOTAL	\$397.9	

Real Estate Excise Tax on Foreclosure - This tax exemption was created in 1950s when the current Real Estate Excise Tax (REET) was enacted. This proposal keeps the exemption for distressed homeowners, but requires banks and other lienholders to pay REET when selling a foreclosed property. According to DOR research and JLARC's review, a majority of other states who impose a similar tax on real estate do tax these transactions. This is a matter of fairness – an average homeowner owes REET when selling his or her home. A bank should pay the same tax when selling property.

Sales Tax for Nonresidents - Nonresidents from states with no sales tax or a sales tax rate of less than 3% are exempted from paying Washington's sales tax on the purchase of goods. This exemption provides a direct tax benefit to nonresidents over Washington residents. Under this refund model, nonresidents could claim an exemption for purchases over \$25 – allowing them to continue claiming it for big-ticket purchases where price sensitivity is a higher factor. Sales of motor vehicles, the biggest impact for border counties, remain exempt.

Sales Tax on Bottled Water - Sales of bottled water were always subject to sales tax before 2004 when Washington joined the Streamlined Sales and Use Tax Agreement. That agreement now allows for member states to tax bottled water sales separately. This proposal allows for refunds for taxes on sales of prescribed bottled water and sales to persons lacking readily available potable water.

Resellers of Prescription Drugs - This preferential B&O tax rate applies to businesses that warehouse and resell prescription drugs to retailers, hospitals, clinics and other health care providers. Industry testified when the rate was created that it was needed to make Washington companies more competitive; however, the vast majority of the benefit has been to businesses with mailing addresses outside of the state. Washington changed our nexus standard for wholesale businesses in 2015 to a standard based on economic activity, meaning the competitive disadvantage to Washington-based drug resellers no longer exists.

Travel Agents & Tour Operators - This preferential B&O tax rate was created in 1975 when travel agents operated under a very different business model. The travel industry has changed dramatically in recent years, and the original objectives for this special rate – fair tax treatment between travel agents and interstate air carriers – no longer apply. Very few small travel agencies still exist – online & out-of-state businesses are the main beneficiaries. JLARC found in its review that no other states offer a comparable tax preference.

International Investment Management Services - This preferential B&O tax rate was created in 1995 for investment management service businesses with at least 10% of their income from services to persons or funds located outside the U.S. At the time, Washington taxed all of a taxpayer's service-related income regardless of where the customer was located. Washington firms managing these investments paid B&O on all income, while their competitors pay no B&O taxes. In 2010, Washington adopted a new method of apportioning this income. Both in-state and out-of-state firms now pay B&O, and only on these services to Washington residents, eliminating the prior competitive disadvantage to Washington firms.