From: **Oline, Kathy (DOR)** KathyO@DOR.WA.GOV
Subject: RE: Fiscal note for I-732
Date: February 8, 2016 at 10:45 AM
To: Yoram Bauman yoram@carbonwa.org
Cc: Balasbas, Jay (OFM) jay.balasbas@ofm.wa.gov

OK

Yoram,

The Department of Revenue (Department) does not typically respond to comments made on fiscal notes published by the Office of Financial Management. However, we do provide a discussion of any relevant assumptions made and data sources used as a part of the fiscal note analysis. We also provide our work papers, upon request, with the exception of any confidential or proprietary information. This information has been made available to you.

The comments that you provided raise the following specific issues regarding the fiscal note for Initiative 732:

- Issue #1: Does not tax exported power
- Issue #2: Incorrect tax rate for unspecified power
- Issue #3: Incorrect implementation of the working families' tax exemption
- Issue #4: Ignores growth in the sales tax base
- Issue #5a: No adjustment for relative population growth
- Issue #5b: Ignores effect of California carbon policies

What I can do is provide the Department's position with respect to these issues. Detailed questions regarding the Carbon Tax Assessment Model (CTAM) should be directed to staff in the State Energy Office at the Washington State Department of Commerce.

Issue #1: Does not tax exported power
The overall framework of the tax imposition supports a conclusion that the Initiative is not designed to tax exported energy. The tax imposition language in section 4(1) refers only to "electricity consumed" within Washington and Section 4(8) states that the tax is imposed on the consumer of the electricity. Section 5 provides an exemption from the tax for fuel intended for export. (It is not clear whether the term "fuel" includes electricity as the term "fuel" is undefined in the Initiative.) The U.S. Constitution forbids a state from taxing an activity, including the consumption of electricity, that occurs outside the state. The revenue estimate assumes the tax does not apply to exported electricity.

Issue #2: Incorrect tax rate for unspecified power
CTAM uses the best available state fuel mix data to estimate the sources of unspecified power. CTAM assumes that a carbon pollution tax will strongly incentivize both buyers and sellers of unspecified power to identify the carbon content of this power.

Issue #3: Incorrect implementation of the working families' tax exemption
Eligible individuals must apply for a refund under the program in the year following the year for which the Earned Income Tax Credit (EITC) claimed on the federal income tax return was filed. For example, an eligible individual must apply in 2017 for a refund based on the EITC claimed on the 2016 federal income tax return. Since the Initiative takes effect on July 1, 2017, if enacted into law, eligible individuals can apply for a refund based on the EITC claimed on the 2016 federal tax return starting July 1, 2017, and ending December 31, 2017.

For refunds requested in 2017, the refund equals the greater of 15% of the EITC claimed on the prior year's (2016) federal income tax return or $100. For each year after, the refund equals the greater of 25% of the EITC claimed on the prior year's federal income tax return or $100.

If the Initiative is enacted into law, the Department will establish an application process and program its systems to accept applications and issue refunds. The Department's fiscal note assumes that refund requests received in Calendar Year 2017 for the 2016 federal income tax return will be issued by June 30, 2018. The fiscal note also assumes that refund requests received beginning January 1, 2018 for the 2017 federal income tax return will also be issued by June 30, 2018.

Issue #4: Ignores growth in the sales tax base (from carbon tax)
The Department's fiscal note assumes elasticity. The reduced state sales tax rate results in an increase in taxable retail sales and an increase in business and occupation tax and local sales tax collections. The impact a carbon tax would have on consumer prices is unknown; therefore, any resulting revenue impact is indeterminate.

Issue #5a: No adjustment for relative population growth
CTAM relies on Energy Information Administration (EIA) historical state energy consumption data and the Annual Energy Outlook (AEO) for the Pacific region to forecast energy consumption data to project Washington energy consumption. The EIA energy consumption data incorporates population and economic growth forecasts. The Department of Commerce considers this forecast data reliable and believes that introducing additional economic forecast data from other unrelated sources would introduce additional variance into CTAM.

Issue #5b: Ignores effect of California carbon policies
CTAM uses forecast energy consumption data developed by the Energy Information Administration (EIA) in its Annual Energy Outlook (AEO) for the Pacific region; it modifies this data to project energy consumption for Washington alone. The EIA forecast energy data takes into account major carbon reduction programs in all states in the Pacific region, including California's cap-and-trade program. Based on the AEO report, CTAM assumes that Washington is likely to have similar energy and emission trends as California.

As mentioned above, more detailed questions regarding CTAM should be directed to staff at the Department of Commerce.

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From: Yoram Bauman [mailto:yoram@carbonwa.org]
Sent: Thursday, February 04, 2016 10:26 AM