FAMILY LEAVE INSURANCE PROGRAM FUNDING OPTIONS

Revenues in $ millions

E2SSB 5659 (chapter 357, Laws of 2007) establishes the family leave insurance program. The program will provide a partial replacement of wages of $250 per week for up to five weeks for individuals who are absent from work because they are on family leave. "Family leave" means leave for the birth of a child of the employee or the placement of a child with the employee for adoption.

		FY 2008	FY 2009	FY 07-09 Biennium	FY 2010	FY 2011	FY 09-11 Biennium
#1	Impose a new tax at the wholesale level on carbonated beverages	$0.0	$27.7	$27.7	$30.1	$31.0	$61.1
#2	Extend sales tax to candy and gum and appropriate revenues from the general fund for the program.	$0.0	$18.5	$18.5	$21.2	$22.4	$43.6
#3	Re-impose the $0.42 surcharge on each liter of liquor.	$0.0	$11.3	$11.3	N/A	$N/A	$N/A
#4	Impose new premium of one cent per hour worked per worker.	$0.0	$0.0	$0.0	$20.8	$41.6	$62.4
#5	Impose new premium of 0.01 percent of covered wages earned.	$0.0	$102.8	$102.8	$107.0	$111.1	$218.1

1 Impose New Tax at the Wholesale Level on Carbonated Beverages

Description

This proposal would impose a new tax of $0.008 per 12 ounces at the wholesale level on canned and bottled carbonated beverages to fund the family leave insurance program. The tax could be structured as a first possession tax or as a tax on wholesale sales with a credit for previously taxed product.

In 1989, a tax on carbonated beverages and syrups used in making carbonated beverages was imposed on persons first possessing such products in this state. The tax rate for canned or bottled beverages was 0.083 cents per ounce (roughly one cent per 12 ounce can), and the tax rate for syrup was 75 cents per gallon. Receipts from the tax helped to fund drug and alcohol abuse, education, and treatment programs. The tax was scheduled to expire July 1, 1995.

In 1991, the Legislature modified the tax from one on first possession to a tax on the retail or wholesale sale of syrup and carbonated beverages. From a practical standpoint, however, the tax was generally collected and paid at the wholesale level because the law provided an exemption for sales of previously taxed products. In addition to funding drug enforcement and education programs, receipts from the tax were also dedicated to violence reduction programs.

The tax on canned and bottled carbonated beverages was eliminated with voter passage of Referendum 43 in 1994. At the same time, the tax on syrup used to produce carbonated beverages became permanent, and the tax rate was increased to $1.00 per gallon.

The tax on syrup remains. Effective July 1, 2006, however, a person subject to the syrup tax may claim a business and occupation (B&O) tax credit equal to 25 percent of the syrup tax paid. The maximum amount of credit increases each fiscal year until July 1, 2009, when 100 percent of the syrup tax paid may be credited against the B&O tax.

Benchmarks

Three states impose special taxes on carbonated beverages:

- Arkansas:
  - 2 cents per 12 ounce container
  - 21 cents per gallon of finished product
  - $2.00 per gallon for syrup
- West Virginia:
  - 1 cent per 16.9 ounce container
  - 4 cents per two liter container
  - $0.80 per gallon for syrup
- Washington:
  - $1.00 per gallon of syrup

Incidence
A typical household (median income $60,000) will pay $6.90 a year more in tax. This is a highly regressive tax. Low-income households will pay 3.5 times more of their income in tax than high income households.

Revenue Impact ($ millions)
The estimate assumes a July 1, 2008, effective date. These figures are based on the June 2007 forecast, and may be updated to reflect the November 2007 forecast.

FY 2008	FY 2009	FY 07-09 Biennium	FY 2010	FY 2011	FY 09-11 Biennium
$0.0	$27.7	$27.7	$30.1	$31.0	$61.1

Pros
- Ultimately, the tax would be borne largely by households, some of which would be the beneficiaries of the family leave insurance program.
- Carbonated beverages are a discretionary consumer purchase.
- An administrative framework exists from the Department's administration of earlier tax.
- Would produce a revenue stream sufficient to meet the program's funding requirements.
- At a rate of less than one cent per 12-ounce can, the tax is not likely to affect consumer behavior and reduce sales tax revenues.

Cons
- Public voted to repeal the tax when previously imposed.
- Carbonated beverage manufacturers and distributors are likely to oppose this proposal.
- At least one legislative leader has previously expressed opposition to similar proposals.
- Many households bearing the burden of the tax would not be beneficiaries of the family leave insurance program, e.g., the elderly.

#2 Extend sales tax to candy and gum and appropriate revenues from the General Fund-State for the program

Description
This proposal imposes the retail sales tax on sales of candy and gum and appropriates revenue from the General Fund in an amount sufficient to fund the family leave insurance program.

Under current law, food and food ingredients are exempt from sales tax. The exemption for food and food ingredients includes candy and gum, but does not include prepared food, alcoholic beverages, and soft drinks. Under the Streamlined Sales and Use Tax Agreement, states may exempt food but tax candy and gum.

Benchmarks
There are 15 states that tax both food and candy: Alabama, Arkansas, Hawaii, Idaho, Illinois, Kansas, Mississippi, Missouri, Oklahoma, S. Carolina, S. Dakota, Utah, Tennessee, Virginia, and West Virginia. There are 14 states that tax candy but not food under their retail sales tax: Connecticut, Florida, Indiana, Iowa, Kentucky, Maine, Maryland, Minnesota, New Jersey, New York, North Dakota, Rhode Island, Texas, and Wisconsin.

Incidence
Households with children will pay more tax than those without children. The typical household at the median income level of $60,000 will pay $8.00 more in tax each year. The tax on candy and gum is highly regressive: low-income households will pay four times as much in relation to their income as high-income households.

Revenue Impact ($ millions)
The estimate assumes a July 1, 2008, effective date. These figures are based on the June 2007 forecast, and may be updated to reflect the November 2007 forecast.

FY 2008	FY 2009	FY 07-09 Biennium	FY 2010	FY 2011	FY 09-11 Biennium
$0.0	$18.5	$18.5	$21.2	$22.4	$43.6

Pros
- Broadens the sales tax base, which will increase local sales tax revenues.
- The tax would be borne by households, some of which will be beneficiaries of the family leave insurance program.
- Candy and gum are discretionary consumer purchases.
- Would produce revenue sufficient to meet the program's funding requirements.
- The administrative framework to collect the tax already exists.

Cons
- There may be confusion as to whether a product is taxable candy or exempt food.
- May add additional administrative complexity for retailers.

- Many households paying the tax would not be beneficiaries of the family leave insurance program, e.g., the elderly.
- Elimination of the sales tax exemption for candy and gum may be viewed as a tax on children.
- Extending the sales tax to candy and gum could be perceived as thwarting the intent of the 1977 initiative that repealed the sales tax on food.
- Imposing sales tax on candy and gum will further increase the regressive nature of the sales tax and, proportionately, will impact low income households more than others.

#3 Re-impose the $0.42 surcharge on each liter of liquor and appropriate revenues from the General Fund-State for the program
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Description
This proposal re-imposes the 42 cent surcharge on each liter of liquor sold by the Liquor Control Board and appropriates the revenue from the General Fund-State to fund the family leave insurance program. The surcharge excludes sales in military and tribal liquor stores. The surcharge can be imposed administratively by the Liquor Control Board if passed by the members of the Board.

Revenue Impact ($ millions)
The estimate assumes a July 1, 2008, effective date.

FY 2008	FY 2009	FY 07-09 Biennium	FY 2010	FY 2011	FY 09-11 Biennium
$0.0	$11.3	$11.3	N/A	N/A	N/A

The Liquor Control Board has not extended its revenue model for spirits beyond the 2007-2009 biennium.

#4 Impose new premium of one cent per hour worked per worker.

Description

Effective January 1, 2010 premiums for the Family and Medical Leave Insurance program will be assessed. The premium is one cent per hour worked per individual. Beginning April 2010, premiums will become due and payable and continue each quarter. The revenue would be collected by the Department of Labor & Industries since they collect other premiums based on hours worked. Labor & Industry's ability to collect premiums on Jan 1, 2010 assumes we complete the necessary IT system changes.

Revenue Impact ($ millions)

The estimate assumes a January 1, 2009, effective date.

FY 2008	FY 2009	FY 07-09 Biennium	FY 2010	FY 2011	FY 09-11 Biennium
$0.0	$0.0	$0.0	$20.8	$41.6	$62.4

For the purpose of these funding estimates, the premium of one cent per hour is not adjusted to the lowest rate necessary to pay benefits and administrative costs, nor to maintain actuarial solvency of the program. The premium rate is held constant at one cent per hour. The following table shows the estimates of premiums that would be collected. It assumed the annual hours per employee are constant at 1,359 throughout the years in the table and the number of employees covered is also constant at 3,060,000.

Year Ending March 31st	Hourly Premium Rate	Hours Reported	Premiums Collected	Fiscal Year	Revenues by FY
2010	$0.01	41,584,000,000	$41,584,000	2010	$20,792,000
2011	$0.01	41,584,000,000	$41,584,000	2011	$41,584,000
2012	$0.01	41,584,000,000	$41,584,000	2012	$41,584,000
2013	$0.01	41,584,000,000	$41,584,000	2013	$41,584,000
2014	$0.01	41,584,000,000	$41,584,000	2014	$41,584,000

#5 Impose new premium of 0.01 percent of covered wages earned.

Description

A premium of 0.01 percent is imposed on covered wages earned. The premium is collected by the Employment Security Department from employers who pay unemployment insurance taxes.

Revenue Impact ($ millions)

The first revenue estimate is based on collecting a tax from employers who already pay unemployment insurance taxes. The tax would be collected in the same manner that employers pay unemployment insurance taxes, and at the rate of 0.01 percent of the taxable wage base in effect for unemployment insurance. The base is currently the first $34,000 of wages each employee earns each year and is adjusted annually.

Forecast of FLI Tax Collections Using a FLI Tax Rate of .01% and the Employment Security Department's Forecast Taxable Wages				
		Total Payrolls	Taxable Payrolls	FLI Tax (0.01%)
FY 08	FY Totals	$ 98,602,614,005	$ 58,693,011,063	$ 5,869,301
FY 09	FY Totals	$ 102,754,910,602	$ 61,170,648,661	$ 6,117,065
FY 10	FY Totals	$ 107,046,574,383	$ 63,697,112,780	$ 6,369,711
FY 11	FY Totals	$ 111,081,590,801	$ 66,057,702,883	$ 6,605,770

The second projection includes the first 0.01 percent of all wages earned in the state, up to the state UI taxable wage base in effect. Total wages are estimated by the state Economic and Revenue Forecast Council. ***It is important to note that there is no current mechanism available in the state today to collect a tax in this manner.***

Forecast of FLI Tax Collections Using a FLI Tax Rate of .01% and the Economic and Revenue Forecast Council Estimate of Total Wages				
		Total Payrolls	Taxable Payrolls	FLI Tax (0.01%)
FY 08	FY Totals	$ 127,694,075,000	$ 76,341,064,720	$ 7,634,106
FY 09	FY Totals	$ 134,440,332,075	$ 80,221,432,054	$ 8,022,143
FY 10	FY Totals	$ 139,917,752,583	$ 83,479,868,487	$ 8,347,987
FY 11	FY Totals	$ 145,514,462,686	$ 86,819,063,226	$ 8,681,906

There is a significant difference between the two projections. The first table includes only wages reported by employers covered by the unemployment insurance tax system. The second table includes several categories of employers not covered by the unemployment insurance tax. Specifically, the non-covered employers include:

- State and federal government agencies
- Some tax-exempt non-profit corporations;
- Some Native American tribal businesses; and
- Some local governments.