
SUBSTITUTE SENATE BILL 6098

State of Washington

57th Legislature

2001 Regular Session

By Senate Committee on Ways & Means (originally sponsored by Senators Constantine, Brown, Prentice, Costa, Spanel, Kline, Carlson, Franklin and Kohl-Welles)

READ FIRST TIME 03/08/01.

1 AN ACT Relating to studying Washington's tax structure; and
2 creating a new section.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 NEW SECTION. **Sec. 1.** (1) Washington's tax system is one of the
5 most unique systems in the nation. The state relies primarily on the
6 sales tax, the business and occupation (B&O) tax, and the property tax.

7 (a) The state relies most heavily on one of the highest sales taxes
8 in the nation. The sales tax is a large and efficient revenue
9 producer. It is relatively popular because it is paid in small
10 increments. Since the sales tax is based on consumption, however, the
11 tax is volatile and unstable during economic downturns and can cause
12 large budget deficits.

13 (b) Washington is the only state in the nation that levies a B&O
14 tax on gross income. Since the B&O tax is not based on profit, tax
15 collections are very stable. However, the B&O tax favors established,
16 profitable firms at the expense of start-up firms and firms with
17 low-profit margins.

18 (c) The property tax is the oldest revenue source in the state,
19 having been established before statehood. Property taxes are a very

1 stable source of revenue. While Washington's property taxes are only
2 slightly above average for the states, the tax is perceived as high by
3 the taxpayers. In addition, the tax is complex and the administrative
4 costs are high.

5 Washington's tax system has remained relatively unchanged since
6 1935. Since that time, the state has grown in population and emphasis
7 from a more agrarian society to a more industrial, technology-based
8 society. It is the intent of the legislature to study the current tax
9 system in the state of Washington to determine how well it functions
10 and how it can be changed to better serve the citizens of the state in
11 the twenty-first century.

12 (2) The department of revenue shall create a committee on taxation
13 to study the elasticity, equity, and adequacy of the state's tax
14 system. The committee on taxation shall consist of eleven members.
15 The committee shall include six academic scholars appointed by the
16 department of revenue from the fields of economics, taxation, business
17 administration, public administration, public policy, and other
18 relevant disciplines as determined by the department. In making the
19 appointments, the department shall consult with the majority and
20 minority leaders in the senate, the co-speakers in the house of
21 representatives, the chair of the ways and means committee in the
22 senate, and the co-chairs of the finance committee in the house of
23 representatives. The governor and the chairs of the majority and
24 minority caucuses in each house of the legislature shall each appoint
25 one member to the committee. These appointments may be legislative
26 members.

27 (3) The members of the committee shall elect a chair. The
28 committee may elect a chair from among their membership or may elect a
29 nonvoting chair who is not a member of the committee. Members of the
30 committee shall serve without compensation but shall be reimbursed for
31 travel expenses under RCW 43.03.050 and 43.03.060.

32 (4) The purpose of the study is to determine how well the current
33 tax system functions and how it might be changed to better serve the
34 citizens of the state in the twenty-first century. In reviewing
35 options for changes to the tax system to better serve the citizens of
36 the state, the committee shall develop multiple alternatives to the
37 existing tax system. To the extent possible, the alternatives shall be
38 designed to increase the harmony between the tax system of this state
39 and the surrounding states, encourage commerce and business creation,

1 and encourage home ownership. In developing alternatives, the
2 committee shall examine and consider the effects of tax incentives,
3 including exemptions, deferrals, and credits. The alternatives shall
4 range from incremental improvements in the current tax structure to
5 complete replacement of the tax structure. In conducting the study,
6 the committee shall examine the tax structures of other states and
7 review previous studies regarding tax reform in this state, including
8 the study conducted by the 1982 Tax Advisory Council and the study
9 conducted by Governor Gardner's Committee on Washington's Financial
10 Future in 1988. In developing alternatives, the committee shall be
11 guided by the following criteria:

12 (a) Administrative simplicity: A tax system should neither be
13 excessively expensive for the state to administer nor impose undue
14 recordkeeping and reporting requirements on taxpayers.

15 (b) Economic neutrality: A tax system should be designed to
16 minimize distortions in economic decision making.

17 (c) Fairness: The burden of taxation should be equitably spread
18 among the citizens.

19 (d) Stability: The revenue of a tax system should not fluctuate
20 dramatically with the condition of the economy.

21 (e) Transparency: A tax system should be designed so that the
22 costs of government are clear to citizens.

23 (5) While the committee may consider all possibilities, most of the
24 alternatives presented by the committee to the legislature shall be
25 revenue neutral and contain no income tax.

26 (6) The department of revenue shall create an advisory group to
27 include, but not be limited to, representatives of business, state
28 agencies, local governments, labor, taxpayers, and other advocacy
29 groups. The group shall provide advice and assistance to the committee
30 on taxation.

31 (7) The department of revenue shall provide staff to the committee
32 for the purpose of the study.

33 (8) The committee shall present a final report of the findings of
34 the study and the alternatives developed by the committee to the ways
35 and means committee in the senate and the finance committee in the
36 house of representatives by November 30, 2002.

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