Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1078

Brief Description: Authorizing additional county sales and use tax authority.

Sponsors: Representatives Eickmeyer, Cairnes, Gombosky, Haigh, McDermott, Berkey, Clements and Quall.

Brief Summary of Bill

- Authorizes rural counties to raise additional sales and use taxes of 0.3 percent, subject to voter approval, on transactions throughout the county.
- Requires county legislative authorities to prepare a plan for the expenditure of funds from the new tax, including an optional provision to distribute up to 10 percent of the proceeds to cities within the county.

Hearing Date: 1/28/03

Staff: Bob Longman (786-7139).

Background:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services purchased at retail. Sales tax is paid by the purchaser and collected by the seller. The seller remits the tax and other taxes with the combined excise tax return to the Department of Revenue (Department).

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The rates for county-levied taxes are the same as those imposed under the retail sales tax. Use tax is paid directly by the person using the item to the Department.

For locally imposed sales and use taxes, the Department determines how much of the taxes collected should be distributed to the appropriate jurisdictions, after deducting an administrative fee, which in calendar 2001 was about one percent. The State Treasurer then distributes the taxes to the appropriate jurisdictions on a monthly basis. In calendar 2001, about $260 million basic and optional taxes were distributed to county governments to be used for general purposes.

Counties may levy several local sales and use taxes at various rates and for various purposes. These most widely utilized local sales and use taxes include the basic tax at a rate of 0.5 percent and an optional tax at a rate of up to 0.5 percent, both for general purposes; a 0.1 percent tax for criminal justice programs; a 0.1 percent tax for the purposes of constructing and operating jails and juvenile detention facilities in counties with population of less than one million; and a 0.08 percent rate credited against the state tax, for public facilities in rural counties, defined as counties with a population density of less than 100 persons per square mile or with an area of less than 225 square miles.

Basic and optional tax taxes of up to 0.5 percent each may also be levied by city governments, and counties must allow partial credits against their taxes so that consumers do not pay more than one percent within incorporated areas. The effect is that counties receive 100 percent of the revenues from the basic and optional general sales and use taxes only from transactions in the unincorporated areas of the county, and 15 percent of the revenues from such taxes from transactions within the incorporated areas.

County sales and use taxes are imposed by ordinance of the county legislative authority. The basic 0.5 percent tax is not subject to voter referendum nor requires voter approval prior to being imposed. On the other hand, the imposition of the county optional 0.5 percent tax and the 0.1 percent tax for criminal justice programs is subject to a potential referendum by the voters. For these two taxes, referendum petitions must be filed within seven days of adoption of the ordinance that imposes or increases the tax. Within the next 30 days the petitioner must gather signatures numbering at least 15 percent of the registered voters of the county in order to force a referendum election. For all of the other sales and use taxes authorized for counties, the imposition of the tax or increase of the tax rate must be approved by the voters of the county. No authorized county sales and use taxes may be imposed by means of voter initiative without action of the county legislative authority.

For most of the sales and use taxes that are authorized to be imposed by counties, the county government is the sole entity that receives and uses the funds. There are several exceptions, however. For example, the receipts from the 0.1 percent tax for criminal justice programs must be shared with the cities within the county. In addition, when implementing the 0.08 percent tax for rural county public facilities, a county must consult with cities, towns, and port districts within the county.

Certain local taxes, such as the county real estate excise tax for affordable housing, require that a plan for the expenditure of tax proceeds must be prepared prior to voter approval of the tax. However, none of the county-authorized retail sales and use taxes includes such a requirement.

Summary of Bill:

Rural counties are authorized to impose additional an additional retail sales and use tax of 0.3 percent for general purposes. The new tax base includes both the incorporated and unincorporated portions of the county.

The new county sales and use tax may be imposed in one of two ways. Under the first approach, a county legislative authority may adopt a resolution to impose the tax and then submit an authorizing proposition to the county voters for approval. Under the second approach, a person may file a petition with the county auditor with signatures of at least 10 percent of the number of voters in the county that voted in the preceding general election. If the auditor certifies that the petition meets the requirements, an authorizing proposition is submitted to the county voters for approval. In either case, a simple majority of persons voting is then necessary to impose the tax.

A county legislative authority must prepare a plan that provides for the manner in which funds from the new tax will be expended. If the county legislative authority initiates the tax proposal, the plan must be prepared at least 60 days prior to the election. If the tax proposal is initiated by petition, the plan must be prepared within six months after the voters have approved the tax. The plan may include a provision to allow up to ten percent of the proceeds from the new tax to be distributed to the cities within the county. In the development of the plan, city officials must be consulted and a public hearing must be held to obtain public input.

Appropriation: None.

Fiscal Note: Requested on January 21, 2003.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2003.