Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

E2SSB 5557

Brief Description: Concerning public facilities for economic development purposes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Hargrove, Prentice, Zarelli, Hatfield, Brandland, Brown, Poulsen, Pridemore and McAuliffe).

Brief Summary of Engrossed Second Substitute Bill

- Increases the rural county sales and use tax rate from 0.08 percent to 0.1 percent.
- Prohibits funding of new justice system facilities with tax proceeds.
- Modifies the yearly report by requiring a description of expenditures for the prior two years.

Hearing Date: 4/6/07

Staff: Jeff Mitchell (786-7139).

Background:

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. State sales and use taxes are deposited in the state general fund. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

There are several provisions of law authorizing local jurisdictions to impose sales and use taxes that are credited against the state tax (CAST). A sales and use tax in the form of a CAST reduces states sales and use tax receipts without increasing the overall tax rate. For example, a jurisdiction

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imposing a 0.1 percent CAST would receive $1 in sales tax revenue on a $1000 dollar sale and the state would receive $64 dollars, instead of the full $65.

Rural counties may impose a sales and use tax that is a CAST. The rate is 0.08 percent. A "rural county" is a county with a population less than 100 persons per square mile or a county smaller than 225 square miles. The purpose of the original act in 1997, as reaffirmed by the Legislature in 2004, is to provide a local option tax to promote economic development and job creation. Tax revenue must be used to finance public facilities serving economic development purposes in the county. Eligible "public facilities" include bridges, roads, and various public utility facilities such as facilities for railroads, telecommunications, sewers, water, and electricity production. By October 1st of each year, counties imposing the tax must provide a report to the State Auditor that lists new projects from the prior fiscal year, demonstrating that the county has used tax proceeds consistent with the purposes of the act.

Summary of Bill:

The rate of the rural county sales and use tax is increased from 0.08 percent to 0.1 percent.

The date the yearly report to the State Auditor is due is changed from October 1st to 150 days after the close of the fiscal year. The report is modified to include expenditures during the fiscal year for projects initiated the previous year.

Counties imposing the tax are prohibited from using tax proceeds to fund new justice system facilities.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on August 1, 2007.