

SENATE BILL REPORT

SB 5887

As of March 16, 2007

Title: An act relating to fiscal reform.

Brief Description: Providing for fiscal reform.

Sponsors: Senators Kohl-Welles, Kline, Murray and Regala.

Brief History:

Committee Activity: Ways & Means: 3/15/07.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dianne Criswell (786-7433)

Background: There are three general types of taxes common to most state and local governments. One type of taxation is imposed on the assessed valuation of asset ownership including real, personal, and intangible property. A second type, common to most states, is imposed on personal and corporate net income. The final type is imposed on transactions and measured by the gross proceeds of each sale.

Of the three general methods for imposing taxes (property, income, and excise taxes), Washington State and local governments rely on property and excise taxes. Washington does not impose taxes on net income.

Income Taxes - In General: Income taxes for persons and corporations are measured by the net income received by individuals, households, and business entities. The federal income tax is imposed on individuals, estates, trusts, and corporations. Income taxes are also levied by most states: 45 states impose a corporate net income tax and 43 states levy a personal income tax. Only Washington, Nevada, South Dakota, and Wyoming do not impose any form of personal or corporate income tax.

Washington State's Current Tax Structure: In 1935, the Legislature enacted the comprehensive Revenue Act, which set the basic structure of Washington's current tax system: a property tax primarily on real estate, a business and occupation (B&O) tax on business receipts, and a sales tax on consumers.

The State Supreme Court has held that Washington's B&O tax, measured by gross receipts, is an excise tax rather than an income tax. All taxes levied in Washington, except for property taxes, represent some form of excise tax. Since the comprehensive Revenue Act of 1935, excise taxes have been the principal source for funding state government in Washington.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Uniformity: Article 7, section 1 of the State Constitution provides that all taxes must be uniform on the same class of property. This means that: (1) all taxes on the same class of property must be uniform within the territorial limits of the authority levying the tax; and (2) real estate constitutes one class. The amendment also defined "property" to include everything, whether tangible or intangible, subject to ownership.

Uniformity and Income Tax: The Washington State Legislature and Washington voters have considered income tax proposals in the past. Some of these proposals have been adopted by public vote or through legislation, but were later invalidated by state courts. The Washington State Supreme Court concluded that previous income tax proposals were unconstitutional, holding that income is property and that graduated income taxes were not uniform. Other income tax proposals were submitted to the voters, but were not approved.

Summary of Bill: Individual income above certain thresholds that is earned from Washington sources is taxed at 1 percent. The tax is imposed on individuals, but not on estates or trusts. The tax does not apply to corporations. However, partners of partnerships and shareholders are subject to tax in their separate or individual capacities.

The tax is imposed on an individual's income that is over \$500,000. For a head of a household, income over \$750,000 is taxed. For a married couple, the tax applies to income over \$1,000,000.

All receipts from this tax must be deposited in the Education Enrichment Account. Money in that account may be used after appropriation for the support of the common schools and the state's institutions of higher education.

Both resident and non-resident individuals are subject to this tax. To avoid double taxation, the bill allows a credit for income taxes due on the same income in other jurisdictions.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2008.

Staff Summary of Public Testimony: PRO: SB 5887 addresses the need for an income tax. An income tax is a responsible way to go. It is a progressive tax and would benefit individuals. While adopting both a personal and corporate income tax is preferred, this bill takes a more narrow approach to get things started. By imposing an income tax on individuals of real means and who benefit from our system, we could provide additional funding for schools, colleges, and universities.

Persons Testifying: PRO: Senator Jeanne Kohl-Welles, prime sponsor; Steve Zemke, Taxpayers for Washington's Future.