

# SENATE BILL REPORT

## SJR 8209

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As of March 16, 2007

**Brief Description:** Amending the Constitution to allow an income tax.

**Sponsors:** Senators Franklin and Kohl-Welles.

**Brief History:**

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

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Dianne Criswell (786-7433)

**Background:** Washington State and local governments rely on property and excise taxes. Washington does not impose taxes on net income.

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:** The bill amends Article 7 of the state constitution, authorizing the Legislature to impose taxes on income. Income is expressly not considered property under Article 7. Any tax increase under the act requires a public vote and must pass by a 60 percent majority. Any exemptions, exclusions, deductions, credits, deferrals, or preferential rates must be approved by 60 percent of the members of the House and the Senate.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

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*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.*

**Effective Date:** If SJR 8209 is approved by the voters at a general election held in November 2007, then implementing legislation (SB 5150) takes effect January 1, 2009. If SJR 8209 is not approved, SB 5150 is null and void in its entirety.

**Staff Summary of Public Testimony:** PRO: The hearing on SB 5150 and SJR 8209 opens the dialog about the sustainability of Washington State's tax structure, which has remained relatively unchanged since the Revenue Act in 1935. That structure is not designed to meet our state's current needs. The world has changed since 1935. We have growing demands to provide education and health services. There are children and elderly whose needs are not being addressed and who need community support. Our tax system only has two of the three legs of the stool: excise and property taxes. Because our tax system is not balanced by an income tax, we have a boom-bust cycle to our state's revenue. Further, the B&O tax, which the state is depending on, is an unfair burden on business in Washington. The 2002 Tax Structure Study made many recommendations, including enacting an income tax. There is no better time than the current budget climate, when we have a surplus, to begin the dialog with our citizens about where revenue comes from and where it should go.

The League of Women Voters is committed to a balanced tax structure that is fair, equitable and sound. Washington State has the most regressive tax structure in the U.S. The League of Women Voters issued a 2004 report which reaffirmed the concern that Washington's tax structure is not able to address changing needs for government services. Further, the study pointed out the problems with relying so heavily on the retail sales tax. The great majority of tax bills introduced during the 2007 session propose tax cuts. In comparison, SJR 8209 is a step toward real reform by removing the constitutional constraints to adopting an income tax.

Washington's regressive tax structure exacerbates the growing differences between rich and poor. Simplistic initiatives prey upon confusion about our tax system. Washington can be a leader in making fundamental changes to our tax structure to stabilize our boom-bust cycle by adopting an income tax. This would be a real policy solution.

CON: There is a disconnect between the problems identified by politicians and those identified by Washington citizens. Washington's problem is not lack of money, it is lack of priorities.

**Persons Testifying:** PRO: Senator Franklin, prime sponsor; Barbara Seitle, League of Women Voters of Washington; Barbara Flye, Washington Tax Fairness Coalition; Steve Zemke, Taxpayers for Washington's Future.

CON: Tim Eyman, Taxpayer Protection Initiative.