

SENATE BILL REPORT

SB 6147

As of April 22, 2009

Title: An act relating to fiscal reform.

Brief Description: Providing for fiscal reform.

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

Brief History:

Committee Activity: Ways & Means:

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

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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.

Property Tax 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.

Summary of Bill: Individual income above certain thresholds which is earned from Washington sources is taxed at 1 percent. The tax does not apply to the income of corporations; however, partners of partnerships and shareholders are subject to tax in their separate or individual capacities.

Both resident and non-resident individuals are subject to this tax. The following credits against the tax are provided: credit for income taxes paid other jurisdictions (on the same income); credit for B&O tax paid; and credit for public utility tax paid.

The tax is imposed on income over threshold deduction amounts:

- for individuals, the tax applies to income over \$500,000;
- for a head of a household, the tax applies to income over \$750,000; and
- for a married couple, the tax applies to income over \$1,000,000.

All receipts from this tax must be deposited in a new account for K-12 and higher education called 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 and may not supplant levels of funding existing on the effective date of this act.

Appropriation: None.

Fiscal Note: Available.

[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2010.