

# SENATE BILL REPORT

## SB 6250

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As of March 4, 2010

**Title:** An act relating to fiscal reform.

**Brief Description:** Providing fiscal reform.

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

**Brief History:**

**Committee Activity:** Ways & Means: 3/04/10.

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### 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.

Sales & Use Tax. The sales tax is imposed by the state, counties, and cities on retail sales of most items of tangible personal property and some services, including construction and repair services. If retail sales taxes were not collected when the property or services were acquired by the user, then use taxes are applied to the value of most tangible personal property and some services when used in this state. Use tax rates are the same as retail sales tax rates. The current state sales tax rate is 6.5 percent.

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:** The bill as referred to committee not considered.

**Summary of Bill (Proposed Substitute):** A new tax on income is referred to the voters at the next general election. If approved a tax on income is imposed on January 1, 2011, and the state sales tax is reduced to 5.5 percent on July 1, 2012.

Individual income above certain thresholds that is earned from Washington sources is taxed at 4.5 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 \$200,000. For a head of a household, income over \$300,000 is taxed. For a married couple, the tax applies to income over \$400,000.

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 and/or apportionment of income.

For a copy of the proposed substitute bill click the following link:

<http://www.leg.wa.gov/Senate/Committees/WM/Documents/6250%20PSSB%20S-5325%201.pdf>

**Appropriation:** None.

**Fiscal Note:** Requested on March 4, 2010.

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

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

**Effective Date:** The bill contains several effective dates. Please refer to the bill.

**Staff Summary of Public Testimony:** PRO: I am worried about our state's future; with a rapidly changing world, we need an updated tax structure to meet our 21st Century needs. Last year's budget, which reduced spending, did not address the antiquity or regressivity of our tax system. We need a system that is more sustainable and equitable. This proposal gives the public the ultimate say. This is an option that makes sense to our state. This is not a magic bullet; there are other ways that need to be considered to move forward with reform. There is support for a reduction of the business and occupation (B&O) tax and replace it with a graduated income tax. We need support for higher education. Government spending stimulates the economy. Foster children, and other people without family support, have been beneficiaries of state programs, including higher education. We cannot ignore the gap between the rich and the poor. People at the bottom of the structure create the value, through work, for our economy. Washington has the most regressive tax system in the nation. Housing, water, education are citizens' rights and necessary for a democratic society. The economy and program cuts are disadvantaging minorities in higher education. We saw the impact of an all-cuts budget last year. There is support for a higher incomes tax to save services, like the Basic Health program. There are large waiting lists for the Basic Health program, and the wait is indefinite. We cannot wait until Washington D.C. solves the health care problem; and sin taxes and loophole closures are insufficient to address the healthcare costs. This is a start to changing our regressive system and unfairly taxing working people. Lower income people and higher income people all buy items at retail and pay the tax. A tax on high income addresses problems of regressivity and volatility in our tax system. This is a part of the mix; but, is only a part of the solution. Consider broadening the tax base. Cutting programs is regressive (education, Basic Health, environmental programs); this proposal makes the sales tax less regressive.

CON: Without anyone's help, some people have built businesses that support employees and our economy. I am not in support of this bill. An income tax is totally unacceptable. The State Auditor should be consulted on possible savings. Some people have reduced spending to match their income; government should do the same. Income tax can be regressive. Sales tax is paid by the wealthy as well. People on a budget do not have transactions subject to sales tax. This proposal is the first step to a larger change, graduated income tax, which we do not want. This is not a uniform tax proposal. This is an unfair tax. This will impact small businesses. Individuals will have to pay B&O on business income and the income tax on their salaries. This will harm small businesses. There should be more notice of this proposal; the lack of notice sends a message. Voters have said "no" to similar proposals eight times. This would be expensive to administer. This would lead to a constitutional challenge; the courts have already interpreted proposals. If this proposal puts the choices in citizens' hands, I-960 should not have been amended. This takes money out of our economy. This will cost jobs, which support government. This is an opportunity to see what we should change; taxes are not the solution. Spending should drop with revenue. Some question why the Legislature did not anticipate the drop in revenues; many people in the private sector knew this and adjusted accordingly. Stronger civics education is necessary for citizens to evaluate these proposals. This will lead to more public involvement to vote supporters of this proposal out of office. In these difficult times, the Legislature should not consider increasing taxes. All citizens have less resources.

OTHER: Wealthy individuals pay less tax based on income and use more services and infrastructure. If we impose an income tax, we should get rid of the sales tax.

**Persons Testifying:** PRO: Senator Franklin, prime sponsor; Jumani Oliana, Devin Matthews-Jensen, Olympia Coalition for Fair Budget; Mat Boyd, Rene Soto, Shelby Smith, Madeline Stephens, Kevin Scheider, students, Evergreen State College; Chris Smith, Freedom Socialist Party; Gina Petrie, Radical Women; Helen Fowler, Sisters Organize for Survival; Michael Yates, citizen; Tanner Millern; Marilyn Watkins, Economic Opportunity Institute; Sarah Chen; Misha Wenschal, SEIU Healthcare; Patrick Walsh, Geoduck Student Union.

CON: Shadrah White, Victor Zvirzovs, Pamela Clark, David Clark, Jennifer Sargent, Pat Tarzwall, Kris Grassman, Tamra Smilanich, Kris Grassman, Chris Williams, Mark Stewart, Dawn Land, citizens; Patrick Conner, National Federation of Independent Business of Washington; Scott Dalman, Farm Bureau; Amber Gunn, Evergreen Freedom Foundation; Wendy Birnbaum.

OTHER: Dana Walker, Power.