HOUSE BILL REPORT
EHB 2036

As Passed House:
June 6, 2013

Title: An act relating to investing in the education legacy trust account for K-12 basic education and higher education by narrowing or eliminating tax preferences.

Brief Description: Investing in the education legacy trust account for K-12 basic education and higher education by narrowing or eliminating tax preferences.

Sponsors: Representatives Carlyle, Hunter, Ormsby, Tharinger, Reykdal and Pollet.

Brief History:
Committee Activity:
None.
First Special Session
Floor Activity:
Passed House: 6/6/13, 52-35.

Brief Summary of Engrossed Bill

- Changes the nonresident sales and use tax exemption for tangible personal property into a remittance program.

Staff: Jeffrey Mitchell (786-7139).

Background:

Sales and Use Tax.
Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital products, or services when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent. Local sales and use tax rates vary from 0.5 percent to 3.0 percent, depending on the location.

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.

Nonresident Sales Tax Exemption.
A sales tax exemption is allowed to a resident of a state, possession, or Canadian province that does not impose a retail sales tax, use tax, value added tax, gross receipts tax, or similar generally applicable tax of 3 percent or more on purchases of goods for use outside the state. The exemption does not apply to items or services consumed in the state such as hotel stays or meals at restaurants. Retailers are not required to make tax exempt sales to qualifying nonresidents. A vendor may choose to collect sales tax on purchases made by qualifying nonresidents or to sell merchandise tax free.

Deposit of Sales Taxes.
Almost all revenues derived from sales taxes are deposited into the State General Fund. The Education Legacy Trust Account (ELTA) was created in 2005. Currently, the Washington estate tax is the sole source of revenue for the ELTA. Money in the ELTA can only be used for kindergarten through grade 12 (K-12) and higher education.

State Expenditure Limit.
First enacted in 1993 by Initiative 601, the state expenditure limit allows expenditure from the State General Fund to grow each fiscal year by the fiscal growth factor, which is the average annual growth in state personal income over the prior 10 fiscal years. Whenever the cost of any state program or function is shifted from the State General Fund or moneys are transferred from the State General Fund to another fund or account, the state expenditure limit must be lowered to reflect the shift or transfer.

State Debt Limit.
The state Constitution limits the issuance of state general obligation debt. The State Treasurer may not issue a general obligation bond if the amount of interest and principal payments in any year, along with debt payments for existing bonds, would exceed 9 percent of the average of the annual general state revenue collections for the previous six fiscal years. The constitutional debt limit is reduced over time from 9 percent to 8 percent by July 1, 2034. It is set at 8.5 percent starting July 1, 2014; 8.25 percent starting July 1, 2016; and 8 percent starting July 1, 2034. The definition of general state revenues includes the state property tax because it is deposited in the State General Fund.

Summary of Engrossed Bill:

Nonresident Sales Tax Exemption.
The nonresident sales tax exemption is converted to a remittance program. Out-of-state residents will owe sales tax initially, but may apply to the Department of Revenue (DOR) for a remittance of Washington sales taxes paid in the prior calendar year. The person may seek a remittance of both state and local sales tax. The amount of the remittance claim must exceed $25.

Deposit of Additional Tax Revenues.
New revenues in the bill cannot be directly tracked, therefore, these additional amounts are estimated twice a year by the DOR and transferred from the State General Fund to the ELTA.

State Expenditure Limit.

The transfers from the State General Fund to the ELTA are exempted from the requirement to lower the state expenditure limit.

State Debt Limit.
New tax revenues initially deposited in the State General Fund are explicitly excluded from the calculation of general state revenues for purposes of the state debt limit determination.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

Effective Date: The bill contains an emergency clause and takes effect on August 1, 2013.