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## Finance Committee

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### HB 2117

**Brief Description:** Providing a pathway to modernize and rebalance the Washington state tax structure so that it is equitable, adequate, stable, and transparent for the people of Washington state.

**Sponsors:** Representatives Frame, Tarleton, Sullivan, Springer, Walen, Macri, Orwall, Wylie, Chapman, Morris, Doglio, Peterson, Senn, Valdez, Ortiz-Self, Stanford, Pollet and Santos.

<p style="text-align: center;"><b>Brief Summary of Bill</b></p> <ul style="list-style-type: none"><li>• Reauthorizes and expands the Tax Structure Work Group, created within the 2017-19 Operating Budget</li></ul>
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**Hearing Date:** 2/26/19

**Staff:** Richelle Geiger (786-7139).

**Background:**

Washington State Tax Structure Study Committee.

The Washington State Tax Structure Study Committee (Committee) was created in the 2001-03 Operating Budget. The Committee was directed to study the elasticity, equity, and adequacy of the state's tax system and develop multiple alternatives to the existing tax system.

The Committee membership was required to consist of 11 members:

- Six academic scholars appointed by the Department of Revenue (Department) from relevant disciplines, after consulting with leadership in the largest caucuses in each house of the legislature; and
- One member appointed by each the governor and the chairs of the largest caucuses in each house of the legislature.

Additionally, the Department was directed to create an advisory group to provide advice and assistance to the committee.

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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.*

The Legislature directed the Committee to submit a final report including the results of and conclusions from the analysis and recommended tax structure alternatives. The Committee's recommendations included, but were not limited to, replacing the business and occupation tax with a business value added tax, establishing a rainy day fund, and streamline the sales tax.

#### Tax Structure Work Group.

The Tax Structure Work Group (Work Group) was created in the 2017-19 Operating Budget. The Work Group was directed to facilitate public discussions throughout the state regarding Washington's tax structure and report the results to the fiscal committees of the legislature, upon request.

The Work Group membership consisted of a member from each of the major caucuses in the House of Representatives, appointed by the Speaker of the House, who also served as co-chairs of the Work Group.

During the 2018 interim, the Work Group held public meetings in the following cities: Spokane, Yakima, Vancouver, and Seattle. The public meetings included a staff briefing on the general revenue structure, discussions among attending participants about the state of the current tax structure and ideas about how to change the structure, and individual oral testimony. The discussions, public testimony, and results of a follow-up survey of attending participants were summarized in a final report, adopted by the co-chairs during the 2018 Interim. The final report also included recommendations from the Work Group, including reauthorizing the Work Group and expanding the membership, to include multiple members from each house of the legislature and various stakeholder groups, and scope, to include analysis, policy development and continued public meetings.

#### **Summary of Bill:**

The Work Group is reauthorized and expanded, in membership and in scope.

The membership of the Work Group includes nine voting members, appointed as follows:

- Two members of the two largest caucuses in each house of the legislature, appointed by the President of the Senate and the Speaker of the House, respectively; and
- One member who represents the Office of the Governor.

The membership must also include one nonvoting member representing each of the following organizations: the Department, the Association of Washington Cities and the Washington State Association of Counties.

All Work Group members must submit a letter of interest and statement of understanding that the commitment to serve on the Work Group is through December 31, 2024. Elected officers not reelected to their respective offices may be relieved of their responsibilities. Vacancies must be filled within 60 days of notice of vacancy.

The Work Group must choose a chair or co-chairs from among its legislative membership.

Decisions are made by a simple majority vote of the membership. Voting by proxy is not permitted.

The Department may create one or more technical advisory groups to assist the Work Group with its duties. The advisory groups may include academic scholars and other recognized experts in relevant fields. The legislature intends to include both economic theory experts and tax practitioners in an advisory group.

The Department must provide staff support, subject to the degree such support is funded through appropriation. The Department may engage one or more consultants to provide Work Group support.

The duties of the Work Group are to:

- Update the final report of the Committee and investigate other matters that may be material to changing the state tax structure;
- Facilitate a series of public meetings in geographically dispersed locations to present the updated report and other findings, collect feedback from taxpayers about the tax structure, and summarize the feedback in a report; and
- Make recommendations to the legislature for changes to the state tax structure, based on the updated report and other findings. Recommendations may not result in an estimated loss in state revenue.

It is the intent of the Legislature to consider the recommended changes to the state tax structure during the 2023 Session. If the proposal is not adopted, the Work Group is directed to facilitate public meetings to collect feedback about the legislative proposal and modify the proposal to address the feedback. During the 2024 Session, it is the intent of the Legislature to consider the modified proposal.

By December 31, 2024, the Work Group is directed to submit a final report, compiling of all other reports previously submitted since July 1, 2019.

The Work Group expenses must be jointly paid by each house of the legislature. Members of the Work Group must serve without compensation but may be reimbursed for travel expenses.

This act expires December 31, 2024.

**Appropriation:** None.

**Fiscal Note:** Requested on February 21, 2019.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.