

SENATE BILL REPORT

ESHB 2018

As of March 7, 2022

Title: An act relating to creating a three-day shop local and save sales and use tax holiday to benefit all Washington families for certain items \$1,000 or less during the month of September.

Brief Description: Creating a three-day shop local and save sales and use tax holiday to benefit all Washington families for certain items \$1,000 or less during the month of September.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Paul, Rule, Bergquist, Bronoske, Chapman, Leavitt, Ramel, Ryu, Sutherland, Berg, Callan, Frame, Riccelli and Lekanoff).

Brief History: Passed House: 3/4/22, 91-7.

Committee Activity: Ways & Means: 3/07/22.

Brief Summary of Bill

- Authorizes a sales and use tax holiday for Labor Day Weekend 2022, for qualified items purchased by individuals.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: Retail 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 tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities 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 4.0 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 part of the legislation nor does it constitute a statement of legislative intent.

Streamlined Sales and Use Tax Agreement. The purpose of the Streamlined Sales and Use Tax Agreement (SSUTA) is to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance. The SSUTA focuses on improving sales and use tax administration for all sellers and for all types of commerce in a number of ways, including by providing uniformity in state and local tax bases, simplification of state and local tax rates, uniformity in sourcing rules for all taxable transactions, simplified administration of exemptions. There are 24 states that are party to the SSUTA. In 2007, Washington fully adopted the SSUTA.

Tax Preference Performance Statement. State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary of Bill: The shop local and save sales and use tax holiday is created. The purchase of qualified items by an individual from September 3 through September 5, 2022, is exempt from sales and use taxes. An individual means a natural person purchasing the qualified items for personal use or consumption. It does not include a natural person purchasing a qualified item for use or consumption by a business or in a business capacity.

A qualified items means any article of tangible personal property, digital good, or digital code used solely to obtain one or more digital good, excluding non-qualified items. Each item must be priced at \$1,000 or less. The exemption does not include the purchase of non-qualified items such as motor vehicles, boats, services, construction, tobacco or marijuana products, vapor products, soft drinks, alcoholic beverages, utilities, travel, or meals.

The Department of Revenue (DOR) must adopt rules for the administration of this exemption that are consistent with the SSUTA to the extent possible.

The Shop Local and Save Sales and Use Tax Holiday Mitigation Account (Account) is created. Mitigation payments must be made from this account to local taxing districts impacted by the sales and use tax suspension on qualified items. DOR must estimate the revenue losses for each local taxing district and notify the state treasurer of the amount of mitigation payments to be made from the Account to the local taxing district by November 18, 2022. The state treasurer must transfer the mitigation payments to the local taxing districts by December 1, 2022.

The act is exempt from the requirements of a TPPS and a JLARC tax preference study.

The act expires June 30, 2023.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: These holidays are wildly popular and successful in other states. Retailers hire more employees, purchase more product, advertise, and market to consumers to increase sales. A sales tax holiday allows residents to buy essential items such as back-to-school supplies and clothes. This bill is a win for consumers, a win for retailers, and a win for the state of Washington.

CON: This bill is an ineffective and incredibly blunt instrument in giving a boost to Washington families that could most use the help. Upper-income families are going to be in the best position to shift the timing of their purchases compared with lower-income families, which don't have the same flexibility. Most of the spending would occur at big-box retailers which could strategically raise prices to siphon away the benefit. Sales tax holidays unnecessarily benefit high-income households who have the luxury to time purchases with the time period of the tax holiday. There is nothing in the bill that limits it to small, local businesses. The bill does not include a tax preference performance statement, which would require an evaluation by the Joint Legislative Audit and Review Committee.

Persons Testifying: CON: Andy Nicholas, Washington State Budget & Policy Center; Dylan Grundman O'Neill, Institute on Taxation and Economic Policy.

Persons Signed In To Testify But Not Testifying: No one.