SENATE BILL REPORT
SB 5518

As of February 17, 2025

Title: An act relating to authorizing funding tools to mitigate the impact of sales tax sourcing and enhance community vitality in certain cities that host industrial and warehousing industries that are vital to the statewide economy.

Brief Description: Authorizing funding tools to mitigate the impact of sales tax sourcing in certain cities that host industrial and warehousing industries.

Sponsors: Senators Kauffman, Orwall and Nobles.

Brief History:
Committee Activity: Ways & Means: 2/18/25.

Brief Summary of Bill

- Allows certain cities to impose a local option sales and use tax, not exceeding 0.3 percent, that is credited against the state sales and use tax.

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 4.1 percent, depending on the location.

Nexus. Nexus is required before a taxing jurisdiction can impose taxes on an entity. In the

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case of retail sales taxes, nexus is necessary in determining whether an out-of-state business selling products into a state is liable for the collection of retail sales taxes for that state. As the result of a United States Supreme Court decision and marketplace fairness legislation enacted in 2017 and 2019, Washington adopted requirements imposing retail sales tax collection requirements, as well as business and occupation tax obligations, on out-of-state sellers.

Streamlined Sales and Use Tax Agreement, and Mitigation Payments. In 2007, legislation was enacted fully adopting the Streamlined Sales and Use Tax Agreement (SSUTA).

SSUTA includes provisions for determining where a sale is deemed to occur for local sales and use tax purposes. As part of the legislation, the Streamlined Sales and Use Tax Mitigation Account (Mitigation Account) was created to mitigate the effect of the change in sourcing rules to negatively impacted local jurisdictions. Each July 1st, the state treasurer transferred an amount determined by the Department of Revenue (DOR) to fully mitigate negatively impacted local jurisdictions. DOR determined each local jurisdiction's annual losses. Distributions were made quarterly representing one-fourth of a jurisdiction's annual loss less voluntary compliance revenue from the previous quarter.

In 2017, the Legislature repealed local mitigation payments, effective October 1, 2019. The payments were adjusted to reflect the impact of marketplace fairness on local tax revenues and were made only to cities, counties, and public facilities districts. Selected jurisdictions may have qualified for mitigation payments under the 2019-2021 Omnibus Operating Budget.

During the 2020 Legislative Session, the Legislature passed EHB 1948 allowing qualified local taxing districts negatively impacted by SSUTA to receive annual mitigation payments under certain conditions. The Governor vetoed the bill in its entirety, citing dramatically changed circumstances as a result of the COVID-19 pandemic. A year later, during the 2021 Legislative Session, the Legislature passed ESHB 1521 allowing qualified local taxing districts negatively impacted by SSUTA to receive annual mitigation payments. To qualify, a local taxing district must be a city and have received a quarterly streamlined sales tax mitigation payment of at least $60,000 on June 30, 2020. Beginning July 1, 2021, DOR began providing each qualified local taxing district a quarterly mitigation payment equal to the payment that was provided to that taxing district on June 30, 2020, reduced by 20 percent each year and with payments ending July 1, 2026.

Summary of Bill: The legislative body of a city with a population over 120,000, located in a county with a population of 1.5 million or more, and with at least 25 percent of its assessed value zoned for industrial or warehousing uses, may impose a sales and use tax of up to 0.3 percent of the selling price or value of the article used. The local sales and use tax is credited against the state sales and use tax.

The tax may not be imposed for more than 20 years.

The revenues from the tax may be used for any purpose that improves the vitality of the community in the same manner that general fund revenues may be used.

An authorized city imposing this tax must comply with three public process requirements as part of its biennial budget process:
- hold a minimum of three town halls to explain the budget process, in different geographical locations and at different times of day, and provide opportunities for community members to dialogue;
- provide a webpage that outlines the budget development process, dates for budget hearings, and directions to find budget information; and
- conduct a survey to solicit input on budget priorities.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill contains an emergency clause and takes effect immediately.