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**HOUSE BILL 2936**

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**State of Washington 65th Legislature 2018 Regular Session**

**By** Representatives Pollet, Frame, Kagi, Valdez, and Macri

AN ACT Relating to estimating tax rates and regressivity for voter, legislative process, and joint legislative audit and review committee consideration; amending RCW 29A.32.070, 29A.72.025, 29A.72.283, and 43.136.055; adding a new section to chapter 29A.72 RCW; adding a new section to chapter 43.88A RCW; and creating a new section.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  The legislature finds that studies have recognized that Washington state has the most regressive state and local tax structure in the nation, which means that some lower income residents pay more in state and local taxes than if they lived anywhere else in the nation. Although Washington is one of the wealthiest states in the nation, the wealthiest individuals and businesses in the state pay far less of a proportionate burden to fund education, health care, transportation, and other essential services compared to the lowest income residents. The legislature intends to provide the public and legislature with a new tool to determine if proposed changes in revenue sources, tax preferences, or tax exemptions result in making the state's tax structure more regressive or more progressive.

**Sec.**  RCW 29A.32.070 and 2016 c 83 s 1 are each amended to read as follows:

(1) The secretary of state ((~~shall~~)) must determine the format and layout of the voters' pamphlet published under RCW 29A.32.010. The secretary of state ((~~shall~~)) must print the pamphlet in clear, readable type on a size, quality, and weight of paper that in the judgment of the secretary of state best serves the voters. The pamphlet must contain a table of contents. Measures and arguments must be printed in the order specified by RCW 29A.72.290.

(2) The secretary of state's name may not appear in the voters' pamphlet in his or her official capacity if the secretary is a candidate for office during the same year. His or her name may only be included as part of the information normally included for candidates.

(3) The voters' pamphlet must provide the following information for each statewide issue on the ballot except measures for an advisory vote of the people whose requirements are provided in this subsection ((~~(11) of this section~~)):

((~~(1)~~)) (a) The legal identification of the measure by serial designation or number;

((~~(2)~~)) (b) The official ballot title of the measure;

((~~(3)~~)) (c) A statement prepared by the attorney general explaining the law as it presently exists;

((~~(4)~~)) (d) A statement prepared by the attorney general explaining the effect of the proposed measure if it becomes law;

((~~(5)~~)) (e) The fiscal impact statement prepared under RCW 29A.72.025;

((~~(6)~~)) (f) The revenue equity statement prepared under section 3 of this act;

(g) The total number of votes cast for and against the measure in the senate and house of representatives, if the measure has been passed by the legislature;

((~~(7)~~)) (h) An argument advocating the voters' approval of the measure together with any statement in rebuttal of the opposing argument;

((~~(8)~~)) (i) An argument advocating the voters' rejection of the measure together with any statement in rebuttal of the opposing argument;

((~~(9)~~)) (j) Each argument or rebuttal statement must be followed by the names of the committee members who submitted them, and may be followed by a telephone number that citizens may call to obtain information on the ballot measure;

((~~(10)~~)) (k) The full text of the measure;

((~~(11)~~)) (l) Two pages ((~~shall~~)) must be provided in the general election voters' pamphlet for each measure for an advisory vote of the people under RCW 43.135.041 and ((~~shall~~)) must consist of the serial number assigned by the secretary of state under RCW 29A.72.040, the short description formulated by the attorney general under RCW 29A.72.283, the tax increase's most up‑to‑date ten‑year cost projection, including a year‑by‑year breakdown, by the office of financial management under RCW 43.135.031, and the names of the legislators, and their contact information, and how they voted on the increase upon final passage so they can provide information to, and answer questions from, the public. For the purposes of this subsection, "names of legislators, and their contact information" includes each legislator's position (senator or representative), first name, last name, party affiliation (for example, Democrat or Republican), city or town they live in, office phone number, and office email address.

NEW SECTION. **Sec.**  A new section is added to chapter 29A.72 RCW to read as follows:

(1) The office of financial management must prepare a revenue equity statement for each of the following state ballot measures:

(a) An initiative to the people that is certified to the ballot;

(b) An initiative to the legislature that is certified to the house of representatives and the senate;

(c) An alternative measure appearing on the ballot that the legislature proposes to an initiative to the legislature;

(d) A referendum bill referred to voters by the legislature; and

(e) A referendum measure appearing on the ballot.

(2) The revenue equity statement must describe the projections for how the ballot measure would affect any projected increase or decrease in the average effective tax rate, including the combined state and local tax burden, imposed directly or indirectly on Washington residents in excess of 0.05 percent of family income for any family income quintile. Each statement must include:

(a) The estimated average effective tax rate imposed by the measure, expressed as a percentage of family income, in each family income quintile;

(b) Similar estimates within the top 0.5 percent, the top one percent, the top five percent, and the bottom ten percent under current law and under each proposed measure;

(c) Comparable estimates for the first six fiscal years following enactment of the proposed measure;

(d) A regressivity grade to describe the relative degree to which the measure changes the regressivity of the state tax code. The grade options must be described as "significantly increases regressivity," "slightly increases regressivity," "significantly increases progressivity," or "slightly increases progressivity"; and

(e) A summary of the ballot measure not to exceed two hundred words and a more detailed disclosure that includes the assumptions that were made to estimate the effective rate of taxes, and any unavoidable limitations on the availability of data for a comprehensive analysis.

(3) In preparing revenue equity statements, the office of financial management may utilize an advisory committee drawn from persons with relevant expertise on the faculty of public higher education institutions in Washington. If an advisory committee is utilized, the statement in the voters' pamphlet must include the names of any advisors and their affiliations. All meetings of an advisory committee must be open to the public with notice provided to interested persons and posted at least ten days in advance on the web site of the governor and legislature.

(4) Revenue equity statements must be written in clear and concise language, avoid legal and technical terms when possible, and be filed with the secretary of state no later than the last business day in July for a ballot measure to the people, or no later than the first day of the legislative session for which an initiative to the legislature has been submitted. Revenue equity statements may include easily understood graphics. Revenue equity statements must be available online from the secretary of state's web site and included in the state voters' pamphlet. Additional information may be posted on the web site of the office of financial management.

(5) For the purposes of this section "effective tax rate" includes fees paid by the majority of Washington residents as well as revenue measures that are identified as taxes.

**Sec.**  RCW 29A.72.025 and 2009 c 415 s 7 are each amended to read as follows:

(1) The office of financial management, in consultation with the secretary of state, the attorney general, and any other appropriate state or local agency, ((~~shall~~)) must prepare a fiscal impact statement for each of the following state ballot measures: ((~~(1)~~)) (a) An initiative to the people that is certified to the ballot; ((~~(2)~~)) (b) an initiative to the legislature that will appear on the ballot; ((~~(3)~~)) (c) an alternative measure appearing on the ballot that the legislature proposes to an initiative to the legislature; ((~~(4)~~)) (d) a referendum bill referred to voters by the legislature; and ((~~(5)~~)) (e) a referendum measure appearing on the ballot. Fiscal impact statements must be written in clear and concise language, avoid legal and technical terms when possible, and be filed with the secretary of state no later than the ((~~tenth day of August~~)) last business day of July. Fiscal impact statements may include easily understood graphics.

(2) A fiscal impact statement must describe any projected increase or decrease in revenues, costs, expenditures, or indebtedness that the state or local governments will experience if the ballot measure were approved by state voters. Where appropriate, a fiscal impact statement may include both estimated dollar amounts and a description placing the estimated dollar amounts into context. A fiscal impact statement must include both a summary of not to exceed one hundred words and a more detailed statement that includes the assumptions that were made to develop the fiscal impacts.

(3) Fiscal impact statements must be available online from the secretary of state's web site and included in the state voters' pamphlet. Additional information may be posted on the web site of the office of financial management.

**Sec.**  RCW 29A.72.283 and 2008 c 1 s 8 are each amended to read as follows:

Within five days of receipt of a measure for an advisory vote of the people from the secretary of state under RCW 29A.72.040 the attorney general ((~~shall~~)) must formulate a short description not exceeding thirty‑three words and not subject to appeal, of each tax increase and ((~~shall~~)) must transmit a certified copy of such short description meeting the requirements of this section to the secretary of state. The description must be formulated and displayed on the ballot substantially as follows:

"The legislature imposed, without a vote of the people, (identification of tax and description of increase), costing (most up‑to‑date ten‑year cost projection, expressed in dollars and rounded to the nearest million) in its first ten years, for government spending. This tax increase should be:

Repealed . . . . [ ]

Maintained . . . [ ]"

Saturdays, Sundays, and legal holidays are not counted in calculating the time limits in this section. If the office of financial management has assigned the measure a regressivity grade under section 6 of this act, the description must also include the following: "It has been determined by the Office of Financial Management that this measure will (identification of tax rate equity statement regressivity grade)." The words "This tax increase should be: Repealed . . . [ ] Maintained . . . [ ]" and "It has been determined by the Office of Financial Management that this tax increase will..." are not counted in the thirty‑three word limit for a short description under this section.

NEW SECTION. **Sec.**  A new section is added to chapter 43.88A RCW to read as follows:

(1)(a) The director of financial management, in consultation with the legislature, the department of revenue, and any other appropriate state or local agency, must establish a procedure for the provision of a tax rate equity statement for legislative bills that describes how the bill would affect any projected increase or decrease in the average effective tax rate imposed directly or indirectly on Washington residents in excess of 0.05 percent of family income for any family income quintile.

(b)(i) A tax rate equity statement must be prepared by the office of financial management for a particular bill upon request by the chairperson, vice chairperson, or ranking member of a committee to which the bill is referred, or by the bill's prime sponsor. Upon receiving a request for a tax equity statement during a legislative session, the office of financial management must return the tax rate equity statement to the requesting party in no more than ten days, and copies must be filed with:

(A) The chairperson of the committee to which the bill was referred upon introduction in the house of origin;

(B) The senate committee on ways and means, or its successor;

(C) The house committees on finance and appropriations, or their successors.

(ii) Whenever possible, the tax rate equity statement must be provided prior to or at the time the bill is first heard by the committee of reference in the house of origin.

(iii) When a tax rate equity statement has been prepared for a bill, a copy must be placed in the bill books or otherwise attached to the bill and must remain with the bill throughout the legislative process insofar as possible.

(2) Each tax rate equity statement must include:

(a) The estimated average effective tax rate imposed by the measure, expressed as a percentage of family income, in each family income quintile;

(b) Similar estimates within the top 0.5 percent, the top one percent, the top five percent, and the bottom ten percent under current law and under each proposed measure;

(c) Comparable estimates for the first six fiscal years following enactment of the proposed measure;

(d) A regressivity grade to describe the relative degree to which the measure changes the regressivity of the state tax code. The grade options must be described as "significantly increases regressivity," "slightly increases regressivity," "significantly increases progressivity," or "slightly increases progressivity";

(e) A summary of the bill not to exceed two hundred words and a more detailed disclosure that includes the assumptions that were made to estimate the effective rate of taxes, and any unavoidable limitations on the availability of data for a comprehensive analysis.

(3) For the purposes of this section "effective tax rate" includes fees paid by the majority of Washington residents as well as revenue measures that are identified as taxes.

**Sec.**  RCW 43.136.055 and 2011 c 335 s 3 are each amended to read as follows:

(1) The joint legislative audit and review committee must review tax preferences according to the schedule developed under RCW 43.136.045. The committee must consider, but not be limited to, the following factors in the review as relevant to each particular tax preference:

(a) The classes of individuals, types of organizations, or types of industries whose state tax liabilities are directly affected by the tax preference;

(b) Public policy objectives that might provide a justification for the tax preference, including but not limited to the legislative history, any legislative intent, or the extent to which the tax preference encourages business growth or relocation into this state, promotes growth or retention of high wage jobs, or helps stabilize communities;

(c) Evidence that the existence of the tax preference has contributed to the achievement of any of the public policy objectives;

(d) The extent to which continuation of the tax preference might contribute to any of the public policy objectives;

(e) The extent to which the tax preference may provide unintended benefits to an individual, organization, or industry other than those the legislature intended;

(f) The extent to which terminating the tax preference may have negative effects on the category of taxpayers that currently benefit from the tax preference, and the extent to which resulting higher taxes may have negative effects on employment and the economy;

(g) The feasibility of modifying the tax preference to provide for adjustment or recapture of the tax benefits of the tax preference if the objectives are not fulfilled;

(h) Fiscal impacts of the tax preference, including past impacts and expected future impacts if it is continued. For the purposes of this subsection, "fiscal impact" includes an analysis of the general effects of the tax preference on the overall state economy, including, but not limited to, the effects of the tax preference on the consumption and expenditures of persons and businesses within the state;

(i) The extent to which termination of the tax preference would affect the distribution of liability for payment of state taxes;

(j) The economic impact of the tax preference compared to the economic impact of government activities funded by the tax for which the tax preference is taken at the same level of expenditure as the tax preference. For purposes of this subsection the economic impact shall be determined using the Washington input-output model as published by the office of financial management;

(k) Consideration of similar tax preferences adopted in other states, and potential public policy benefits that might be gained by incorporating corresponding provisions in Washington;

(l) Consideration of any regressivity grade assigned by the office of financial management.

(2)(a) For each tax preference, the committee must provide a recommendation as to whether the tax preference should be continued without modification, modified, scheduled for sunset review at a future date, or terminated immediately. The committee may recommend accountability standards for the future review of a tax preference.

(b) The recommendation must specifically consider and address the degree to which a tax preference increases or decreases regressivity of the state's tax system relative to lower and middle income residents and any appropriate comparative populations. If a tax preference is found to have significantly increased regressivity compared to the initial forecast from the office of financial management, and the committee recommends continuing the preference, the committee must explain what benefits justify retaining the preference.

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