

SENATE BILL REPORT

SB 5554

As of January 20, 2022

Title: An act relating to eliminating the prohibition on local net income taxes if certain revenue neutrality requirements are met.

Brief Description: Eliminating the prohibition on local net income taxes if certain revenue neutrality requirements are met.

Sponsors: Senator Hasegawa.

Brief History:

Committee Activity: Housing & Local Government: 1/20/22.

Brief Summary of Bill

- Authorizes a county, city, or town to levy a graduated tax on personal or business net income if the jurisdiction makes a corresponding reduction in the amounts collected in certain uniform local taxes.
- Provides that any reduction in existing taxes must be made prior to or in conjunction with a jurisdiction levying a personal or business net income tax.
- Repeals the existing statute prohibiting a local government from levying a net income tax.

SENATE COMMITTEE ON HOUSING & LOCAL GOVERNMENT

Staff: Maggie Douglas (786-7279)

Background: Real and Personal Property. Real and personal property is subject to property tax each year based on its value, unless a specific exemption is provided by law.

For the purposes of property taxation, real property is defined as land and all buildings,

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structures, fixtures permanently affixed to the land, or improvements thereon.

Personal property falls into two categories—tangible, and intangible. Tangible personal property consists of things that have a physical existence. Intangible personal property consists of rights and privileges having a legal but not necessarily physical existence. Local governments are statutorily prohibited from imposing a tax on intangible property.

Summary of Bill: A county, city, or town may levy a graduated tax on personal or business net income if the jurisdiction makes a corresponding reduction in the amounts collected in local sales and use taxes, public utility taxes, property taxes, or in the case of cities, business and occupation taxes. A reduction in existing taxes must be made prior to or in conjunction with a jurisdiction levying a personal or business net income tax.

A jurisdiction must prioritize corresponding reduction in the following order:

- sales and use taxes;
- public utility taxes exceeding those necessary for regular maintenance and operation costs; and
- property taxes.

Once a jurisdiction has reduced the amounts collected in existing taxes by no less than 75 percent, the jurisdiction may increase the personal income tax schedule at a graduated rate of \$5 per \$1 decrease in existing uniform taxes. Graduated rate increases may not exceed the current federal income tax rate schedule, adjusted for inflation.

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: This is an important conversation to have in our state. Our state currently has the most regressive tax structure in the country, but is also one of the wealthiest states in the country. Income tax has been identified as a progressive tax source, meaning that those with a greater ability to pay will pay a larger portion of the tax. This bill prepares the state for a local income tax by incrementally eliminating regressive uniform taxes.

CON: Taxpayers have no voice with this bill. We are already over taxed. It gives local governments the okay to tax without a public say. We need more fiscal responsibility instead of more taxes.

Persons Testifying: PRO: Senator Bob Hasegawa, Prime Sponsor.

CON: Jeff Pack, Washington Citizens Against Unfair Taxes; Brandon Davis; Laurie Layne.

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