

SENATE BILL REPORT

SB 5769

As of January 24, 2022

Title: An act relating to reforming the state tax system by providing tax relief to residents, employees, and employers.

Brief Description: Reforming the state tax system by providing tax relief to residents, employees, and employers.

Sponsors: Senators Wilson, L., Braun, Brown, Dozier, Fortunato, Gildon, Hawkins, Holy, Honeyford, King, McCune, Muzzall, Padden, Rivers, Sheldon, Short, Warnick and Wilson, J..

Brief History:

Committee Activity: Business, Financial Services & Trade: 1/25/22.

Brief Summary of Bill

- Provides a \$250,000 property tax homestead exemption for the state property tax.
- Reduces the business and occupation tax rate on manufacturing activities to 0.00 percent.
- Repeals the capital gains tax.
- Repeals the long-term services and supports trust program.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Staff: Jeffrey Mitchell (786-7438)

Background: Property Taxes. All real and personal property in this state is subject to property tax each year based on its value, unless a specific exemption is provided by law.

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.

Property taxes are calculated for individual properties by multiplying a tax rate by the assessed value of each property. By statute, assessed value must be equal to 100 percent of the fair market value of the property, unless the property qualifies under a special tax relief program. The State Constitution provides that all taxes must be uniform on the same class of property and all real estate constitutes a single class. This requires both an equal tax rate and equality in valuing the property taxed.

Business and Occupation Taxes. Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss. A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and for service and other activities not otherwise specified, either 1.5 percent for businesses with taxable income of less than \$1 million or 1.75 percent for businesses with taxable income of \$1 million or more. Several preferential rates also apply to specific business activities.

Capital Gains Tax. In 2021, the Legislature enacted a capital gains tax (CGT). A CGT is a tax on the profit realized on the sale of non-inventory assets purchased at a lower price than the sales price. Common examples are capital gains realized from the sale of stocks, bonds, mutual funds, boats, and real estate. The state CGT took effect January 1, 2022, and is imposed on the sale or other voluntary exchange of long-term capital assets by individuals. The tax rate is 7.0 percent. The first \$250,000 of capital gains are excluded from the state CGT. However, for married couples filing separately and registered domestic partners filing separately, the combined standard deduction is limited to \$250,000. Beginning with taxes due and payable in 2024, the \$250,000 amount is adjusted annually by inflation.

All taxpayers must file with the state Department of Revenue (DOR), a CGT return for each taxable year; however, a person with no tax liability is not required to file a tax return. The first state CGT returns are due in 2023.

Sales or exchanges of real estate as well as a number of different types of capital assets are explicitly excluded from the state CGT.

Several deductions are also provided, including a deduction for the sale of substantially all of a qualified family-owned small business and a deduction for the amount donated by a taxpayer to one or more qualified organizations during the same taxable year in excess of \$250,000.

Revenues from the tax, and any associated interest and penalties, are distributed as follows: the first \$500 million of state CGT revenues received each year are deposited into the state Education Legacy Trust Account and the remainder is deposited into the Common School Construction Account. Beginning with taxes due and payable in 2024, the \$500 million

amount is adjusted by inflation.

Long-Term Services and Supports Trust Program. In 2019, the Legislature established the Long-Term Services and Supports Trust Program (LTSS Trust Program), which provides up to \$36,500 in lifetime benefits, plus adjustments for inflation at the direction of the LTSS Trust Commission, for eligible beneficiaries to apply to the cost of their long-term care. The LTSS Trust Program is funded through a 0.58 percent premium assessment on an employee's wages. The premium assessment begins January 1, 2022, and eligible beneficiaries may begin receiving benefits on January 1, 2025. An individual who is a Washington resident, at least 18 years old, assessed as needing assistance with at least three activities of daily living, and paid into the program for either three of the last six years or a total of ten years with no more than a five year interruption, is eligible to receive benefits.

The LTSS Trust Program is administered jointly by the Department of Social and Health Services (DSHS), the Employment Security Department (ESD), and the Health Care Authority. Oversight is provided by the Long-Term Services and Supports Trust Commission which includes legislators, agency directors, and representatives from area agencies on aging, stakeholders, and consumers of approved services. The LTSS Trust Commission's January 1, 2022, report included a recommendation to allow individuals who retire before 2032 with the option to continue paying the premiums until they are vested. The Trust Commission also considered other options for individuals who retire before 2032, including pro-rated benefits, continued premium payments until benefits are needed, opt-outs for persons over a certain age, and premium refunds.

Summary of Bill: Homestead Property Tax Exemption. A property tax homestead exemption is provided for all owner-occupied principal residences for a portion of the state property tax.

Beginning with taxes levied for collection in calendar year 2024, an exemption from state property taxes is provided equal to: 1

- the first \$250,000 of valuation of each residential tax parcel consisting of fewer than three residences; and
- the first \$250,000 of valuation of each residence within a multi-unit residential dwelling where each residence is owned and taxed separately or is owned by members of a cooperative housing association, corporation, or partnership.

The amount of the homestead exemption will be increased from year-to-year for inflation equal to the percentage growth in the state levy for the prior calendar year, which is based on the implicit price deflator for personal consumption expenditures. The homestead exemption must be equalized by the combined indicated ratio for the county where the parcel is located.

A property owner must apply for the homestead exemption on declaration and renewal declaration forms developed by DOR or by the county assessor and approved by DOR.

Each county assessor must make declaration and renewal declaration forms available at the assessor's office, on the assessor's official website, and by mail or email upon request. A homestead exemption continues for no more than six consecutive years unless a renewal declaration is filed with the county assessor.

The applicant or their designated agent or legal guardian must sign the declaration or renewal declaration form declaring the property for which a homestead exemption is sought is the owner's principal residence. An applicant who sells, transfers, or is displaced from their residence may transfer the exemption status to a replacement residence, but no applicant may receive a homestead exemption on more than one residence in any calendar year. The applicant must submit their declaration or renewal declaration form by June 30th for exemption from state taxes payable the following calendar year.

The applicant must own the property, in fee or by contract purchase, or have held a life estate in, the residence for which the homestead exemption is claimed; however, if the applicant resides in a cooperative housing association, corporation, or partnership, including a mobile home park cooperative or manufactured housing cooperative, the applicant must own a share in the cooperative representing the unit or dwelling in which they reside or the lot on which their manufactured/mobile home or park model is situated.

The legislation requires the state levy to be reduced as necessary to prevent the total property value exempted under the legislation from resulting in a higher tax rate than would have occurred in the absence of the property tax homestead exemption.

The homestead exemption is in addition to the senior citizen property tax relief program.

The homestead exemption applies to the total state property tax and does not apply to local property taxes.

DOR and each county assessor are required to publicize the qualifications and manner of making claims for the homestead exemption.

DOR may conduct audits of the administration of the homestead exemption and claims filed for the homestead exemption as DOR considers necessary.

The legislation is contingent on the passage of a constitutional amendment authorizing a homestead property tax exemption that would be submitted to the voters in November 2022.

Manufacturing Business and Occupation Tax. The B&O tax rates for various manufacturing and processing activities would be reduced to 0.00 percent, including: general manufacturing; processing for hire; splitting, processing of peas; manufacturing wheat into flour, soybean, and canola processing; slaughtering, breaking and/or processing perishable meat products; manufacturing of solar energy products; manufacturers of

semiconductor materials; commercial airplane manufacturing and commercial airplane tooling manufacturing; manufacturing wood biomass fuel; aluminum smelting; manufacturing of dairy products; manufacturing of fresh fruit and vegetables; and manufacturing of seafood products.

The proposed rate for timber manufacturing/processing for hire, timber extracting/extracting for hire, and timber manufacturers or extractors' wholesaling is reduced from 0.3424 percent to 0.052 percent—a 0.052 percent surcharge deposited into the forest and fish support account is retained.

Capital Gains Tax. The capital gains tax is repealed retroactively to January 1, 2022, as well as prospectively.

Long-Term Services and Supports Trust Program. The LTSS Trust Program, including the premium assessment, is repealed—the premium assessment is repealed retroactively to January 1, 2022, as well as prospectively.

Appropriation: None.

Fiscal Note: Requested on January 17, 2022.

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

Effective Date: The bill contains several effective dates. Please refer to the bill.