

SENATE BILL REPORT

SB 6098

As Reported By Senate Committee On:
Ways & Means, March 8, 2001

Title: An act relating to studying Washington's tax structure.

Brief Description: Creating a committee to study Washington's tax structure.

Sponsors: Senators Constantine, Brown, Prentice, Costa, Spanel, Kline, Carlson, Franklin and Kohl-Welles.

Brief History:

Committee Activity: Ways & Means: 3/5/01, 3/8/01 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6098 be substituted therefor, and the substitute bill do pass.

Signed by Senators Brown, Chair; Constantine, Vice Chair; Fairley, Vice Chair; Fraser, Kline, Kohl-Welles, Rasmussen, Regala, B. Sheldon, Snyder, Spanel, Thibaudeau and Winsley.

Staff: Terry Wilson (786-7433)

Background: Washington's tax system is one of the most unique systems in the nation. The state relies primarily on the sales tax, the business and occupation (B&O) tax, and the property tax. The state relies most heavily on the sales tax which is one of the highest in the nation. Since the sales tax is based on consumption, the tax is volatile and unstable during economic downturns and can cause large budget deficits. Washington is the only state in the nation that levies a B&O tax on gross income. Since the B&O tax is not based on profit, tax collections are very stable, but the B&O tax favors established, profitable firms at the expense of start-up firms and firms with low-profit margins. Property taxes are a very stable source of revenue, but the tax is perceived as high by the taxpayers. In addition, the tax is complex and the administrative costs are high.

Washington's tax system has remained relatively unchanged since 1935. Since that time, the state has grown in population and emphasis from a more agrarian society to a more industrial, technology-based society.

Summary of Substitute Bill: The Department of Revenue is directed to create a committee on taxation to study the elasticity, equity, and adequacy of the state's tax system. The committee is to consist of eleven members. The department appoints six members, to include academic scholars in the fields of economics, taxation, business administration, public administration, public policy, and other relevant disciplines as determined by the department. In making the appointments, the department must consult with the majority and minority leaders in Senate, the co-speakers in the House of Representatives, the chair of the Ways and

Means Committee in the Senate, and the co-chairs of the Finance Committee in the House of Representatives. For the other five members, the Governor and the chairs of the majority and minority caucuses in each house of the Legislature each appoint one member.

The committee is to determine how well the current tax system functions and how it might be changed to better serve the citizens of the state in the twenty-first century. The committee must develop multiple alternatives to the existing tax system designed to increase the harmony between the tax system of this state and the surrounding states, encourage commerce and business creation, and encourage home ownership. The alternatives are to range from incremental improvements in the current tax structure to complete replacement of the tax structure. Most of the alternatives developed by the committee must be revenue neutral and include no income tax.

The Department of Revenue provides staff to the committee for the purpose of the study.

The findings of the study and the alternatives developed by the committee must be reported to the Ways and Means Committee in the Senate and the Finance Committee in the House of Representatives by November 30, 2002.

Substitute Bill Compared to Original Bill: The substitute bill allows election of a non-voting chair who is not a member of the committee; requires the department to create an advisory group to advise the committee; and requires the committee to consider the effects of tax incentives.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This is a broad high-level philosophical study. Proposals are based on criteria that are hall marks of a good tax system: Administrative simplicity, economic neutrality, fairness, stability, and transparency. These are not Republican/Democrat issues but important issues that allow people to have faith in their government and that allows government to function. Most of the recommendations must be revenue neutral.

Testimony Against: None.

Testified: Senator Constantine, prime sponsor.