

SENATE BILL REPORT

SB 5166

As of February 13, 2013

Title: An act relating to fiscal reform.

Brief Description: Concerning fiscal reform.

Sponsors: Senators Chase and Kline.

Brief History:

Committee Activity: Ways & Means: 2/14/13.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dean Carlson (786-7305)

Background: There are three general types of taxes common to most state and local governments. One type of taxation is imposed on the assessed valuation of asset ownership including real, personal, and intangible property. A second type, common to most states, is imposed on personal and corporate net income. The final type is imposed on transactions and measured by the gross proceeds of each sale. Of the three general methods for imposing taxes – property, income, and excise, Washington State and local governments rely on property and excise taxes. Washington does not impose taxes on net income.

Income Taxes – Generally. Income taxes for persons and corporations are measured by the net income received by individuals, households, and business entities. The federal income tax is imposed on individuals, estates, trusts, and corporations. Income taxes are also levied by most states: 45 states impose a corporate net income tax and 43 states levy a personal income tax. Only Washington, Nevada, South Dakota, and Wyoming do not impose any form of personal or corporate income tax.

Washington State's Current Tax Structure. In 1935, the Legislature enacted the comprehensive Revenue Act, which set the basic structure of Washington's current tax system: a property tax primarily on real estate, a business and occupation (B&O) tax on business receipts, and a sales tax on consumers. The State Supreme Court has held that Washington's B&O tax, measured by gross receipts, is an excise tax rather than an income tax. All taxes levied in Washington, except for property taxes, represent some form of excise tax. Since the comprehensive Revenue Act of 1935, excise taxes have been the principal source for funding state government in Washington.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Summary of Bill: Subject to approval by the voters in the November 2013 general election, a constitutional amendment allowing for an income tax will specify that the following take place:

Income Tax. An income tax is imposed on all taxable income of resident individuals, estates, and trusts. The tax does not apply to corporations, however, partners of partnerships and shareholders of S corporations are subject to tax in their separate or individual capacities. The tax has a graduated three-rate structure as follows for a married couple filing jointly:

<u>If taxable income is:</u>	<u>The tax is:</u>
Not over \$49,900	2.2 percent of taxable income
Over \$49,900 but not over \$120,650	\$1,098 plus 3.5 percent of the excess of \$49,900
Over \$120,650	\$3,574 plus 6.0 percent of the excess over \$120,650

The taxable income brackets for heads of households are set at 75 percent of the brackets for joint returns. The taxable income brackets for single filers are set at 50 percent of joint returns.

The tax is based on federal adjusted gross income (AGI). A standard deduction of \$5,000 is provided for single filers. Joint returns with only one income are allowed a deduction of \$7,000; if both spouses have a taxable income the deduction is \$10,000. The standard deduction for a head of household is \$7,000. Additionally, a personal exemption of \$2,900 is provided for each exemption claimed under the federal income tax. Additional exemptions are provided for elderly and blind persons. The dollar amount of the standard deductions and personal exemptions are indexed for inflation.

A credit is allowed for the amount of any state B&O tax or public utility tax paid by an individual operating a business as a sole proprietor.

The bill establishes a system for employer withholding and payment of estimated income tax, including penalties for failure to pay and crimes for evasion. Return filing provisions require tax returns to be filed at the same time federal income tax returns are filed.

Retail Sales and Use Tax. The state retail sales and use tax is reduced under this bill from 6.5 percent to 3.5 percent. This reduction is also contingent upon voter approval of the income tax amendment and would take effect January 1, 2015.

State Property Tax. The state portion of the property tax is eliminated beginning in 2015. The maximum rate of regular property tax levies is reduced from \$10 per \$1,000 of assessed value to \$6.40 per \$1,000 of assessed value.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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