

SENATE BILL REPORT

SB 5589

As of February 13, 2019

Title: An act relating to prohibiting local taxes based on employee wages, employee hours, or the number of employment positions.

Brief Description: Prohibiting local taxes based on employee wages, employee hours, or the number of employment positions.

Sponsors: Senators Schoesler, Mullet, Becker, Brown, Hobbs, King, Bailey, Fortunato, O'Ban, Rivers, Padden, Wagoner, Wilson, L., Honeyford, Warnick, Short, Ericksen, Holy, Hawkins and Walsh.

Brief History:

Committee Activity: Local Government: 2/12/19.

Brief Summary of Bill

- Prohibits a city or town from imposing a tax measured by employee wages, employee hours, or the number of employment positions, which is initially enacted on or after January 1, 2019.

SENATE COMMITTEE ON LOCAL GOVERNMENT

Staff: Greg Vogel (786-7413)

Background: City Business and Occupation Taxes. City business and occupation (B&O) taxes are levied at a percentage rate on the gross receipts of the business. Businesses are placed in different classes such as manufacturing, wholesaling, retailing, and services. Within each class, the rate must be the same, but it may differ among classes.

Effective April 20, 1982, the Legislature set the maximum tax rate that can be imposed by a city's legislative body at 0.2 percent, but grandfathered in any higher rates existing on January 1, 1982. All ordinances imposing this tax for the first time or raising rates must provide a referendum procedure. Any city may levy a rate higher than 0.2 percent, if it is approved by a majority of the voters.

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.

In 2003, the Legislature passed a bill requiring the Association of Washington Cities to convene a committee to develop a model ordinance that must be adopted by all cities imposing a B&O tax. Beginning January 1, 2008, cities levying the B&O tax must allow for allocation and apportionment of a person's gross income related to the location where the activity takes places.

Head Tax. A head tax, or an employee hours tax, is a tax measured on employee wages, employee hours, and the number of employees. On May 14, 2018, the Seattle City Council approved a head tax on the city's largest companies. On June 12, 2018, the council repealed it.

More than 500 businesses would have been subjected to the tax, which is about 3 percent of the city's companies. It would have applied to companies making more than \$20 million annually in gross receipts. Businesses would have been taxed roughly \$275 per employee per year. The head tax was scheduled to sunset in 2023, with the ability to be renewed by the council. The tax was expected to raise \$47 million annually. The tax was scheduled to be implemented on January 1, 2019.

The purpose of the tax was to increase funding for homelessness services and programs for affordable housing. The original proposal claimed the tax would raise \$75 million annually and was proposed to fund:

- the construction of 1,780 deeply affordable housing units over the next five years; and
- emergency shelter and other services such as building tiny homes, expanding hygiene services, expanding criminal justice diversion programs, services for people living in cars, and adding 362 shelter beds.

Affordable housing would have been targeted at residents earning 30 percent of the area's median income.

Summary of Bill: A city or town may not impose a tax measured by employee wages, employee hours, or the number of employment positions, which is initially enacted on or after January 1, 2019.

Appropriation: None.

Fiscal Note: Not requested.

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 a good bill to show that Washington is a good place to grow and expand business without the threat of regressive taxes. These kinds of taxes work against efforts to increase employment and worker pay, and incentivize automation and relocation. Job taxes are terrible for Washington's business climate.

CON: The bill is a preemption of local business regulations that would preclude cities' decision making concerning the best approach to business taxation in their community. The tax is a good tool for cities, such as Vancouver, to spread the tax burden more equitably.

Persons Testifying: PRO: Senator Mark Schoesler, Prime Sponsor; Clay Hill, Association of Washington Business.

CON: Candice Bock, Association of Washington Cities; Brian Enslow, City of Vancouver.

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