

HOUSE BILL REPORT

SHB 2018

As Passed House:

March 4, 2022

Title: An act relating to creating a three-day shop local and save sales and use tax holiday to benefit all Washington families for certain items \$1,000 or less during the month of September.

Brief Description: Creating a three-day shop local and save sales and use tax holiday to benefit all Washington families for certain items \$1,000 or less during the month of September.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Paul, Rule, Bergquist, Bronoske, Chapman, Leavitt, Ramel, Ryu, Sutherland, Berg, Callan, Frame, Riccelli and Lekanoff).

Brief History:

Committee Activity:

Finance: 1/31/22, 2/17/22 [DP];

Appropriations: 2/24/22, 2/28/22 [DPS].

Floor Activity:

Passed House: 3/4/22, 91-7.

Brief Summary of Substitute Bill

- Authorizes a shop local and save sales and use tax holiday for Labor Day Weekend 2022 for qualified items purchased by individuals.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives Frame, Chair; Berg, Vice Chair; Orcutt, Ranking Minority Member; Chase, Chopp, Morgan, Orwall, Ramel, Springer, Thai, Vick and Wylie.

Minority Report: Without recommendation. Signed by 5 members: Representatives

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.

Walen, Vice Chair; Dufault, Assistant Ranking Minority Member; Harris-Talley, Stokesbary and Young.

Staff: Tracey Taylor (786-7152).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 28 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Chambers, Assistant Ranking Minority Member; Corry, Assistant Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Boehnke, Caldier, Chopp, Cody, Dolan, Dye, Frame, Harris, Hoff, Jacobsen, Johnson, J., Lekanoff, Rude, Ryu, Schmick, Senn, Springer, Steele, Stonier, Sullivan and Tharinger.

Minority Report: Do not pass. Signed by 2 members: Representatives Stokesbary, Ranking Minority Member; Hansen.

Minority Report: Without recommendation. Signed by 3 members: Representatives Chandler, Fitzgibbon and Pollet.

Staff: Dawn Eychaner (786-7135).

Background:

Retail Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 4.0 percent, depending on the location.

Streamlined Sales and Use Tax Agreement.

The purpose of the Streamlined Sales and Use Tax Agreement (SSUTA) is to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance. The SSUTA focuses on improving sales and use tax administration for all sellers and for all types of commerce in a number of ways, including by providing uniformity in state and local tax bases, simplification of state and local tax rates, uniformity in sourcing rules for all taxable transactions, simplified administration of exemptions. There are 24 states that are party to the SSUTA. In 2007 Washington fully adopted the SSUTA.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Substitute Bill:

The shop local and save sales and use tax holiday is created. The purchase of qualified items by an individual from September 3 through September 5, 2022, is exempt from sales and use taxes. An individual means a natural person purchasing the qualified items for personal use or consumption. It does not include a natural person purchasing a qualified item for use or consumption by a business or in a business capacity.

A qualified items means any article of tangible personal property, digital good, or digital code used solely to obtain one or more digital good, excluding non-qualified items. Each item must be priced at \$1,000 or less. The exemption does include the purchase of non-qualified items such as motor vehicles, boats, services, construction, tobacco or marijuana products, vapor products, soft drinks, alcoholic beverages, utilities, travel, or meals.

The Department of Revenue (DOR) must adopt rules for the administration of this exemption that are consistent with the SSUTA to the extent possible.

The Shop Local and Save Sales and Use Tax Holiday Mitigation Account (Account) is created. Mitigation payments must be made from this account to local taxing districts impacted by the sales and use tax suspension on qualified items. The DOR must estimate the revenue losses for each local taxing district and notify the State Treasurer of the amount of mitigation payments to be made from the Account to the local taxing district by November 18, 2022. The State Treasurer must transfer the mitigation payments to the local taxing districts by December 1, 2022.

The act is exempt from the requirements of a TPPS and a JLARC tax preference study.

The act expires June 30, 2023.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony (Finance):

(In support) Back-to-school shopping can be challenging for working families. Washington has an unexpected revenue surplus this year that can be deployed to help working families and local businesses by creating this one-time sales tax holiday weekend. Other states have found these sales tax holidays very popular, generating great consumer excitement. As a result of increasing sales, more employees will be hired and business and occupation tax payments will increase. The savings on sales taxes on targeted items will be a stopgap to help taxpayers while the larger bipartisan systemic tax reform is developed. Moreover, this bill removes the impact on local taxing districts by providing mitigation payments.

(Opposed) Washington has an unfair tax system that relies too heavily on sales and use taxes. This bill does not deliver economic relief to those taxpayers most in need. It diverts state revenues from more important uses, including making child care affordable. It is questionable that taxpayers will see any savings, as businesses are likely to raise prices. Although this idea is put forth with good intentions, it will divert funds out of the State General Fund. There are important services that need funding, including Developmental Disabilities programs and wraparound services for at-risk youth. Moreover, this could be the beginning of a holiday that becomes an annual event that further reduces state revenues.

(Other) The mitigation payments to local taxing districts are appreciated. However, the formula that the DOR has to implement to determine the payments seems overly complicated. In addition, it is important that the Legislature fully funds the account to ensure adequate mitigation payments are made to the impacted taxing districts.

Staff Summary of Public Testimony (Appropriations):

(In support) Washington is enjoying a healthy influx of revenue. Tax holidays like this are very popular in other states. Retailers will hire more people and see more business as a result of this policy. Holidays like this encourage purchases like back-to-school supplies.

(Opposed) This policy does not deliver economic relief and does not change our regressive tax system. The limited savings that consumers may see will not be equally distributed across income levels.

Persons Testifying (Finance): (In support) Representative Dave Paul, prime sponsor; and Mark Johnson, Washington Retail Association.

(Opposed) Carolyn Brotherton, Economic Opportunity Institute; and Dennis Eagle, Washington Federation of State Employees.

(Other) Candice Bock, Association of Washington Cities.

Persons Testifying (Appropriations): (In support) Mark Johnson, Washington Retail Association.

(Opposed) Madeleine Foutch, Service Employees International Union 775.

Persons Signed In To Testify But Not Testifying (Finance): None.

Persons Signed In To Testify But Not Testifying (Appropriations): None.