

HOUSE BILL REPORT

HI 2111

As Reported by House Committee On:
Finance

Title: An act relating to establishing that neither the state nor any of its political subdivisions may charge any individual person a tax based on personal income.

Brief Description: Concerning taxes on personal income.

Sponsors: People of the State of Washington.

Brief History:

Committee Activity:

Finance: 2/27/24, 3/1/24 [DP].

Brief Summary of Initiative

- Prohibits the state and local jurisdictions from imposing taxes on a person's gross income.
- Specifies that "income" has the same meaning as "gross income" under the federal tax code.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 7 members: Representatives Berg, Chair; Jacobsen, Assistant Ranking Minority Member; Barnard, Springer, Walen, Wilcox and Wylie.

Minority Report: Without recommendation. Signed by 5 members: Representatives Street, Vice Chair; Chopp, Ramel, Santos and Thai.

Staff: Tracey Taylor (786-7152).

Background:

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.

Initiative Process.

Article II, section 1, of the Washington Constitution authorizes the initiative process, allowing the people to place a proposition on the ballot or to submit the proposed law to the Legislature.

If an initiative to the Legislature is certified, the Legislature must take one of the following three actions:

1. adopt the initiative as proposed, in which case it becomes law without a vote of the people;
2. reject or take no action on the measure, under either case the measure will automatically appear on the ballot in the next state general election; or
3. propose an alternative measure, in which case the initiative and alternative will both appear on the ballot as competing measures in the next state general election.

Definition of Gross Income Under the Federal Tax Code (26 U.S.C. §61).

Under the federal tax code, gross income is generally defined to mean all income from whatever source derived, including, but not limited to, the following items: compensation for services, including fees, commissions, fringe benefits, and similar items; gross income derived from business; gains derived from dealings in property; interest; rents; royalties; dividends; annuities; income from life insurance and endowment contracts; pensions; income from discharge of indebtedness; distributive share of partnership gross income; income in respect of a decedent; and income from an interest in an estate or trust.

Summary of Bill:

The state, counties, cities and other local jurisdictions are prohibited from imposing a tax on any form of an individual's gross income. "Income" has the same meaning as "gross income" as provided in the federal tax code (26. U.S.C. §61).

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The initiative is designed to do one thing and one thing only: to codify the state's long-standing tradition of opposition to an income tax. Voters in this state have repeatedly rejected an income tax at the ballot. Moreover, it is narrowly drafted to only

apply to an income tax. It does not capture any of the state's existing revenue sources. Some may argue that it is unnecessary because of constitutional precedent; however, taxpayers do not trust the government. An income tax could be constitutional in this state; however, it is the clear and consistent intent of the voters that they do not want such a tax.

Taxpayers do not get value for the tax dollars they are already giving the government. The state's tax funded budget has increased 139 percent in 12 years, outpacing the state's population growth. The elected officials are adopting policies and funding programs that the taxpayers believe are wrong. Until the politicians in this state do the right thing, initiatives like this are necessary.

There must be respect for the workers in this state and the economic challenges they face. Payroll taxes and inflation are eating away at their paychecks. It is important to keep a tax that penalizes the working families in this state off the table. The sales and use tax revenues continue to increase and that tax serves us well in providing adequate funding for necessary government programs. In fact, the increase in the state's revenue collections is a sign that taxpayers need meaningful tax relief.

Washington's lack of income tax attracts workers and employers to this state. As a result, it increases the tax base. The capital gains tax is already causing an exodus of Washington taxpayers to more favorable states like Florida and Texas. An income tax is not the right direction for this state and will hurt our smallest retailers.

The Internal Revenue Service has ruled that a capital gains tax is an income tax; however, the Washington Supreme Court held it was an excise tax. This is evidence that this initiative is necessary to clarify that Washington should not impose an income tax.

Hundreds of thousands of Washingtonians have spoken by signing the petition to get this initiative on the ballot. They are fearful of the government taking more of their money. If it does nothing but protect us in the future, it is still worth it. Washingtonians are overtaxed and most get little in return. The simple, plain language of the initiative protects those people who are supporting themselves and their families on their own incomes and not receiving any government services.

Washington has adopted other state's laws by reference many times before. The concern over the lack of the date is unfounded.

(Opposed) Simply put, this initiative does not do anything for the people of Washington. Washington does not have an income tax and no income tax has been proposed. What Washington does have is an upside down tax code and a lack of resources to lift families out of poverty and provide funding for education. Washington needs public investment, not vague and ineffective initiatives. Moreover, restricting what future Legislatures can consider for revenue sources puts the whole system at risk.

Washington is a wonderful place to live and everyone deserves to have their basic needs met. Our regressive tax structure causes persons with health conditions to make tough choices between necessary medication and meeting their basic needs. This proposal does not assist in making any meaningful progress on the issues that truly impact Washingtonians.

Only 0.2 percent of Washingtonians pay the capital gains excise tax, the passage of which has made a small step to make the state's tax system more equitable. Washingtonians want clean air and water and to invest in our schools and communities. It is heartening to hear that this initiative will not impact existing taxes, but it does nothing to help our citizens and is a waste of time.

This is a solution in search of a problem. If the goal is to help Washington families, the Legislature should consider other progressive tax proposals and reform our regressive tax system.

(Other) The initiative prohibits the state and local governments from imposing a tax on the gross income of a natural person. There is no reduction in revenues because Washington does not impose an income tax. In addition, there is nothing in the initiative to suggest that it is repealing or amending existing taxes. Indeed, it would violate Article II, section 37 of the Washington Constitution to assume otherwise.

Local governments are trying to invest in their communities and constantly being challenged to do more with less. There is a structural imbalance that prevents local governments from having the necessary tools to address their needs. The Legislature's interference often make it harder for local governments to assist its poorest residents. Local governments need an adequate and nonregressive funding source and this initiative does not do that. It does not make the wealthiest among us pay their fair share.

This is a vaguely worded initiative that would change nothing. It is heartening to hear that this does not impact any existing statutes, including Paid Family and Medical Leave, but it could impact Washington's ability in the future to help families. Washington has one of the highest effective tax rates in the country for low and middle income households. High earners in Washington have one of the lowest effective tax rates for like situated taxpayers in the country. The state's attempts to close this gap, like the capital gains excise tax and the working families tax credit, have helped Washington move from being the most regressive state to the second most regressive state for taxes. There is still room for improvement.

Under the Washington State Constitution, income is property and subject to the uniformity and levy restrictions therein. This is a poorly written, confusing, and unnecessary initiative. If it went to the ballot in November, it would likely mislead many voters on its effectiveness.

Persons Testifying: (In support) Anthony Mixer, Washington State Young Republicans; Eric Pratt; Mark Johnson, Washington Retail Association; Laurie Layne; Braden Sisk, Let's Go Washington; Elizabeth Hovde, Washington Policy Center; Jim Walsh; Collin Hathaway, Opportunity for All Coalition; Steve Gordon, Concerned Taxpayers of Washington State; Amanda McKinney, Yakima County; and Jason Mercier, Mountain States Policy Center.

(Opposed) Desirée Toliver; Marcy Bowers, Statewide Poverty Action Network; Charles Mayer, Washington Physicians for Social Responsibility; Sharon Chen; Reiny Cohen, Balance Our Tax Code; and Misha Werschkul, Washington State Budget and Policy Center.

(Other) Steve Ewing, Department of Revenue; Lindsey Schromen-Wawrin, City of Port Angeles; Maggie Humphreys, MomsRising; Andrea Ommen; Dylan Grundman O'Neill, Institute for Taxation and Economic Policy; and Kai Smith, Pacifica Law Group.

Persons Signed In To Testify But Not Testifying: More than 20 persons signed in. Please see committee staff for information.