

# HOUSE BILL REPORT

## HB 1879

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### As Reported by House Committee On:

Finance

**Title:** An act relating to simplifying the concurrent taxing jurisdictions of the tribal municipalities and the state.

**Brief Description:** Coordinating the state collection and administration of sales and use taxes imposed by tribal municipalities.

**Sponsors:** Representatives Gombosky and Cairnes.

### Brief History:

#### Committee Activity:

Finance: 2/25/03, 3/7/03 [DPS].

#### Brief Summary of Substitute Bill

- Permits the Department of Revenue to administer and collect a tribal sales tax in Quil Ceda Village on the Tulalip Reservation.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Gombosky, Chair; McIntire, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

**Staff:** Bob Longman (786-7139).

### Background:

Federally recognized Indian Tribes have the authority to impose taxes, including taxes on the activities of nonIndians who are on tribal trust land. Trust land is land held by the federal government in trust for a tribe and under the jurisdiction of the tribal government. The authority of tribes to impose taxes is entirely a matter of federal law.

Generally speaking, state and local governments also have the authority to impose taxes on the activities of nonIndians who are on tribal trust land. For example, nontribal

businesses on tribal land must collect state and local retail sales tax in addition to any tribal sales tax. The state retail sales tax rate is 6.5 percent. Additional local sales taxes are imposed by cities, counties, and transit districts. Local sales tax rates currently range from 0.5 percent to 2.4 percent, depending on location. The maximum sales tax rate for a city is 1 percent. If both a city and a county impose sales taxes, the county tax is reduced by the amount of the city tax and the county gets 15 percent of the revenue from the city tax. Local sales taxes are administered by the Department of Revenue (Department). A retailer collects sales tax from customers at a single rate and remits the total state and local sales tax to the Department. The Department distributes the local sales taxes to the local governments that impose sales taxes. None of these rate limits or collection and distribution procedures apply to tribal taxes.

The Board of Directors of the Tulalip Tribes has created a municipality within the Tulalip Reservation in Snohomish County. The municipality is known as Quil Ceda Village. The village has developed a business park which includes several major retailers. The tribe has indicated it intends to impose a tribal tax on retail sales in the village.

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**Summary of Substitute Bill:**

Quil Ceda Village is defined as a city for the purposes of collection and distribution of local sales taxes. As a pilot project, the Department of Revenue may enter into an interlocal cooperation agreement with any Indian tribe that has a city. The agreement would permit the Department to administer and collect a tribal sales tax in the city. Under the agreement, tribal sales tax definitions must be uniform with state and local sales tax definitions, the tribal tax rate must be no greater than the rate allowed cities under state law, and the tribe must agree to provide the county with the same percentage of its tax that the county would get from a city tax imposed under state law. The agreement may also cover additional areas of tax administration, including audit and compliance, as may be required to simplify tax administration and tax reporting.

The Department must report to the Legislature by December 1, 2004, with information about implementation of the agreement and any issues raised by the agreement. The report must contain a recommendation on the feasibility of extending the pilot project.

**Substitute Bill Compared to Original Bill:**

The substitute makes the agreement a pilot project and adds a reporting requirement.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** This bill will benefit both the Tulalip Tribes and retailers in Quil Ceda Village. The bill does not authorize a new tax. It costs the state nothing. Quil Ceda Village will be treated the same as any other city for purposes of local option sales taxes. It will be possible to coordinate tax collection with the Department of Revenue without affecting the sovereignty of the Tulalip Tribes. The village was developed and funded solely by the Tulalip Tribes. This enterprise will help strengthen the economic base and create jobs. It will produce revenue for essential governmental services. Snohomish County has concerns about the fiscal impacts but takes no position on the bill.

**Testimony Against:** This bill will have an adverse fiscal impact on the county and eventually may have an adverse impact on cities near the tribal city. Quil Ceda Village has not provided the same financial relief to the county as other cities have. These are long-term concerns.

**Testified:** (In support) Representative Gombosky, prime sponsor; Scott Nelson and Kyle Lucas, Tulalip Tribes; and Bill Vogler, Washington State Association of Counties.

(Opposed) David Weiser, City of Marysville.