

HOUSE BILL REPORT

HB 3118

As Reported by House Committee On:
Finance

Title: An act relating to tax incidence notes.

Brief Description: Requiring formal evaluation of the impact of fiscal changes on individuals and businesses.

Sponsors: Representatives McIntire, Hunter, Santos, Conway, Chase, Simpson, D., Linville, Morrell and Simpson, G..

Brief History:

Committee Activity:

Finance: 2/6/04 [DP].

Brief Summary of Bill

- Creates a tax incidence note for revenue bills with impact greater than \$10 million.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 5 members: Representatives McIntire, Chair; Hunter, Vice Chair; Conway, Morris and Santos.

Minority Report: Do not pass. Signed by 3 members: Representatives Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; and Roach.

Staff: Rick Peterson (786-7150).

Background:

Tax incidence is the study of who bears the economic burden of a tax. Tax incidence recognizes that the person who has the legal obligation to make a tax payment may not be the person who bears the economic burden of the tax.

For example, the legal burden of a tax on a commodity may be imposed on distributors or manufacturers of the commodity. But the economic burden of the tax passes forward to the consumers of the commodity if the price of the commodity increases by the amount of the tax. If the price of the commodity does not increase then the economic burden of the tax is passed backward onto the labor, capital and other inputs used in the production of the

commodity. A portion of the economic burden of the tax may be passed forward and a portion passed backward.

The Office of Financial Management (OFM) has principal responsibility for preparing fiscal notes, which are statements of the projected fiscal impact of legislation. Fiscal notes itemize the increase or decrease of revenues or expenditures by the affected state or local government.

Summary of Bill:

Tax incidence notes are added to the fiscal note process. Tax incidence notes will show the fiscal burden or benefit of a tax change by income classes, taxpayer characteristics, or other relevant categories. Tax incidence notes will be written on revenue bills with impact of greater than \$10 million. The notes will indicate the legal liability of the proposed tax changes for households, businesses, governments, and out-of-state taxpayers and the final incidence of the proposed tax change. The final incidence will show the tax burden once the legal liability has been absorbed by the taxpayer or passed onto households within the state or outside the state.

An advisory committee consisting of staff from the Department of Revenue (Department), legislative fiscal committees, and academic economists is formed to develop a tax incidence methodology. The methodology will be a static mechanistic model that can be used to analyze taxes on businesses by industry and households by income group. The methodology will be reviewed and approved by the economic and revenue forecast council.

The Department is required to report to the Legislature on the incidence of state and local taxes administered by the Department. The report is due in January 2007 and every two years after.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill provides additional policy information. It will be useful to know who would gain benefits or pay higher taxes when significant revenue measures are considered.

Testimony Against: None.

Persons Testifying: (In support) Representative McIntire, prime sponsor; and Jim Hedrick, Office of the Governor.

Persons Signed In To Testify But Not Testifying: None.