

HOUSE BILL REPORT

HJM 4004

As Reported by House Committee On:

Finance

Brief Description: Requesting Congress to restore the federal income tax deduction for state and local sales taxes.

Sponsors: Representatives Nixon, Campbell, Bush, Kessler, Talcott and Simpson.

Brief History:

Committee Activity:

Finance: 1/24/03, 2/28/03 [DPS].

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| <p>Brief Summary of Substitute Bill</p> <ul style="list-style-type: none">· Asks Congress to restore the itemized deduction for sales taxes. |
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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: Rick Peterson (786-7150).

Background:

In 1986 federal tax changes removed the itemized deduction for state and local sales taxes on federal income tax returns. State and local income taxes and property taxes continue to be deductible as itemized deductions.

The Washington Tax Structure Committee estimates that Washington households pay an additional \$500 million in federal income because the sales tax is no longer deductible.

One bill has been introduced in the 108th Congress to restore the itemized deduction for sales taxes. The bill would allow a deduction for sales taxes for residents of states that do not impose an income tax.

Summary of Substitute Bill:

Congress is requested to restore the itemized deduction for sales taxes.

Substitute Bill Compared to Original Bill:

The original memorial asked for the restoration of the itemized deduction for taxpayers in states without an income tax. The substitute does not limit the request to just taxpayers in states without an income tax.

Appropriation: None.**Fiscal Note:** Not Requested.

Testimony For: The 1986 federal tax reform was unfair to states without sales taxes. Rather than restoring the sales tax exemption for everyone this proposal applies just in states without an income tax. This will put \$500 million back in the pockets of Washington citizens.

The federal tax burden in states without an income tax is higher than the other states. Allowing a deduction of sales taxes would further reduce the total tax burden and boost the economy in states without an income tax. It is important for states to pass these resolutions. Allowing the deduction would provide a tax cut for Washington families of between \$300 and \$2000.

Testimony Against: This is the wrong solution. We need to solve the problem at home. We need to be consistent with the rest of the country and have an income tax and reduce the sales tax. This resolution is just "passing the buck" to Congress. It does not provide the leadership to enact an income tax in this state.

Testified: (In support) Representative Nixon, prime sponsor.

(Opposed) Dave Wood, People for Fair Taxes.

(Neutral) Eric Montague, Washington Policy Center.