
HOUSE BILL 3118

State of Washington

58th Legislature

2004 Regular Session

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

Read first time 01/28/2004. Referred to Committee on Finance.

1 AN ACT Relating to tax incidence notes; amending RCW 43.88A.010,
2 43.88A.030, 43.88A.040, and 43.88A.900; adding new sections to chapter
3 43.88A RCW; and adding a new section to chapter 82.01 RCW.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 43.88A.010 and 1977 ex.s. c 25 s 1 are each amended to
6 read as follows:

7 The legislature hereby recognizes the necessity of developing a
8 uniform and coordinated procedure for determining the expected fiscal
9 impact of bills and resolutions on state government and for determining
10 the expected tax incidence of bills and resolutions on individuals and
11 businesses. The legislature also recognizes that developing (~~such~~)
12 these statements (~~of fiscal impact, which shall be known as fiscal~~
13 ~~notes,~~) requires the designation of a state agency to be principally
14 responsible (~~therefor~~) for the statements. The statements shall be
15 known as fiscal notes and tax incidence notes.

16 NEW SECTION. **Sec. 2.** A new section is added to chapter 43.88A RCW
17 to read as follows:

18 (1) The office of financial management shall, in cooperation with

1 appropriate legislative committees and legislative staff, establish a
2 procedure for the provision of a tax incidence note for any bill or
3 resolution that increases, decreases, or redistributes state government
4 revenues for any state tax or local tax administered by the state by
5 more than ten million dollars per fiscal year. Tax incidence notes
6 shall be calculated using the procedures contained in instructions
7 issued by the office of financial management. The office of financial
8 management shall coordinate the development of tax incidence notes with
9 all affected state agencies.

10 (2) A tax incidence note shall be a written report describing who
11 would experience the fiscal burden or benefit imposed by a proposed
12 change. The note shall indicate the tax incidence for the first full
13 year in which the bill or resolution will be effective. To the extent
14 data is available, the note shall report on the tax incidence effects
15 that would result if the bill or resolution were enacted. The note may
16 contain fiscal burden or benefit information by income classes,
17 taxpayer characteristics, or other relevant categories that use system-
18 wide measures, and may include analysis of the effect of the bill or
19 resolution on representative taxpayers.

20 (3) The note shall describe the tax incidence using two points:

21 (a) The legal tax incidence, meaning who bears the legal liability
22 of a tax. This point shall be expressed in terms of the change in
23 legal fiscal liability for households, businesses, governments, and
24 out-of-state taxpayers; and

25 (b) The final tax incidence, meaning who experiences the fiscal
26 burden or benefit of a tax change once the legal liability of a tax has
27 been absorbed by the taxpayer or passed onto households within the
28 state or out-of-state taxpayers. This point shall be expressed in
29 terms of final fiscal burden or benefit by household income, excluding
30 fiscal burdens or benefits shifted to out-of-state taxpayers.

31 (4) The methodology developed for determining the final tax
32 incidence shall detail the assumptions used for shifting the legal tax
33 incidence of taxes on businesses and other nonhousehold taxpayers to
34 the final tax incidence on resident households. These assumptions
35 shall be expressed in a single static mechanistic model that can be
36 used to analyze all taxes for all taxpayers, including businesses by
37 industry and households by income group.

1 (5) The note must contain a statement of the assumptions that were
2 used in computing the tax incidence.

3 **Sec. 3.** RCW 43.88A.030 and 1986 c 158 s 16 are each amended to
4 read as follows:

5 When a fiscal or tax incidence note is prepared and approved as to
6 form, accuracy, and completeness by the office of financial management,
7 which depicts the expected (~~(fiscal)~~) impact of a bill or resolution,
8 copies shall be filed immediately with:

- 9 (1) The chairperson of the committee to which the bill or
10 resolution was referred upon introduction in the house of origin;
- 11 (2) The senate committee on ways and means, or its successor; and
- 12 (3) The house committees on (~~(revenue)~~) finance and appropriations,
13 or their successors.

14 Whenever possible, (~~(such fiscal)~~) the note shall be provided prior
15 to or at the time the bill or resolution is first heard by the
16 committee of reference in the house of origin.

17 When a fiscal or tax incidence note has been prepared for a bill or
18 resolution, a copy of the (~~(fiscal)~~) note shall be placed in the bill
19 books or otherwise attached to the bill or resolution and shall remain
20 with the bill or resolution throughout the legislative process insofar
21 as possible.

22 **Sec. 4.** RCW 43.88A.040 and 1979 c 151 s 148 are each amended to
23 read as follows:

24 The office of financial management shall also provide a fiscal or
25 tax incidence note on any legislative proposal at the request of any
26 legislator. (~~(Such)~~) The fiscal or tax incidence note shall be
27 returned to the requesting legislator, and copies shall be filed with
28 the appropriate legislative committees pursuant to RCW 43.88A.030 at
29 the time such proposed legislation is introduced in either house.

30 **Sec. 5.** RCW 43.88A.900 and 1977 ex.s. c 25 s 5 are each amended to
31 read as follows:

32 Nothing in this chapter shall prevent either house of the
33 legislature from acting on any bill or resolution before it as
34 otherwise provided by the state Constitution, by law, and by the rules
35 and joint rules of the senate and house of representatives, nor shall

1 the lack of any fiscal or tax incidence note as provided in this
2 chapter or any error in the accuracy thereof affect the validity of any
3 measure otherwise duly passed by the legislature.

4 NEW SECTION. **Sec. 6.** A new section is added to chapter 43.88A RCW
5 to read as follows:

6 (1) A tax incidence note advisory committee is hereby established.
7 The advisory committee's sole responsibility is the biennial
8 development of a methodology to be used for tax incidence notes.

9 (2) The advisory committee shall consist of:

10 (a) Staff from the house of representatives and senate fiscal
11 committees, to be designated by the chairs of the committees;

12 (b) Academic economists representing the state colleges and
13 universities, to be appointed by the director of the department of
14 revenue; and

15 (c) Staff from the department of revenue research division, to be
16 designated by the director of the department of revenue.

17 (3) The methodology developed by the committee shall detail the
18 assumptions used for shifting the legal tax incidence of taxes on
19 businesses and other nonhousehold taxpayers to the final tax incidence
20 on resident households. These assumptions shall be expressed in a
21 single static mechanistic model that can be used to analyze all taxes
22 for all taxpayers, including businesses by industry and households by
23 income group.

24 (4) The methodology developed by the committee shall be submitted
25 in writing to the forecast council for approval. The submittal shall
26 be such that there is adequate time for the forecast council to review
27 the methodology and communicate any concerns to the committee. The
28 forecast council shall notify the committee and the office of financial
29 management in writing if the methodology is approved. If it is not
30 approved, the forecast council shall notify the advisory committee in
31 writing of the areas of concern. If approved, the methodology shall be
32 used for the following two-year legislation session. The advisory
33 committee shall review the methodology every two years. If no changes
34 are recommended, the committee shall notify the forecast council.

35 (5) The advisory committee shall be formed and convene its first
36 meeting by August 1, 2004. The committee shall develop the proposed

1 methodology for submittal to the forecast council by October 1, 2005,
2 for use in tax incidence notes for the 2005 legislative session.

3 NEW SECTION. **Sec. 7.** A new section is added to chapter 82.01 RCW
4 to read as follows:

5 (1) In January of every odd-numbered year, beginning January 2007,
6 the department shall submit to the legislature before the regular
7 session a report on the tax incidence of state and local taxes
8 administered by the department.

9 (2) The report shall present information on the distribution of the
10 tax burden (a) by overall income distribution, using a system-wide tax
11 incidence measure with appropriate measures of equality and inequality,
12 (b) by income classes, including at a minimum deciles of the income
13 distribution, and (c) by other appropriate taxpayer characteristics.

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