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**SENATE BILL 5541**

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**State of Washington 66th Legislature 2019 Regular Session**

**By** Senators Hasegawa, Darneille, Hunt, and Nguyen

AN ACT Relating to creating a state revenue reform task force; creating new sections; providing an effective date; providing an expiration date; and declaring an emergency.

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

NEW SECTION. **Sec.**  (1) The legislature acknowledges a need to reform the state tax system. Washington's tax system has remained relatively unchanged since 1935. The state relies heavily on a retail sales tax, a business and occupation tax, and a property tax to generate revenue. This approach has often been criticized as inadequate, lacking in transparency, and vulnerable to economic downturns. In addition, Washington was deemed to have the most regressive tax system in the nation by the institute on taxation and economic policy.

(2) The retail sales tax generates the majority of revenue in the state. Washington has one of the highest sales taxes in the nation. While the sales tax is a large and efficient revenue producer and relatively popular because it is paid in small increments, the tax is based on consumption, which makes it volatile and unstable during economic downturns. This high reliance on sales tax can cause large budget deficits and disproportionately affects lower to middle-income residents.

(3) Washington is the only state in the nation with a business and occupation tax on gross income. The tax is inequitable because it is based on gross income rather than net income. As a result, the business and occupation tax favors established, profitable businesses at the expense of small, start-up businesses or businesses with low profit margins and high start-up costs.

(4) Finally, the property tax is the oldest revenue source in the state. Property taxes are a relatively stable source of revenue. Washington's property taxes are only slightly above average among the states. However, taxpayers continue to perceive the property tax system as overly burdensome and lacking in adequate relief for low-income households. The tax is also complex and expensive to administer.

(5) The economy in Washington has long been one of the strongest in the country. As the economy has changed and grown, a smaller and smaller share of the state's economic activity has been subject to taxation. This places an unfair burden on those industries and individuals that remain subject to the state's primary taxes. At times, the legislature has responded to this inequity by creating new tax exemptions and credits, further narrowing the base on which the state's budget rests.

(6) The legislature recognizes that the existing tax system does not generate sufficient revenue to meet the public needs of a growing economy and population. It is the intent of the legislature to review the current tax system in Washington to determine how it can better serve all our residents.

NEW SECTION. **Sec.**  (1) A legislative task force on state revenue reform is established with members as provided in this section. All member appointments or selections must be made by July 1, 2019.

(a) The president of the senate must appoint two members from each of the two largest caucuses of the senate.

(b) The speaker of the house of representatives must appoint two members from each of the two largest caucuses of the house of representatives.

(c) The governor must appoint one member who represents the office of the governor.

(d) The task force must also include:

(i) A representative of the department of revenue;

(ii) A representative of the association of Washington cities; and

(iii) A representative of the Washington state association of counties.

(2) The task force may convene an advisory group to include:

(a) Academic scholars in the fields of economics, taxation, business administration, public administration, public policy, or other relevant discipline as determined by the task force; and

(b) Representatives of business, state agencies, local government, tribal government, labor, taxpayers, the general public, or other relevant sectors as determined by the task force.

(3) The task force must choose its chair from among its legislative membership. The chair must convene at least three meetings of the task force.

(4) Staff support for the task force must be provided by the department of revenue.

(5)(a) The purpose of the task force is to review the state tax system and make recommendations to the legislature on a comprehensive state revenue reform plan to better serve the people of the state. The task force must consider in its review and recommendations the following:

(i) The tax systems of other states, including Idaho and those states with determined stable, adequate, sustainable, and equitable tax systems;

(ii) The tax alternatives for Washington state report to the legislature as prepared and submitted by the Washington state tax structure study committee pursuant to chapter 7, Laws of 2001; and

(iii) The establishment of a publicly owned depository to:

(A) Serve as a depository for state funds and federal transportation funds; and

(B) Manage and invest state funds to facilitate the financing and construction of new and existing public infrastructure systems.

(b) In developing alternatives, the committee must be guided by the following criteria:

(i) Elasticity: The revenue of a tax system should not fluctuate dramatically with the condition of the economy;

(ii) Economic neutrality: A tax system should be designed to minimize distortions in economic decision making;

(iii) Fairness: The burden of taxation should be equitably spread among the citizens;

(iv) Administrative simplicity: A tax system should neither be excessively expensive for the state to administer nor impose undue recordkeeping and reporting requirements on taxpayers; and

(v) Transparency: A tax system should be designed so that the costs of government are clear to citizens.

(6) Members of the task force must serve without compensation but will be reimbursed for travel expenses in accordance with RCW 44.04.120, 43.03.050, and 43.03.060.

(7) The expenses of the task force must be paid jointly by the senate and the house of representatives. Task force expenditures are subject to approval by the senate facilities and operations committee and the house of representatives executive rules committee, or their successor committees.

(8) The task force must submit a final report of recommendations, in accordance with RCW 43.01.036, to the appropriate committees of the legislature by December 1, 2019.

(9) This section expires January 1, 2020.

NEW SECTION. **Sec.**  This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect July 1, 2019.

**--- END ---**