

SENATE BILL REPORT

SI 2111

As Passed Senate, March 4, 2024

Title: An act relating to taxes on personal income.

Brief Description: Concerning taxes on personal income.

Sponsors: People of the State of Washington.

Brief History:

Committee Activity: Ways & Means: 2/27/24, 3/01/24 [DP, DNP, w/oRec].

Floor Activity: Passed Senate: 3/4/24, 38-11.

Brief Summary of Initiative

- Prohibits the state and local jurisdictions from imposing tax on any individual person on any form of personal income.
- Specifies that "income" has the same meaning as "gross income" under the federal tax code.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Robinson, Chair; Mullet, Vice Chair, Capital; Wilson, L., Ranking Member, Operating; Gildon, Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Rivers, Assistant Ranking Member, Capital; Billig, Boehnke, Braun, Conway, Dhingra, Hunt, Keiser, Muzzall, Randall, Torres, Van De Wege, Wagoner and Wellman.

Minority Report: Do not pass.

Signed by Senators Hasegawa and Pedersen.

Minority Report: That it be referred without recommendation.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Signed by Senator Nguyen, Vice Chair, Operating.

Staff: Jeffrey Mitchell (786-7438)

Background: Initiative Process. Article II, Section 1, of the Washington State Constitution authorizes the initiative process, allowing the people to place a proposition on the ballot or to submit the proposed law to the Legislature. If an initiative to the Legislature is certified, the Legislature must take one of the following three actions:

1. adopt the initiative as proposed, in which case it becomes law without a vote of the people;
2. reject or take no action on the measure, under either case the measure will automatically appear on the ballot in the next state general election; or
3. propose an alternative measure, in which case the initiative and alternative will both appear on the ballot as competing measures in the next state general election.

Definition of Gross Income Under the Federal Tax Code (26 U.S.C. 61). Under the federal tax code, gross income is generally defined to mean all income from whatever source derived, including, but not limited to, the following items: compensation for services, including fees, commissions, fringe benefits, and similar items; gross income derived from business; gains derived from dealings in property; interest; rents; royalties; dividends; annuities; income from life insurance and endowment contracts; pensions; income from discharge of indebtedness; distributive share of partnership gross income; income in respect of a decedent; and income from an interest in an estate or trust.

Summary of Initiative: The state, counties, cities and other local jurisdictions are prohibited from imposing a tax on any form of an individual's personal income. "Income" has the same meaning as "gross income" as provided in the federal tax code, 26. U.S.C. 61.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This initiative is designed to do one thing, which is to codify in law the state's longstanding tradition of not having an income tax based on personal income. It has been drafted narrowly so that it only applies to personal income and not any other sort of tax. The spirit of this initiative is to focus on the good tax system we have, which is a three legged stool of property tax, sales tax, and business and occupation tax and not cloud our system with other sorts of proposals. It is important to codify this language because we have heard others advocate for a state tax based on personal income. Over 450,000 people signed this initiative. This initiative should be

unnecessary because constitutional precedent and the people have made it clear that Washingtonians do not want an income tax. People are overwhelmingly in favor of this initiative. Taxpayers don't feel they are getting value in return for their tax dollars - crime is up, educational attainment is down, homelessness and addiction deaths have skyrocketed and affordability for families has moved further out of reach. The response from Olympia has often been that we just need more tax dollars and we can fix it. Taxpayers are waking up to the fact that it isn't a need for more money but better policy. This is why the initiative is necessary. Adopting this initiative would show respect for workers who have turned down an income tax almost a dozen times and give them confidence that at least one tax that penalizes work will be kept off the table. This initiative will help the state continue to be an attractive place to live and work. People are grateful that Washington doesn't have both a sales tax and income tax. The sales tax has served Washington well. Otherwise, we wouldn't be seeing government spending increases with budget surpluses. Given those surpluses, Washington residents should be realizing tax relief. Small businesses and their employees cannot afford an additional tax. It is not the right direction for the state. Our tax structure attracts workers to Washington, which leads to job creation. Washington has plenty of funding without taxing its citizens more. An income tax would eliminate a hiring advantage and reduce investment in Washington. This policy would implement the clear and consistent intent of the voters to prohibit an income tax. This would foreclose the opportunity to impose an income tax up to 1 percent. For years, the state Department of Commerce advertised the lack of an income tax in Washington as a competitive advantage. This policy should be placed into the state constitution. This initiative will streamline the current ban on income taxes. There might not be a net income tax today but that doesn't prevent a court from making a change in the future. Washington is a no income tax state and this measure would be a stopgap until we are ready to have a holistic discussion on tax policy. We want protection against future taxes. Let's protect Washington against over-taxation. While this bill might do nothing right now, it is protecting us from over-taxation in the future. Simple, plain language protections are some of the most important that we utilize on a day-to-day basis. I love the simplicity of this initiative and it is badly needed. We have adopted other government agencies' laws numerous times. This initiative sends a clear message to not tax income so we don't have to be fearful of income taxes in the future.

CON: This bill doesn't do anything for Washingtonians. We have an upside-down tax code where the poorest pay the most. Furthermore, our insufficient and upside-down tax structure means that we often lack the resources to invest in strategies that lift families out of poverty while investing in our education programs to educate and grow future generations. We need public investments to lift people up and fund our basic safety net. What we don't need to do is waste time on proposals like this that are so vaguely worded that they don't actually do anything. We should spend our time working on the tax code to make it benefit families that need support the most. Do not put our revenue structure at risk. Our tax code is broken. We demand the most from those with the least ability to pay. We need more tools to fix this problem, not fewer. This proposal does nothing at all. Everyone knows we have no income tax. The legislature should spend time on things that

make meaningful change. There are concerns it will impact existing programs, but have been told it won't. This initiative is unnecessary and unhelpful to establishing a better and more balanced tax code. For years, Washington had the most regressive, upside-down tax code in the nation. Washington is now the second most regressive state. The tax rate for the poorest Washington residents is almost triple that of the wealthiest. The wealthiest in Washington pay a lower state and local tax rate than almost any other group across the country. Washington has made some progress on addressing regressivity with the enactment of the working families tax credit and capital gains tax. Putting prohibitions in place could hamstring future efforts to improve the state's upside down tax structure. It will not impact the tax law as it exists today. The state constitution requires any income tax to comply with the uniformity and levy limitations. The initiative is poorly written. The voters will be misled by thinking this initiative will have a material impact when in fact it will have no impact on our tax code. Clean air, water, and investments in public schools require investments. The wealthiest should pay their share. The Legislature should focus on a tax code that promotes economic security and racial justice. This initiative is a solution in search of a problem. We are glad to hear this initiative won't impact paid family and medical leave or the capital gains tax. Putting a policy like this in place where local communities cannot decide what to do with their taxes is disgusting. People just don't want to be taxed without representation.

OTHER: The fiscal note is zero because it would not repeal or otherwise impact any existing taxes. It would only limit broad-based income similar to broad-based income taxes imposed on natural persons by the federal government or other states. To interpret the initiative as doing anything other than that would raise significant issues. A statute should not implicitly repeal other statutes. The initiative does not mention any statutes in the language and to read the language as silently repealing existing taxes would raise serious concerns about whether it is constitutional under Article II, section 37 of our state constitution, which requires amended statutes to be set forth in full. The state needs to raise revenue from the people who can afford it. The state tax structure has been a top priority in our legislative agenda. Our tax structure needs to be adequate and not regressive. The initiative is vaguely worded and changes nothing in our tax code. It does nothing to improve programs in Washington to help people live happy and healthy lives.

Persons Testifying: PRO: Anthony Mixer, Washington State Young Republicans; Eric Pratt, America; Mark Johnson, Washington Retail Association; Laurie Layne; Braden Sisk, Let's Go Washington; Elizabeth Hovde, Washington Policy Center; Jim Walsh; Collin Hathaway, Small Business Owner | Opportunity for All Coalition; Steve Gordon, Concerned Taxpayers of WA State; Commissioner Amanda McKinney, Yakima County; Jason Mercier, Mountain States Policy Center.

CON: Desirée Toliver; Marcy Bowers, Statewide Poverty Action Network; Charles Mayer, Washington Physicians for Social Responsibility; Sharon Chen; Reiny Cohen, Balance Our Tax Code; Misha Werschkul, Washington State Budget and Policy Center.

OTHER: Steve Ewing, Dept. of Revenue; Lindsey Schromen-Wawrin, City of Port Angeles; Maggie Humphreys, MomsRising; Andrea Ommen; Dylan Grundman O'Neill, Institute for Taxation and Economic Policy; Kai Smith, Pacifica Law Group.

Persons Signed In To Testify But Not Testifying: PRO: Tad Sommerville; Yazhao Qiu; Ping Luo; William Ji; James Carney; Debby Swecker; Kathleen Lawson; Robert Ford; Nancy Davies; Sumedh Barde; Yishan Yao; Grace Yan; Claire Shi; hui liang; Kailun He; Melina Perraut; Jie Song; Jiayan Iu; Al Taylor, Altaylor2007@gmail.com; Jeffrey Pack, Washington Citizens Against Unfair Taxes; jon karsunky; Kay Ross; Shan Lovelace; David Fitzgerald; Darryl Elledge; Janet He; Steve Earle; John Edwards; Denise Cooper; Brian Yotz; scot walston; Corey Christensen, KLB Construction, Inc; Charlene Yotz; Christina Tseu; Teresa Jorgenson; Sierra Elliott, WA state Young republicans; Elizabeth Cousins; Joy Xu; Kim Vogley; Leslie Peterson; Bob Thornton, Citizen; Cindy Alia, Citizens' Alliance for Property Rights; Delmer Eldred; Timothy Ramsey, Citizen; Lynda Nielsen; mark richard, PCO 9028; Deidre Huff; Marlene Bostic; Don Bostic; David L Harding, Self; Georgia Ragsdale; Brenda Oster; Robert Shiras; Kurt Alstrin; George Stone; Emily Tadlock, Retired; Kathleen Fitzpatrick; PATRICIA BAUER, none; Jenny Crichton; Ralph Plowman; Betty Barbee; Joseph Hartman; Joanne Backus; Hsin-yi Jiang; yuhua Liu; Dr. AnnRené Joseph; Rebecca Gwaltney; Wayne Allen; Tad Cui; Chris Kay; Benson Zhu; Sherry Christensen; Ashley Callahan; Randal Lewis, Retired; Lai Wong, No; Michael Gordon, Retired; Liz Sapp; Jim Sapp; Frank Hudik, taxpayer, grandparent; Cynthia Radtke; Marilou Brown; Jerry Radtke; Kathy Repass; RON ARP, Identity Clark County; Fred Repass; Jennifer Kelly; Janet Sun; Judy Eagon; KARI FINNEY; Paul Hill; Merry Engelhardt; Julia Li; James Callahan, James T Callahan; Li Yao; Feng yang; Gregory Jenney; Zhujun Wang; Wing Luk; Wing Luk; Reid Eickhorst; Wei Zhuang; Brienne Bressler; Xin Sun; Hai Zhu; Huayan Duan; Jackie Chen; Li Liu; Sue Lee; Isabel Kou; Kelly Song; ying li; Ni Meng; Yan Yan; Minfang Xu; Caixai Su; Kexin Shen; Hongji Wang; Shilong Zhang.

CON: Jeffrey Pack, Washington Citizens Against Unfair Taxes; Anthony DiPangrazio; Todd Finch; Paul Weeber, N/A; Steve McCoy; Teresa Jorgenson; James Lockwood; Les Baldik, WSRP- Presinct 1154; Jacob Vigdor, University of Washington Faculty; Sabryna Njoroge; Kari FINNEY; louis turrietta; phill tebb; Alice Payne; Andrew Villeneuve, Northwest Progressive Institute.

OTHER: Patricia Small.