
Finance Committee

HB 1532

Brief Description: Authorizing funding tools to mitigate the impact of sales tax sourcing in certain cities that host industrial and warehousing industries.

Sponsors: Representatives Stearns, Entenman, Obras, Gregerson and Bergquist.

<p>Brief Summary of Bill</p> <ul style="list-style-type: none">• Allows authorized cities to impose a local option sales and use tax.
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Hearing Date: 2/6/25

Staff: Tracey Taylor (786-7152).

Background:

Retail Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes are not collected when the user acquires the property, digital product, or service, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 4.1 percent, depending on the location.

Local Sales and Use Taxes.

Counties, cities, and towns were first granted the authority to impose a local sales and use tax in 1970. There is a basic 0.5 percent sales and use tax and an optional 0.5 percent sales and use tax. The revenues from these two sales and use taxes are unrestricted and may be used for any lawful government purpose.

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.

When both the city and the county impose the basic sales and use tax, the county must credit back the full amount of the city's basic sales and use tax so that the combined rate does not exceed 0.5 percent. However, the first 15 percent of the basic sales and use tax collected within the city must be distributed to the county. This is also the case with the optional sales and use tax.

There are other optional sales and use taxes that may be imposed; however, the revenues from these sales and use taxes are restricted to specific purposes. For example, the cultural access program sales and use tax of 0.1 percent must be used to benefit or expand access to nonprofit cultural organizations. Many of the optional local sales and use taxes require voter approval.

Streamlined Sales and Use Tax Agreement.

In 2007 legislation was enacted fully adopting the Streamlined Sales and Use Tax Agreement (SSUTA).

The SSUTA includes provisions for determining where a sale is deemed to occur, for local sales and use tax purposes. As part of the legislation, local streamlined sales tax mitigation payments were authorized to mitigate the negative impact on local jurisdictions caused by the change in sourcing rules. Each July 1, the State Treasurer transferred an amount determined by the Department of Revenue (DOR) to fully mitigate negatively impacted local jurisdictions. The DOR determined each local jurisdiction's annual losses. Distributions were made quarterly representing one-fourth of a jurisdiction's annual losses less voluntary compliance revenue from the previous quarter.

In 2017 the Legislature repealed local mitigation payments, effective October 1, 2019. The payments were adjusted to reflect the impact of marketplace fairness on local tax revenues and were made only to cities, counties, and public facilities districts. Selected jurisdictions may have qualified for mitigation payments under the 2019-2021 Omnibus Operating Budget.

In 2021, the Legislature enacted ESHB 1521 which provided that qualified local taxing districts negatively impacted by the SSUTA may receive annual mitigation payments each July 1. To qualify, a local taxing district must be a city and have received a quarterly streamlined sales tax mitigation payment of at least \$60,000 on June 30, 2020.

The quarterly mitigation payment is equal to the payment that was provided to that taxing district on June 30, 2020. The amount of the quarterly mitigation payments is reduced annually by 20 percent from the previous year's payment that same quarter for each qualified local taxing district. Payments will end July 1, 2026.

Summary of Bill:

The legislative body of an authorized city may impose an additional sales and use tax of up to 0.3 percent of the selling price or value of the article used. The revenues from this tax may be

used for any purpose that improves the vitality of the community in the same manner that general fund revenues may be used.

An authorized city means a city that has a population of greater than 120,000 in a county with a population of 1.5 million or greater and has at least 25 percent of its total property assessed value derived from industrial and warehousing industries.

An authorized city that imposes this tax must comply with three public process requirements as part of its biennial budget process:

- hold a minimum of three town halls to explain the budget process, in different geographical locations and at different times of day, and provide opportunities for community members to dialogue;
- provide a webpage that outlines the budget development process, dates for budget hearings, and directions to find budget information; and
- conduct a survey to solicit input on budget priorities.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.