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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

Read first time 01/23/19. Referred to Committee on Ways & Means.

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

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

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

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

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

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

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

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

27 NEW SECTION. **Sec. 2.** (1) A legislative task force on state  
28 revenue reform is established with members as provided in this  
29 section. All member appointments or selections must be made by July  
30 1, 2019.

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

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

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

38 (d) The task force must also include:

39 (i) A representative of the department of revenue;

1 (ii) A representative of the association of Washington cities;  
2 and  
3 (iii) A representative of the Washington state association of  
4 counties.

5 (2) The task force may convene an advisory group to include:  
6 (a) Academic scholars in the fields of economics, taxation,  
7 business administration, public administration, public policy, or  
8 other relevant discipline as determined by the task force; and  
9 (b) Representatives of business, state agencies, local  
10 government, tribal government, labor, taxpayers, the general public,  
11 or other relevant sectors as determined by the task force.

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

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

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

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

25 (ii) The tax alternatives for Washington state report to the  
26 legislature as prepared and submitted by the Washington state tax  
27 structure study committee pursuant to chapter 7, Laws of 2001; and  
28 (iii) The establishment of a publicly owned depository to:

29 (A) Serve as a depository for state funds and federal  
30 transportation funds; and  
31 (B) Manage and invest state funds to facilitate the financing and  
32 construction of new and existing public infrastructure systems.

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

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

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

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

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

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

6 (6) Members of the task force must serve without compensation but  
7 will be reimbursed for travel expenses in accordance with RCW  
8 44.04.120, 43.03.050, and 43.03.060.

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

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

17 (9) This section expires January 1, 2020.

18 NEW SECTION. **Sec. 3.** This act is necessary for the immediate  
19 preservation of the public peace, health, or safety, or support of  
20 the state government and its existing public institutions, and takes  
21 effect July 1, 2019.

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