

## **Creation of the Tax Structure Work Group**

### **Excerpt from ESHB 1109, 2019 legislative session**

#### **NEW SECTION. Sec. 137. FOR THE DEPARTMENT OF REVENUE**

The appropriations in this section are subject to the following conditions and limitations:

...

(2)(c)(i) Of the amounts provided in this subsection, \$1,061,000 of the general fund—state appropriation for fiscal year 2020 and \$977,000 of the general fund—state appropriation for fiscal year 2021 are provided solely for the department to facilitate a tax structure work group, initially created within chapter 1, Laws of 2017 3rd sp. sess. (SSB 5883) and hereby reauthorized.

(ii) In addition to the membership as set forth in chapter 1, Laws of 2017 3rd sp. sess., the tax structure work group is expanded to include nonvoting members as follows:

- (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; and
- (C) The governor must appoint one member who represents the office of the governor.

(iii) The work group must include the following nonvoting members:

- (A) One representative of the department;
- (B) One representative of the association of Washington cities; and
- (C) One representative of the Washington state association of counties.

(iv) All voting members of the work group must indicate, in writing, their interest in serving on the tax structure work group and provide a statement of understanding that the commitment to serve on the tax structure work group is through December 31, 2024. Elected officials not reelected to their respective offices may be relieved of their responsibilities on the tax structure work group. Vacancies on the tax structure work group must be filled within sixty days of notice of the vacancy. The work group must choose a chair or cochair from among its legislative membership. The chair is, or cochair is, responsible for convening the meetings of the work group no less than quarterly each year. Recommendations and other decisions of the work group may be approved by a simple majority vote. All work group members may have a representative attend meetings of the tax structure work group in lieu of the member, but voting by proxy is not permitted. Staff support for the work group must be provided by the department. The department may engage one or more outside consultants to assist in providing support for the work group. Members of the work group must serve without compensation but may be reimbursed for travel expenses under RCW [44.04.120](#), [43.03.050](#), and [43.03.060](#).

(v) The duties of the work group are to:

(A) By December 1, 2019, convene no less than one meeting to elect a chair, or cochairs, and conduct other business of the work group;

(B) By December 1, 2020, the department and technical advisory group must prepare a summary report of their preliminary findings and alternatives described in (c)(vii) of this subsection;

(C) By May 1, 2021, the work group must:

(I) Hold no less than one meeting in Olympia to review the preliminary findings described in (c)(vii) of this subsection. At least one meeting must engage stakeholder groups, as described in (c)(vi)(A) of this subsection;

(II) Begin to plan strategies to engage taxpayers and key stakeholder groups to encourage participation in the public meetings described in (c)(vii) of this subsection;

(III) Present the summary report described in (c)(vii) of this subsection in compliance with RCW [43.01.036](#) to the appropriate committees of the legislature;

(IV) Be available to deliver a presentation to the appropriate committees of the legislature including the elements described in (c)(vi)(B) of this subsection; and

(V) Finalize the logistics of the engagement strategies described in (c)(v)(D) of this subsection; and

(D) After the conclusion of the 2021 legislative session, the work group must:

(I) Hold no less than five public meetings in geographically dispersed areas of the state;

(II) Present the findings described in (c)(vii) of this subsection and alternatives to the state's current tax structure at the public meetings;

(III) Provide an opportunity at the public meetings for taxpayers to engage in a conversation about the state tax structure including, but not limited to, providing feedback on possible recommendations for changes to the state tax structure and asking questions about the report and findings and alternatives to the state's current tax structure presented by the work group;

(IV) Utilize methods to collect taxpayer feedback before, during, or after the public meetings that may include, but is not limited to: Small group discussions, in-person written surveys, in-person visual surveys, online surveys, written testimony, and public testimony;

(V) Encourage legislators to inform their constituents about the public meetings that occur within and near their legislative districts;

(VI) Inform local elected officials about the public meetings that occur within and near their communities; and

(VII) Summarize the feedback that taxpayers and other stakeholders communicated during the public meetings and other public engagement methods, and submit a final summary report, in accordance with RCW [43.01.036](#), to the appropriate committees of the legislature. This report may be submitted as an appendix or update to the summary report described in (c)(vii) of this subsection.

- (vi) (A) The stakeholder groups referenced by (c)(v)(C)(I) of this subsection must include, at a minimum, organizations and individuals representing the following:
    - (I) Small, start-up, or low-margin business owners and employees or associations expressly dedicated to representing these businesses, or both; and
    - (II) Individual taxpayers with income at or below one hundred percent of area median income in their county of residence or organizations expressly dedicated to representing low-income and middle-income taxpayers, or both;
  - (B) The presentation referenced in (c)(v)(C)(IV) of this subsection must include the following elements:
    - (I) The findings and alternatives included in the summary report described in (c)(vii) of this subsection; and
    - (II) The preliminary plan to engage taxpayers directly in a robust conversation about the state's tax structure including, presenting the findings described in (c)(vii) of this subsection and alternatives to the state's current tax structure, and collecting feedback to inform development of recommendations.
- (vii) The duties of the department, with assistance of one or more technical advisory groups, are to:
- (A) With respect to the final report of findings and alternatives submitted by the Washington state tax structure study committee to the legislature under section 138, chapter 7, Laws of 2001 2nd sp. sess.:
    - (I) Update the data and research that informed the recommendations and other analysis contained in the final report;
    - (II) Estimate how much revenue all the revenue replacement alternatives recommended in the final report would have generated for the 2017-2019 fiscal biennium if the state had implemented the alternatives on January 1, 2003;
    - (III) Estimate the tax rates necessary to implement all recommended revenue replacement alternatives in order to achieve the revenues generated during the 2017-2019 fiscal biennium as reported by the economic and revenue forecast council;
    - (IV) Estimate the impact on taxpayers, including tax paid as a share of household income for various income levels, and tax paid as a share of total business revenue for various business activities, for (c)(vii)(A)(II) and (III) of this subsection; and
    - (V) Estimate how much revenue would have been generated in the 2017-2019 fiscal biennium, if the incremental revenue alternatives recommended in the final report would have been implemented on January 1, 2003, excluding any recommendations implemented before the effective date of this section;
  - (B) With respect to the recommendations in the final report of the 2018 tax structure work group:
    - (I) Conduct economic modeling or comparable analysis of replacing the business and occupation tax with an alternative, such as corporate income tax or margins tax, and estimate the impact on taxpayers, such as tax paid as a share of total

business revenue for various business activities, assuming the same revenues generated by business and occupation taxes during the 2017-2019 fiscal biennium as reported by the economic and revenue forecast council; and  
(II) Estimate how much revenue would have been generated for the 2017-2019 fiscal biennium if the one percent revenue growth limit on regular property taxes was replaced with a limit based on population growth and inflation if the state had implemented this policy on January 1, 2003;

(C) To analyze our economic competitiveness with border states:

(I) Estimate the revenues that would have been generated during the 2017-2019 fiscal biennium, had Washington adopted the tax structure of those states, assuming the economic tax base for the 2017-2019 fiscal biennium as reported by the economic and revenue forecast council; and

(II) Estimate the impact on taxpayers, including tax paid as a share of household income for various income levels, and tax paid as a share of total business revenue for various business activities for (c)(vii)(C)(I) of this subsection;

(D) To analyze our economic competitiveness in the context of a national and global economy, provide comparisons of the effective state and local tax rate of the tax structure during the 2017-2019 fiscal biennium and various alternatives under consideration, as they compare to other states and the federal government, as well as consider implications of recent changes to federal tax law;

(E) To the degree it is practicable, conduct tax incidence analysis of the various alternatives under consideration to account for the impacts of tax shifting, such as business taxes passed along to consumers and property taxes passed along to renters;

(F) To the degree it is practicable, present findings and alternatives by geographic area, in addition to statewide; and

(G) Conduct other analysis as directed by the work group.