

Initiative No. 1701

February 14, 2020

BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: I-3766.1/20

ATTY/TYPIST: AV:akl

BRIEF DESCRIPTION:

Initiative No. 1701

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AN ACT Relating to balancing the state tax code; amending RCW 43.88.055; and adding a new chapter to Title 44 RCW.

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

NEW SECTION. **Sec. 1.** (1) The people find that:

(a) Washington state has the most unbalanced tax code in the nation: If you earn less than twenty-five thousand dollars per year, you pay about seventeen percent of your income in sales, property, and other state and local taxes; if you earn around sixty thousand dollars per year, you pay about ten percent; and if you earn around six hundred thousand dollars or more per year, you pay less than three percent. This is not only unbalanced, but it also hinders our ability to fund crucial public investments.

(b) We can and must do better. State and local taxes generate the revenue required to pay our teachers, firefighters, police officers, and public health care providers. We cannot create safe, healthy, and thriving communities by balancing our budgets on the backs of the working class. Changing our tax system so that the

Washington households that earn six hundred thousand dollars or more annually pay at least the same percentage of their income in taxes as middle and low-income households would not only be more balanced, it would increase our ability to pay for public investments we all want and need: Roads, bridges, transit, and parks; access to mental and physical health care; responses to the homelessness crisis and emergencies like wildfires; and funding of our public schools and early education system, for example.

(2) The people find and declare that it is time for the legislature to balance the state's tax code. Through this chapter, the people intend to require the legislature to take action so that, by the end of the 2022 regular legislative session, Washington households earning six hundred thousand dollars or more annually pay at least the same percentage of their income in state taxes as middle and low-income households.

NEW SECTION. **Sec. 2.** The definition in this section applies throughout this chapter unless the context clearly requires otherwise.

"Middle and low-income households" means households in Washington state other than the top twenty percent of households ranked by income, or those households in Washington state that make less than two times the statewide median household income, whichever equates to a lower income threshold.

NEW SECTION. **Sec. 3.** (1) By the end of the 2022 regular legislative session, the legislature shall take action to balance the tax code so that households earning six hundred thousand dollars or more annually pay at least the same percentage of their income in state taxes as middle and low-income households in Washington state.

(2) In determining what action to take under subsection (1) of this section, the legislature shall consider the report of the department of revenue required by section 4 of this act.

(3) For purposes of this chapter, balancing the tax code between households earning six hundred thousand dollars or more annually and middle and low-income households refers to comparing the average of Washington state households in each group, not individual taxpayers.

NEW SECTION. **Sec. 4.** To assist the legislature in determining what action to take under section 3 of this act, the department of revenue shall analyze and determine the overall incidence of state and local taxes across households earning six hundred thousand dollars or more annually as compared to middle and low-income households in Washington state. In performing this analysis the department of revenue shall:

(1) Use the broadest measure of economic income for which reliable data are available;

(2) Where feasible, use established state and federal data sets;

(3) Account for the significant impacts of any taxes effectively:

(a) Exported to individuals or businesses located outside of Washington state; or

(b) Shifted to residents of Washington state in the form of lower wages and salaries, higher prices on consumer goods and services, and higher prices on housing;

(4) For each quintile of households in Washington state ranked by income, determine the percentage of household income paid annually in state and local taxes;

(5) For each quintile of households in Washington state ranked by income, determine the percentage of household income paid annually in state and local:

(a) Property taxes;

(b) Sales taxes;

(c) Excise taxes; and

(d) Any other taxes in Washington state;

(6) In carrying out the requirements of subsections (4) and (5) of this section, further divide the top income quintile into three

subgroups consisting of the top one percent of income earners, the next wealthiest four percent, and the next wealthiest fifteen percent, and determine the percentage of income each subgroup pays in state and local taxes;

(7) Compare the average of Washington state households in each income group and quintile, not individual households or taxpayers;

(8) Deliver a report of the analysis to the legislature in compliance with RCW 43.01.036 by March 19, 2021;

(9) Make the report delivered to the legislature publicly available on the department of revenue's web site; and

(10) Update the analysis and report to the legislature required by this section every two years.

Sec. 5. RCW 43.88.055 and 2012 1st sp.s. c 8 s 1 are each amended to read as follows:

(1) The legislature must adopt a four-year balanced budget as follows:

(a) Beginning in the 2013-2015 fiscal biennium, the legislature shall enact a balanced omnibus operating appropriations bill that leaves, in total, a positive ending fund balance in the general fund and related funds.

(b) Beginning in the 2013-2015 fiscal biennium, the projected maintenance level of the omnibus appropriations bill enacted by the legislature shall not exceed the available fiscal resources for the next ensuing fiscal biennium.

(c) In enacting the balanced omnibus operating appropriations bill, the legislature shall consider the report required by section 4 of this act.

(2) For purposes of this section:

(a) "Available fiscal resources" means the beginning general fund and related fund balances and any fiscal resources estimated for the general fund and related funds, adjusted for enacted legislation, and with forecasted revenues adjusted to the greater of (i) the official general fund and related funds revenue forecast for

the ensuing biennium, or (ii) the official general fund and related funds forecast for the second fiscal year of the current fiscal biennium, increased by 4.5 percent for each fiscal year of the ensuing biennium;

(b) "Projected maintenance level" means estimated appropriations necessary to maintain the continuing costs of program and service levels either funded in that appropriations bill or mandated by other state or federal law, and the amount of any general fund moneys projected to be transferred to the budget stabilization account pursuant to Article VII, section 12 of the state Constitution, but does not include in the 2013-2015 and 2015-2017 fiscal biennia the costs related to the enhanced funding under the new definition of basic education as established in chapter 548, Laws of 2009, and affirmed by the decision in *Mathew McCleary et al., v. The State of Washington*, 173 Wn.2d 477, 269 P.3d 227, (2012), from which the short-term exclusion of these obligations is solely for the purposes of calculating this estimate and does not in any way indicate an intent to avoid full funding of these obligations;

(c) "Related funds," as used in this section, means the Washington opportunity pathways account and the education legacy trust account.

(3) Subsection (1)(a) and (b) of this section does not apply to an appropriations bill that makes net reductions in general fund and related funds appropriations and is enacted between July 1st and February 15th of any fiscal year.

(4) Subsection (1)(b) of this section does not apply in a fiscal biennium in which money is appropriated from the budget stabilization account.

NEW SECTION. **Sec. 6.** If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. **Sec. 7.** Sections 1 through 4 and 8 of this act constitute a new chapter in Title 44 RCW.

NEW SECTION. **Sec. 8.** This act may be known and cited as the balanced tax code and economic growth act.

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