



REPORT ON 2010 TAX INCREASES in Washington State

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Introduction

On November 6, 2007, the people of Washington enacted Initiative 960 to require a two-thirds vote of the legislature to raise taxes.¹ This was the third time voters had enacted the two-thirds requirement. Similar measures had passed in 1993 and 1998, and each time lawmakers repealed the tax-limit provisions of these initiatives in the years following their enactment.²

In similar fashion, on February 22, 2010, a majority in the legislature passed a two-year suspension of Initiative 960, repealing the two-thirds requirement. Section 3 of the bill cancelled a number of disclosure provisions in the initiative designed to provide information to the public.³ Efforts to restore the public disclosure provisions during floor consideration were defeated.

The final measure passed on a partisan vote; only Democrats voted for passage, and 15 Democrats joined all the Republicans in voting against it. Governor Gregoire signed the repeal bill on February 24th.

The legislative action proved to be unpopular in Washington. A poll of state residents showed 68 percent of respondents called the repeal of Initiative 960 "the wrong thing to do." When asked about the policy of having a two-thirds vote in the legislature to raise taxes, 74 percent of respondents said such

¹ "Initiative Measure 960, taxes and fee increases imposed by state government," Proposed Initiatives to the People, 2007, Office of the Secretary of State, at www.sos.wa.gov/elections/initiatives/people.aspx?y=2007.

² The two previous measures were Initiative 601 (1993) and Initiative 695 (1998).

³ SB 6130, "Relating to fiscal matters," WashingtonVotes.org, at www.washingtonvotes.org/Legislation.aspx?ID=92872.

a limit should be required.⁴

The public disclosure provisions provided that specific information about tax increases, their cost to the public, and roll call votes appear in the state's official voters' pamphlet.

Initiative 960's Public Disclosure Requirements

The Initiative 960 law provided that at the next election following passage of a tax increase, an advisory vote be held and that the following information appear in a two-page section of the official statewide voters' pamphlet:⁵

1. A short description of each tax increase passed by the legislature;
2. The most up-to-date ten-year cost projection, including a year-by-year breakdown, of how much lawmakers increased the financial burden on taxpayers;
3. How legislators voted on final passage of each tax increase;
4. The names of legislators and their contact information, including first name, last name, party affiliation, city or town in which they live, office phone number and office e-mail address.

The text of Initiative 960 explained the purpose of these provisions this way:

"With this measure, the people intend to protect taxpayers by creating a series of accountability procedures to ensure greater legislative transparency, broader public participation, and wider agreement before state government takes more of the people's money.

The people want a thorough, independent analysis of any proposed increase in taxes and fees. The people find that legislators too often do not know the costs to the taxpayers for their tax and fee increases..."⁶

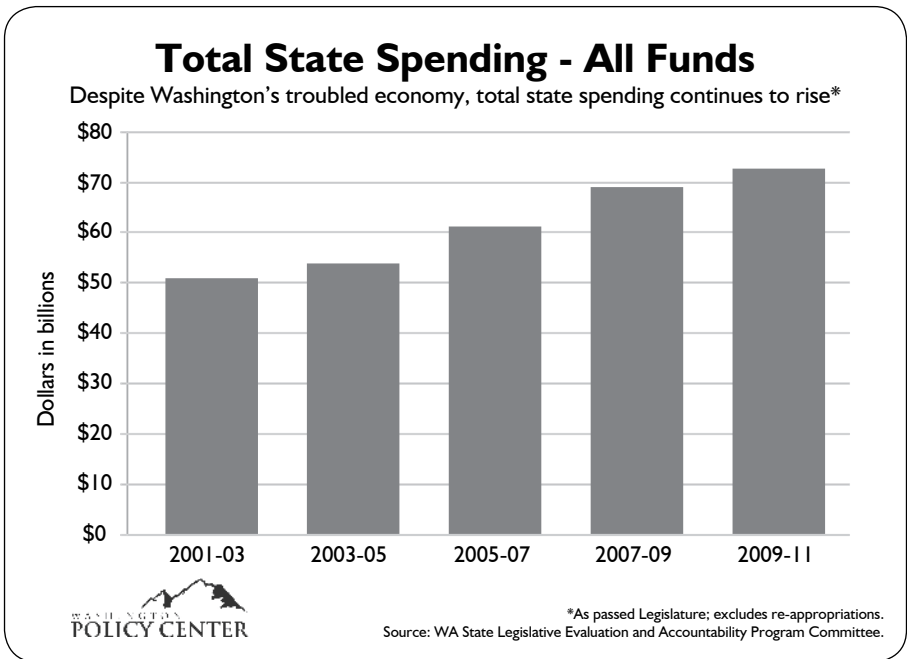
⁴"Poll: Suspending I-960 was the wrong choice," King5 News, February 24, 2010, at www.king5.com/news/politics/Poll-Suspending-I-960-was-the-wrong-choice-85269127.html; and SurveyUSA News Poll #16309, February 24, 2010, at www.surveyyusa.com/client/PollReport.aspx?g=ad7e51a1-a6d4-415f-be78-ab0246a3a467&c=28.

⁵ Revised Code of Washington 29A.32.070, "Format, layout, contents," section 11.

⁶"Initiative Measure 960, Proposed by Initiative Petition," Section 1, "Intent," enacted November 6, 2007, Elections and Voting, Office of the Secretary of State, at www.sos.wa.gov/elections/initiatives/text/i960.pdf.

By repealing the non-binding advisory votes, lawmakers expected their names would not appear in the official voters' pamphlet for 2010 next to a description of the tax increases they had enacted. The purpose of this report is to provide much of the information the public would have received in the official voters' pamphlet if the legislature had not repealed the public disclosure provisions of Initiative 960. Due to Washington Policy Center's status as a non-profit organization qualified under Section 501(c) (3) of the Internal Revenue Code, this report does not include the names, addresses or contact information of office holders or candidates for public office. Information about how lawmakers voted on bills in the 2010 session is available from the Washington state legislature.

For more information or additional copies of this report please contact Washington Policy Center at 206-937-9691. This report is also available at washingtonpolicy.org.



Lawmakers increased total state spending by 43% in the last five budget cycles, a period in which state population grew only 11%, and inflation increased just 1%.

Senate Bill 6143

Raising taxes and eliminating certain business tax exemptions

Passed the House by a vote of 52 to 44 on April 10

Passed the Senate by a vote of 25 to 21 on April 12

Signed by Governor Gregoire on April 23

Description of Tax Increase:

Raises taxes by eliminating several tax exemptions on the Business and Occupation (B&O) tax for several business sectors, as well as a sales tax exemption for out-of-state businesses. This measure also raises taxes on candy, bottled water, carbonated beverages and macro-brew beers. The new taxes went into effect on May 1st, June 1st, and July 1st.

- **B&O tax** changes include:
 - » Lowering the threshold at which out-of-state businesses are subject to the tax
 - » Tightening of tax avoidance rules by the Department of Revenue
 - » Eliminating the direct seller exemption
 - » Modifying the preferential tax rate for manufacturing certain agricultural products
 - » Taxing fees paid to corporate boards of directors
 - » Increasing the tax rate on service activities by .3 percent, from 1.5 percent to 1.8 percent
- **Pop/Soda:** imposes a tax on carbonated beverages (soda) at a rate of 2 cents per 12 ounces until June 30, 2013. An exemption is provided for the first \$10 million in sales by a bottler.
- **Public Utility Districts (PUDs):** modifies the tax paid by PUDs, making all charges for electricity taxable.
- **Real Estate Excise Tax (REET):** eliminates certain exemptions previously provided under the first mortgage deduction.
- **Sales tax:** extends sales tax to bottled water until June 1, 2013, and imposes a permanent sales tax on candy and gum.
- **Beer tax:** increases the tax on beer from 26 cents to 76 cents per gallon. An exemption is provided to small brewers for their first 60,000 barrels sold.

Ten-year Cost to Taxpayers: \$4,783,536,063

Ten-Year Cost Projection⁷

Year	Business and Occupation Tax	Pop/Soda Tax	Public Utility Districts Tax
FY 2010	\$ 51,822,000		\$ 91,000
FY 2011	448,100,000	\$ 35,774,000	1,091,000
FY 2012	528,316,000	38,793,000	1,113,000
FY 2013	602,618,000	38,560,000	1,135,000
FY 2014	353,277,000		1,158,000
FY 2015	371,135,000		1,181,000
FY 2016	394,243,000		1,205,000
FY 2017	418,778,000		1,229,000
FY 2018	444,840,000		1,254,000
FY 2019	472,532,000		1,279,000
Total	\$4,085,661,000	\$113,127,000	\$10,736,000

Year	Real Estate Excise Tax	Retail Sales Tax	Temporary Beer Tax	Total
FY 2010		\$ 381,000	\$ 4,774,154	\$ 57,068,154
FY 2011	\$ 4,740,000	67,236,000	57,862,747	614,803,747
FY 2012	5,111,000	72,703,000	58,441,374	704,477,374
FY 2013	5,489,000	79,071,000	59,025,788	785,898,788
FY 2014	5,874,000	17,691,000		378,000,000
FY 2015	6,165,000	18,433,000		396,914,000
FY 2016	6,465,000	19,339,000		421,252,000
FY 2017	6,772,000	20,293,000		447,072,000
FY 2018	7,087,000	21,296,000		474,477,000
FY 2019	7,411,000	22,351,000		503,573,000
Total	\$55,114,000	\$338,794,000	\$180,104,063	\$4,783,536,063

⁷ The ten-year cost projections for each tax increase in this report are from the Washington State Office of Financial Management and are available online at <http://www.ofm.wa.gov/tax/default.asp>.

House Bill 2493

Raising taxes on cigarettes and other tobacco products

Passed the House by a vote of 54 to 43 on April 12

Passed the Senate by a vote of 28 to 17 on April 12

Signed by Governor Gregoire on April 23

Description of Tax Increase:

Increases the state sales tax on cigarettes and other tobacco products including large and small cigars and moist snuff. The tax increase on all tobacco products went into effect on May 1, 2010, except for moist snuff for which the rate increases on October 1, 2010. The rate increases are as follows:

- **Cigarettes/small cigars:** increases the tax on a pack of 20 cigarettes by \$1.00, from \$2.025 to \$3.025.
- **Moist snuff:** increases the tax from 75% of the taxable sales price to \$2.526 per can or package with net weight of 1.2 ounces or less and at a proportionate rate for larger units.
- **Other tobacco products:** increases the tax from 75% of the taxable sales price to 95% of taxable sales price, except for large cigars; the tax cannot exceed 65 cents per cigar, up from the 50 cents per cigar.

Ten-Year Cost to Taxpayers: \$925,722,000

Ten-Year Cost Projection

Year	Cigarette Tax	Other Tobacco Products Tax	Total
FY 2010	\$ 7,375,000	\$ 48,000	\$ 7,423,000
FY 2011	88,493,000	8,019,000	96,512,000
FY 2012	87,053,000	13,148,000	100,201,000
FY 2013	86,348,000	14,397,000	100,745,000
FY 2014	86,348,000	14,398,000	100,746,000
FY 2015	86,348,000	15,450,000	101,798,000
FY 2016	86,348,000	16,527,000	102,875,000
FY 2017	86,348,000	17,634,000	103,982,000
FY 2018	86,348,000	18,768,000	105,116,000
FY 2019	86,348,000	19,976,000	106,324,000
Total	\$ 787,357,000	\$ 138,365,000	\$925,722,000

House Bill 2561

Authorizing bonds to increase the state debt limit to construct school energy improvements, and making permanent the sales tax on bottled water

Passed the House by a vote of 59 to 38 on April 12

Passed the Senate by a vote of 28 to 18 on April 12

Signed by Governor Gregoire on May 4

Description of Tax Increase:

Requires the state to seek voter approval to issue \$505 million in general obligation bonds. The bonds would be used to pay for capital projects at public schools, state colleges and universities, and other public facilities with the purpose of stimulating job growth and increasing energy efficiency in public buildings. By approving the issuance of the general obligation bonds, voters would be making the sales tax on bottled water (see Senate Bill 6143 on p. 4) permanent. In addition, if voters approve the proposal, lawmakers would be authorized to raise other taxes to pay for the bonds.

- **Bottled water:** voter approval of general obligation bonds would make the temporary sales tax on bottled water enacted under Senate Bill 6143 permanent.

Ten-Year Cost to Taxpayers: \$245,485,000

Ten-Year Cost Projection

Year	Retail Sales Tax
FY 2010	
FY 2011	
FY 2012	
FY 2013	
FY 2014	\$ 33,922,000
FY 2015	38,672,000
FY 2016	40,412,000
FY 2017	42,231,000
FY 2018	44,131,000
FY 2019	46,117,000
Total	\$ 245,485,000

Senate Bill 6846

Increasing the state and county 911 excise tax on telephone service and extending the tax to calls made over the internet

Passed the Senate by a vote of 29 to 12 on April 1

Passed the House by a vote of 56 to 34 on April 2

Signed by Governor Gregoire on April 13

Description of Tax Increase:

Imposes a new state 911 excise tax on all interconnected voice over internet protocol (VOIP) service lines in the state and increases the monthly rate of the state's current 911 excise tax. The act allows counties to increase their portion of the enhanced 911 excise tax and creates the county enhanced 911 excise tax account. The tax is effective January 1, 2011.

- **County excise tax** – allows county officials to increase the monthly 911 excise tax from 50 cents per line to 70 cents per line, and expands the county excise tax rate to cover all VOIP service lines.
- **State excise tax** – increases the state's monthly collection of 911 excise taxes from 20 cents per line to 25 cents per line, and extends the state excise tax rate to cover all interconnected voice and VOIP service lines.

Ten-Year Cost to Taxpayers: \$78,791,000

Ten-Year Cost Projection

Year	Enhanced 911 Tax
FY 2010	
FY 2011	\$ 2,419,000
FY 2012	6,562,000
FY 2013	7,365,000
FY 2014	8,192,000
FY 2015	9,043,000
FY 2016	9,920,000
FY 2017	10,824,000
FY 2018	11,754,000
FY 2019	12,712,000
Total	\$ 78,791,000

House Bill 2956 Imposing a tax on hospital beds

Passed the House by a vote of 65 to 31 on April 10
Passed the Senate by a vote of 26 to 15 on April 10
Signed by Governor Gregoire on April 27

Description of Tax Increase:

Imposes a tax on hospital beds for the purpose of increasing federal matching funds for the state Medicaid program.

- The tax increases periodically in four phases, ending in 2013.
- Tax rate – the increase is determined by the type of hospital and ranges from \$10 to \$200. The rate is imposed on hospitals based on the rate of service to non-Medicaid inpatient days.

Ten-Year Cost to Taxpayers: \$683,071,000

Ten-Year Cost Projection

Year	Hospital Safety Net Assessment
FY 2010	\$ 84,506,000
FY 2011	179,007,000
FY 2012	209,779,000
FY 2013	209,779,000
FY 2014	
FY 2015	
FY 2016	
FY 2017	
FY 2018	
FY 2019	
Total	\$ 683,071,000

Senate Bill 6130

Temporarily repealing Initiative 960's requirement for a two-thirds legislative vote to raise taxes as well as public disclosure requirements

Passed the House by a vote of 51 to 47 on February 17

Passed the Senate by a vote of 26 to 21 on February 22

Signed by Governor Gregoire on February 24

Description of the Bill:

On February 22, 2010, the legislature passed Senate Bill 6130. Governor Gregoire signed the bill into law on February 24th. The bill temporarily repeals provisions of voter-approved Initiative 960 until July 1, 2011. Washington voters passed Initiative 960 on November 6, 2007.

SB 6130 repeals the following provisions of Initiative 960:

- The requirement for the legislature to have a two-thirds majority vote to raise taxes;
- The requirement that a non-binding advisory vote for each tax increase passed by the legislature be placed on the November ballot;
- The public disclosure requirement that the following information appear in the official statewide voters' pamphlet:
 - » A short description of each tax increase passed by the legislature;
 - » The most up-to-date ten-year cost projection, including a year-by-year breakdown, of how much lawmakers increased the financial burden on taxpayers;
 - » How legislators voted on final passage of each tax increase;
 - » The names of legislators and their contact information, including first name, last name, party affiliation, city or town in which they live, office phone number and office e-mail address.