



SUMMARY OF INITIATIVE 1098

Concerning establishing a state income tax and reducing other taxes.

*This summary has been prepared in response to specific questions about the provisions and effects of Initiative 1098 and is provided for legislative purposes only; it is **not** provided as an expression for or against the ballot measure. Please remember that it is inappropriate to use public resources to support or oppose a ballot measure. Please refer to the 2010 Legislative Ethics Manual or contact Senate Counsel for further guidance on when and how comment on ballot measures is appropriate.*

BRIEF SUMMARY

This measure would establish a tax on the receipt of income (measured by “adjusted gross income” as determined under the federal Internal Revenue Code) above \$200,000 for individuals and \$400,000 for married couples or domestic partners filing jointly; reduce the levy on statewide property taxes by 20%; and increase the business and occupation (B&O) tax credit to \$4,800. The increased tax revenues from the new tax would replace revenues lost from the reduced state property tax levy and increased business and occupation tax credit; remaining revenues would be directed to education and health services.

BACKGROUND

Income Taxes - in General. Income taxes for persons and corporations are measured by the net income received by individuals, households, and business entities. The federal income tax is imposed on individuals, estates, trusts, and corporations. Income taxes are also levied by most states: 45 states impose a corporate net income tax and 43 states levy a personal income tax. Washington, Nevada, Texas, and Wyoming do not impose any form of personal or corporate income tax.

Property Tax. All real and personal property in Washington State is subject to property tax, unless a specific exemption is provided by law. The tax is based on value of the property, unless a specific exemption is provided by law. Property taxes are calculated by multiplying a tax rate by the assessed value of each property. By statute, assessed value must be equal to 100 percent of the fair market value of the property, unless the property qualifies under a special tax relief program.

B&O Taxes - Small Business Tax Credit. Washington's major business tax is the B&O tax which is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Businesses with a B&O tax liability below certain levels are entitled to a Small Business Tax Credit. The amount of the credit varies depending on

the amount of tax due. Prior to the 2010 legislative session, the maximum credit available for any business was \$420 per year. 2ESSB 6143 (2010) doubled this credit to \$840 per year for most businesses reporting under service B&O tax classification.

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Imposition of the Tax. A new excise tax is established on the receipt of all taxable income of resident individuals and on all individuals deriving income from sources within this state above \$200,000 for individual incomes and \$400,000 for joint incomes of married couples and domestic partners. Amounts subject to tax would be based on the federal Internal Revenue Code determination of "adjusted gross income."

For every married couple or domestic partners filing jointly with his or her spouse or partner and for every surviving spouse or partner, the excise tax is determined in accordance with the following table:

If taxable income received is:	The tax is:
Not over \$400,000	0
Over \$400,000 but not over \$1,000,000	5% of the excess over \$400,000
Over \$1,000,000	\$30,000 plus 9% of the excess over \$1,000,000

For every individual and every married individual who does not make a single return jointly with his or her spouse or partner, the excise tax is determined in accordance with the following table:

If taxable income received is:	The tax is:
Not over \$200,000	0
Over \$200,000 but not over \$500,000	5% of the excess over \$200,000
Over \$500,000	\$15,000 plus 9% of the excess over \$500,000

Approval of Rate Increases. Any increase to the new excise tax rates would require approval by a majority vote of the legislature as well as a submission of the changes to the people for approval.

Tax Relief. As "middle class tax relief," the initiative makes two changes to existing tax law beginning in 2012. First, the state property tax levy is reduced by 20% of the levy amount that would otherwise be allowed. Second, the Small Business Tax Credit against the B&O tax is increased to a maximum credit of \$4,800 per year.

Trust Fund for Health and Education Services. The net revenues from the new tax must be used to support education and health services by dividing amounts between the Education Legacy Trust Account (70%) and health services (30%). Net revenues provided for the health services must be used exclusively to supplement amounts available to fund the Basic Health Plan; to provide for costs of state and local public health services; and to provide for long-term care services for seniors and people with disabilities and other health services. "Net revenue" is defined as that revenue received by the trust in excess of that necessary to fund the middle class tax relief. Before computing or spending net revenue, the state Treasurer must each year certify the revenue that would have been deposited in the general fund but for the 20% reduction in the state property tax levy and the increase of the Small Business Tax Credit, and must make such deposits as are necessary to replace the revenue eliminated by such middle class tax relief.

The Office of Financial Management (OFM) must prepare an annual report summarizing how funds deposited in the trust have been spent and estimating the number of state residents benefited, and must post on a web site maintained by the Treasurer and OFM a monthly disclosure of tax collection and spending related to I-1098.

Effective Date. The provisions of I-1098 would apply to taxes collectible in 2012 and thereafter as follows: (1) the property tax reduction applies to the state property taxes collected in 2012 [levied in 2011]; (2) the Small Business Tax Credit increase would start on January 1, 2012 [effective for last reporting period in 2011]; and (3) the new excise tax would begin on January 1, 2012 with employee withholding and quarterly reporting of other income.

Fiscal Impact. As required under RCW 29A.72.025, OFM is estimating the impacts which I-1098 would have if approved by voters. OFM will release this estimate on August 10, 2010.

For information on assumptions, see the OFM statement of fiscal impacts (given in total dollars only) at the following website: <http://www.ofm.wa.gov/initiatives/default.asp>.

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This summary should not be considered legislative history for purposes of interpreting Initiative 1098.