

## SB 5932 and SB 5769 would provide major tax relief for all Washingtonians

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January 2022

### Key Findings

1. Washington's 2021-23 budget is balanced, there are billions of dollars in reserves, and state revenues have grown substantially over the past year.
2. State officials have projected revenue growth of nearly \$8 billion.
3. SB 5932 would reduce the state's sales tax by a full percentage point, taking the tax rate down from 6.5% to 5.5%.
4. SB 5769 would reduce the property tax, B&O tax and repeal the capital gains income tax and long-term care payroll tax.
5. By adopting either SB 5932 or SB 5769, the legislature would put in place substantial tax relief to help Washingtonians deal with the rising cost of living in the state.

### Introduction

Washington's 2021-23 budget is balanced, there are billions of dollars in reserves, and state revenues have grown substantially over the past year. In response to this strong fiscal outlook, Senators have filed two major bipartisan tax relief bills. The bills are SB 5932 (to cut the state sales and use tax rate) and SB 5769 (to reform the state tax system by providing tax relief to residents, employees, and employers). Adoption of either proposal would provide Washingtonians significant tax relief and directly benefit everyone living in the state.

### Text of SB 5932 and SB 5769

SB 5932 was introduced by Senate Democratic Majority Caucus Vice Chair

Mona Das and has bipartisan co-sponsors. The bill would reduce the state's sales tax by a full percentage point, taking the tax rate down from 6.5% to 5.5%.<sup>1</sup> Based on previous estimates, this would provide approximately \$2 billion in tax relief per year for Washingtonians. Published Washington Policy Center research shows the public benefit of a broad-based sales tax cut.<sup>2</sup>

Sen. Das said about SB 5932 in a press release:<sup>3</sup>

"Thanks to our federal, state and local leaders' careful stewardship during this pandemic – and the public resilience throughout our communities – we are in a strong place financially. We should seize this opportunity to live up to our values of a full, equitable recovery and reduce the sales-and-use tax that burdens lower- and middle-income families . . . We need to take a serious look at tax relief for all working Washingtonians. And this is the year to do it."

When the sales tax was first imposed in 1935, Washington's sales tax rate was 2.0%. Now it is 6.5%. The last time lawmakers and a governor cut the sales tax was in 1982, nearly 40 years ago.

In a joint statement, Republican leader on the Senate Ways and Means Committee, Sen. Lynda Wilson, and Republican leader on the House Appropriations Committee, Rep. Drew

1 "SB 5932: Reducing the state sales and use tax rate," Washington State Legislature, January 21, 2022, at <https://app.leg.wa.gov/billsummary?BillNumber=5932&Year=2021&Initiative=false>.

2 "The case for a Washington sales tax cut," by Jason Mercier, Washington Policy Center Blog, September 21, 2021, at <https://www.washingtonpolicy.org/publications/detail/the-case-for-a-washington-sales-tax-cut-video/>.

3 "Das proposes legislation to cut sales taxes in two ways," WA Senate Democrats, Press Release, January 21, 2022, at <https://senatedemocrats.wa.gov/das/2022/01/21/das-proposes-legislation-to-cut-sales-taxes-in-two-ways/>.

Stokesbary, said about SB 5932 and the need to provide tax relief:<sup>4</sup>

“It’s great to see bipartisan recognition that now is the time for major tax relief, in one form or another. We welcome this proposal and look forward to having serious discussions about how to best let families and employers keep more of their own money . . . Living in Washington has become unaffordable for many. It’s time for the people to get a break.”

The other tax-cutting proposal under consideration is SB 5769, introduced by Senator Lynda Wilson also has bipartisan co-sponsors.

Here is the intent section for SB 5769 (in-part):<sup>5</sup>

“The legislature intends with this act to reform Washington state’s tax system to provide tax relief to residents and businesses. This tax relief is intended to reduce the property tax burden for homeowners by providing over \$1,000,000,000 a year in progressive property tax relief; improve the competitiveness of Washington’s manufacturing industry, which has suffered over 70,000 job losses during the 21st century; keep Washington income tax free, in accordance with long-standing court precedent and voter preferences, by eliminating the capital gains income tax; and eliminate the flawed and financially unsound long-term care payroll tax and program.”

A summary of the bill provided by Sen. Wilson says:<sup>6</sup>

4 “Republican budget leaders welcome proposed sales-tax cut to discussion of tax relief,” WA Senate GOP, Press Release, January 21, 2022, at <https://lyndawilson.src.wastateleg.org/republican-budget-leaders-welcome-proposed-sales-tax-cut-discussion-tax-relief/>.

5 “SB 5769: Reforming the state tax system by providing tax relief to residents, employees, and employers,” Washington State Legislature, January 11, 2022, at <https://app.leg.wa.gov/bills/summary?BillNumber=5769&Year=2021&Initiative=false>.

6 “Rational Steps #4: The Tax Relief & Reform Act of 2022,” WA Senate GOP, accessed on January 23, 2022, at <https://lyndawilson.src.wastateleg.org/wp-content/uploads/sites/38/2022/01/Rational-Steps-4-The-Tax-Relief-and-Reform-Act-of-2022.pdf>.

“SB 5769 would provide tax relief in four parts:

- Part 1: Provides a property tax ‘homestead’ exemption, which exempts the first \$250,000 of a primary residence from the state property tax. This is an anti-shift exemption, meaning the tax burden is not shifted onto others, but it is simply a reduction in state property tax collections.
- Part 2: Eliminates the manufacturing B&O tax, as this is a sector of the economy that has lost over 75,000 jobs since the turn of the 21st century.
- Part 3: Eliminates the capital gains income tax, as Washington voters have rejected an income tax 11 straight times.
- Part 4: Eliminates the Long-Term Care payroll tax and program, as it is financially unsound – and voters have twice rejected measures related to the tax.”

### Substantial state revenue growth projected

The state’s current fiscal outlook provides the perfect opportunity for lawmakers to provide broad-based tax relief for Washingtonians. State officials have projected revenue growth of nearly \$8 billion. Here are the state revenue forecast number changes since the 2021-23 budget was adopted last year:

- March 2021 revenue forecast (current budget based on this forecast)<sup>7</sup>

➤ 2021-23: \$56.615 billion

➤ 2023-25: \$59.906 billion

- June 2021 forecast increase over four years – **\$4.043 billion increase**<sup>8</sup>

7 “Revenue Review - March 17, 2021,” Washington State Economic and Revenue Forecast Council, at <https://erfc.wa.gov/sites/default/files/public/documents/forecasts/rev20210317.pdf>.

8 “Revenue Review – June 23, 2021,” Washington State Economic and Revenue Forecast Council, at <https://erfc.wa.gov/sites/default/files/public/documents/meetings/rev20210623.pdf>.

- ▶ 2021-23: \$58.413 billion - \$1.798 billion increase
- ▶ 2023-25: \$62.151 billion - \$2.245 billion increase
- September 2021 forecast increase over four years – **\$1.859 billion increase**<sup>9</sup>
  - ▶ 2021-23: \$59.341 billion - \$928 million increase
  - ▶ 2023-25: \$63.082 billion - \$931 million increase
- November forecast increase over four years – **\$1.862 billion increase**<sup>10</sup>
  - ▶ 2021-23: \$60.238 billion – \$897 million increase
  - ▶ 2023-25: \$64.047 billion – \$965 million increase

This means the total four-year increase in projected revenue since lawmakers adopted the 2021-23 budget is at least **\$7.764 billion**.

Monthly tax collections continue to exceed those forecast expectations. According to the state’s January 14, 2022 monthly tax collections update:<sup>11</sup>

“Major General Fund-State (GF-S) revenue collections for the December 11, 2021 - January 10, 2022 collection period came in \$260.9 million (12.7%) higher than forecasted in November . . . Cumulatively, collections are now \$349.8 million (6.4%) higher than forecasted.”

If this monthly trend continues, the state’s future revenue forecasts could show similar increases in projected revenue.

## Conclusion

With a balanced budget, billions in reserves, and revenue projections continuing to exceed expectations, the case for broad-based tax relief is overwhelming. Broad-based tax relief would benefit everyone in the state.

By adopting either SB 5932 or SB 5769, the legislature would put in place substantial tax relief to help Washingtonians deal with the rising cost of living in the state.

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*Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body.*

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Washington Policy Center  
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9 “Revenue Review – September 24, 2021,” Washington State Economic and Revenue Forecast Council, at <https://erfc.wa.gov/sites/default/files/public/documents/meetings/rev20210924.pdf>.

10 “Revenue Review – November 19, 2021,” Washington State Economic and Revenue Forecast Council, at <https://erfc.wa.gov/sites/default/files/public/documents/meetings/rev20211119.pdf>.

11 “Economic & Revenue Update,” Washington State Economic and Revenue Forecast Council, January 14, 2022, at <https://erfc.wa.gov/sites/default/files/public/documents/publications/jan22.pdf>.