



## TAX ADVISORY VOTES NOS. 1 & 2

Modifying the tax deduction for financial institutions for first mortgage interest income & extending the petroleum products tax.

*This summary has been prepared in response to specific questions about the provisions and effects of tax advisory votes per Initiative 960 on SHB 2590 and ESB 6635 (2012) and is provided for legislative purposes only; it is **not** provided as an expression for or against the ballot measures. Please remember that it is inappropriate to use public resources to support or oppose ballot measures. Please refer to the 2011 Legislative Ethics Manual or contact Senate Counsel for further guidance on when and how comment on ballot measures is appropriate.*

### BRIEF SUMMARY

Tax Advisory Votes Numbers 1 and 2 will appear on the November 2012 general election ballot. Tax Advisory Vote Number 1 relates to raising revenue by modifying the tax deduction for financial institutions from first mortgage interest income. Tax Advisory Vote Number 2 pertains to extending the expiration date of the petroleum products tax.

### BACKGROUND

#### TWO-THIRDS LEGISLATIVE MAJORITY FOR CERTAIN TAX ACTIONS AND THE ADVISORY VOTE

Initiative 601, enacted in 1993, required a two-thirds vote of both houses of the legislature for any action that raised state taxes.

Initiative 960, enacted in 2007, restated this supermajority vote requirement for tax increases not approved by referendum to the voters. Initiative 960 also required prior legislative approval of any new or increased state fees, cost projections for tax and fee proposals, and notice requirements for tax and fee proposals.

Further, Initiative 960 required an advisory vote by the people on the next general election ballot, if a legislative bill raising taxes was blocked from a public vote or is not referred to the voters. "Blocked from a public vote" is defined by Initiative 960 as including adding an emergency clause to a bill increasing taxes, bonding or contractually obligating taxes, or otherwise preventing a referendum on a bill increasing taxes. If the bill involves more than one revenue source, each tax being increased is subject to a separate advisory vote of the people. The voter pamphlet entry for advisory votes on a tax increase must be two pages long and must include a ten-year projection of the fiscal impact of the tax on the taxpayers and a description of how each member of the Legislature voted on the tax increase. Initiative 960 detailed the process by which the Attorney General would formulate a short description of the ballot measure, as well as the form and text required in the ballot description.

### THE PETROLEUM PRODUCTS TAX

The petroleum products tax is a tax on the first possession of a petroleum product in Washington State. The current rate is 0.5 percent of the wholesale value of products derived from crude oil. The tax receipts are dedicated to the Pollution Liability Insurance Program Trust Account (PLT Account) to be used to finance the pollution liability insurance and underground storage tank community assistance programs. The petroleum products tax is suspended when the balance in the PLT Account exceeds \$15 million and is re-imposed when the PLT Account balance falls below \$7.5 million. The tax has been suspended since April 1, 2010 (balance has not fallen below the \$7.5 million threshold). Prior to the 2012 regular legislative session, the tax was scheduled to expire on June 1, 2013.

### THE BUSINESS AND OCCUPATION TAX DEDUCTION FOR FIRST MORTGAGE INTEREST DEDUCTION

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any general deductions for the costs of doing business. Revenues are deposited in the state General Fund. In 1970, the Legislature adopted a B&O tax deduction for all financial institutions for their interest earnings on loans secured by first mortgages or deeds of trust on residential properties.

## **SUMMARY ADVISORY VOTES NOS. 1 & 2**

On July 30, 2012, the Attorney General notified the Secretary of State that Substitute House Bill 2590 and Engrossed Senate Bill 6635 triggered the tax advisory vote provisions of Initiative 960. The Secretary of State has assigned the following referendum numbers to these ballot measures:

- Advisory Vote No. 1 is ESB 6635, Laws of 2012, Chapter 6, 2nd Special Session;
- Advisory Vote No. 2 is SHB 2590, Laws of 2012, Chapter 3, 1st Special Session.

### ADVISORY VOTE NO. 1: ESB 6635

Engrossed Senate Bill 6635 modified or authorized several tax preferences. One of the provisions of ESB 6635 increased state tax revenues: beginning July 1, 2012, the first interest mortgage B&O tax deduction is limited to financial businesses that are located in ten or fewer states.

### ADVISORY VOTE NO. 2: SHB 2590

Substitute House Bill 2590 (2012) extends the expiration date for the petroleum products excise tax from July 1, 2013, to July 1, 2020. The rate of the tax is lowered from 0.5 to 0.3 percent.

### SHORT DESCRIPTION

As required under RCW 29A.72.283, the Attorney General must formulate a short description to be displayed on the ballot.

For information on the short descriptions for Tax Advisory Vote Numbers 1 and 2, see the Secretary of State's election web page at the following website:

<http://www.sos.wa.gov/elections/>

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*This summary should not be considered legislative history for purposes of interpreting the tax advisory votes on the relevant provisions of SHB 2590 and ESB 6635 (2012).*