

Washington Tax and Revenue: Where Do We Go From Here?

Problems

Fairness:

- Washington has the most regressive tax system in the country – lower income residents pay a far higher percentage of their income in state and local taxes than high income residents.
- Washington business taxes are also unfairly distributed. Small, new, and low-profit firms pay higher effective rates than big, established, high-profit firms.

Adequacy:

- Our tax system is based on the economy of the 1930s. Growing parts of the economy are taxed lightly or not at all (services, internet sales, income, intangible property). Therefore, tax revenues are lagging while the economy and demand for services grow.
- Washington fell from 11th place among the states in 1995, to 17th in 1998, to 32nd in 2002 in collection of state and local taxes per \$1,000 of personal income.
- Washington has cut billions from the state budget over the past 3 years, and faces a \$1.5 billion shortfall for the 2005-07 biennium.
- In 2002 Washington ranked 45th on K-12 public school funding per \$1,000 in personal income and 30th in total per pupil spending. Higher education and other services essential to our state's welfare are also under-funded.

Public Distrust:

- Citizen initiatives to cut taxes reflect a distrust of state government.
- The unfairness of our tax system and declining quality of services reinforce public distrust.

Steps Toward Solutions for 2005

- 1. Reinstate the Estate Tax** – A recent court decision threw out Washington's estate tax. Now the state must return \$150 million already collected, and without a new law cannot collect the \$277 million expected this biennium. The estate tax was one of the few progressive taxes Washington had, and was levied on only about 2% of estates (those over \$950,000 in 2005), with additional exemptions for family farms and businesses. Gov. Gregoire has proposed a tax on estates over \$2 million, raising \$129.4 million in 2005-07.
- 2. Expand the tax base** – Expanding the base will help the budget this year and into the future. Possibilities include:
 - expanding the sales tax to consumer services (movies, barbers, tax preparation, etc.)
 - expanding the sales tax to selected other services
 - closing selected tax exemptions
 - adding a tax on dividend and interest income (\$50 million to \$260 million annually)
- 3. Pass legislation for accountability in spending and tax breaks**
 - H.B. 1069 to establish a citizens commission to review tax preferences, and H.B. 1096 to require a biennial tax expenditure report (passed the House, referred to Senate)

Examples of Possible New Revenues

Net New Revenues from Extending Sales Tax to Consumer Services	2005-07 estimate (in millions)	
	State	Local
Veterinarians	\$37.1	\$10.8
Cable TV	\$57.8	\$16.9
Beauty and barber shops	\$51.9	\$15.2
Tax preparation	\$2.9	\$.8
Movies, theaters, bands & orchestras	\$30.3	\$8.8
Pro sports, racing	\$33.9	\$9.9
Misc. personal services	\$13.2	\$3.9
Bowling, golf, other physical fitness and recreation	\$45.1	\$13.2

Net New Revenues from Extending Sales Tax to Selected Other Services	2005-07 estimate (in millions)	
	State	Local
Detective/security (13 states)	\$106.9	\$31
Computer/data processing (11-16 states)	\$107.1	\$31.3
Janitorial (18 states)	\$10.7	\$3.1
Advertising (11 states)	\$21.6	\$6.3

Net New Revenues from Eliminating Selected B&O deductions	2005-07 estimate (in millions)	
	<p>Mortgage deduction – Financial institutions deduct interest earned on 1st mortgages on residential property. Adopted in 1970 when interest rates were much higher. Not clear that home buyers benefit.</p> <ul style="list-style-type: none"> • total repeal • limit to owner-occupied <p>Dues and fees on health clubs, golf, camping, etc.</p> <p>Private school tuition</p>	<p>\$82.2</p> <p>\$13.4</p> <p>\$5.4</p> <p>\$32.7</p>

Net New Revenues from Rate Increases	2005-07 estimate (in millions)
Cigarette tax up 50 cents	\$50.2
Liquor liter tax – increase from \$2.44 to \$3.44	\$62.8
Hazardous substance, oil spill, petroleum taxes – 10% surtax	\$12

Source: Department of Revenue