

REPLACEMENT ALTERNATIVES AND PROBLEMS

Problems Best Addressed by Tax Alternative

(Paraphrased problem statement)

Taxes on Goods and Services

1 Value added tax	<ul style="list-style-type: none"> • Significant activities are not subject to taxation. (#16) • B&O tax pyramiding results in non-neutral taxation. (#17) • B&O tax rates on value added are much higher than statutory B&O tax rates. (#19) • B&O taxes on value added vary across industries. (#20) • Firms can avoid the B&O tax by shifting activities out of state. (#29) (depending on whether origin or destination based)
2 Unified goods and services tax (<i>multi-stage tax</i>)	<ul style="list-style-type: none"> • Sales tax grows more slowly than the economy due to increased consumer spending on services and remote purchases. (#4) • Sales tax is not deductible from federal income tax. (#11) • B&O tax pyramiding results in non-neutral taxation. (#17) • Untaxed forms of consumer spending result in non-neutral taxation. (#18) • B&O tax rates on value added are much higher than statutory B&O tax rates. (#19) • B&O taxes on value added vary across industries. (#20) • Business taxes that are passed on to consumers are not transparent. (#22) • Retailers are not compensated for the cost of collecting sales tax. (#25) • Firms can avoid the B&O tax by shifting activities out of state. (#29) (depending on whether origin or destination based)
3 Modified VAT/flat tax on wages (<i>true business and occupation tax</i>)	<ul style="list-style-type: none"> • WA taxes are volatile. (#1) • B&O taxes are burdensome on businesses in their unprofitable years. (#8) • Low profit margin firms to suffer a competitive disadvantage compared to firms in other states. (#9) • WA taxes are regressive. (#12) • Significant activities are not subject to taxation. (#16) • B&O tax pyramiding results in non-neutral taxation. (#17) • B&O tax rates on value added are much higher than statutory B&O tax rates. (#19) • B&O taxes on value added vary across industries. (#20) • Firms can avoid the B&O tax by shifting activities out of state. (#29) (depending on whether origin or destination based)

REPLACEMENT ALTERNATIVES AND PROBLEMS

Problems Best Addressed by Tax Alternative (Paraphrased problem statement)

Taxes on Business and Personal Income

<p>4 Corporate net income tax</p> <ul style="list-style-type: none"> • Based on federal taxable income • Flat 1% rate • Evenly weighted three-factor apportionment (payroll, property, and sales) • Consolidated accounting 	<ul style="list-style-type: none"> • B&O taxes are burdensome on businesses in their unprofitable years. (#8) • Low profit margin firms suffer a competitive disadvantage compared to firms in other states. (#9) • Significant activities are not subject to taxation. (#16) • B&O tax pyramiding results in non-neutral taxation. (#17) • B&O tax rates on value added are much higher than statutory B&O tax rates. (#19) • B&O taxes on value added vary across industries. (#20) • Firms can avoid the B&O tax by shifting activities out of state. (#29) • Washington's tax system is significantly different than that of "typical" states. (#30)
<p>5 Flat rate personal income tax</p> <ul style="list-style-type: none"> • Based on federal AGI • 1% rate • No exemptions 	<ul style="list-style-type: none"> • WA taxes are volatile. (#1) • Sales tax is not deductible from federal income tax. (#11) • WA taxes are regressive. (#12) • Significant activities are not subject to taxation. (#16) • Households may be unaware of their annual sales tax burden. (#21) • Washington's tax system is significantly different than that of "typical" states. (#30)
<p>6 Flat rate personal income tax</p> <ul style="list-style-type: none"> • Based on federal AGI • 1% rate • \$5,000 per exemption 	
<p>7 Graduated personal income tax</p> <ul style="list-style-type: none"> • Based on federal AGI • 3%, 4.5%, 5.5% rates 	<ul style="list-style-type: none"> • Sales tax grows more slowly than the economy due to increased consumer spending on services and remote purchases. (#4) • Sales tax is not deductible from federal income tax. (#11) • WA taxes are regressive. (#12) • Significant activities are not subject to taxation. (#16) • Households may be unaware of their annual sales tax burden. (#21) • Washington's tax system is significantly different than that of "typical" states. (#30)

ADJUSTMENT ALTERNATIVES AND PROBLEMS (Alternative Subcommittee)

User Fees & Dedicated Taxes	Problems Best Addressed by Tax (Paraphrased problem statements)
1 Replace taxes on private goods with user fees paid directly by those imposing burdens	<ul style="list-style-type: none"> • Initiatives have impacted long run adequacy. (#5)
2 Avoid dedicated taxes except "user fees"	<ul style="list-style-type: none"> • Certain dedicated taxes are costly to administer for both the state and the businesses. (#24)

Business Taxes and Incentives

3 Exempt construction from sales tax	<ul style="list-style-type: none"> • WA taxes are volatile. (#1) • Low profit margin firms suffer a competitive disadvantage compared to firms in other states. (#9) • Businesses may locate in Oregon because of lower taxes. (#10) • New and expanding businesses tend to have higher property tax burdens. (#13) • Washington's tax system is significantly different than that of "typical" states. (#30)
4 Exempt start-ups from the B&O	<ul style="list-style-type: none"> • B&O taxes are burdensome on businesses in their unprofitable years. (#8) • Low profit margin firms suffer a competitive disadvantage compared to firms in other states. (#9)
5 Increase small business credit	<ul style="list-style-type: none"> • B&O taxes are burdensome on businesses in their unprofitable years. (#8)
6 Review and target business incentives, exemptions.	

Taxes on Property/Assets

7 Property tax homestead credit against state levy	<ul style="list-style-type: none"> • Initiatives have impacted long run adequacy. (#5) • WA taxes are regressive. (#12)
8 Property tax relief or deferral targeted by income	<ul style="list-style-type: none"> • Property taxes can be burdensome for low-income working families with changed circumstances. (#27)
9 Estate tax	
10 Tax on the market value of motor vehicles	<ul style="list-style-type: none"> • WA taxes are volatile. (#1)

ADJUSTMENT ALTERNATIVES AND PROBLEMS (Alternative Subcommittee)

Sales/Use Tax

11 Extend sales tax to consumer services	<ul style="list-style-type: none"> • Sales tax grows more slowly than the economy due to increased consumer spending on services and remote purchases. (#4) • Counties have less taxing capacity than cities and their taxing capacity is diminishing. (#7) • Untaxed forms of consumer spending result in non-neutral taxation. (#18)
12 Streamline sales tax	<ul style="list-style-type: none"> • Sales tax grows more slowly than the economy due to increased consumer spending on services and remote purchases. (#4) • Untaxed forms of consumer spending result in non-neutral taxation. (#18) • Retailers are not compensated for the cost of collecting sales tax. (#25) • Individuals can sometimes avoid sales tax. (#28)
13 Compensate retailers for collecting the sales tax.	<ul style="list-style-type: none"> • Retailers are not compensated for the cost of collecting sales tax. (#25)

Local Finance Options

14 Give state property tax levy to local govt.	<ul style="list-style-type: none"> • New and expanding businesses tend to have higher property tax burdens. (#13) • Households tend not to like lumpy taxes such as WA's property tax. (#23) • Property taxes can be burdensome for low-income working families with changed circumstances. (#27)
15 Simplify local B&O	<ul style="list-style-type: none"> • Local B&O taxes are inconsistent between cities. (#26)

Rainy Day Funds/Trigger Mechanisms

17 Rainy Day Fund	<ul style="list-style-type: none"> • Reserve funds are politically difficult to maintain. (#3)
-------------------	---

ADJUSTMENT ALTERNATIVES (DOR) AND PROBLEMS

These alternatives were developed by the Department of Revenue at the request of the Washington State Tax Structure Study Committee. These alternatives describe adjustments to the existing system to align the tax system with administrative and policy simplification goals.

User Fees & Dedicated Taxes

Problems Best Addressed by the Tax Alternative

1 Eliminate dedicated product-based taxes	<ul style="list-style-type: none"> • Certain dedicated taxes are costly to administer for both the state and the businesses. (#24)
---	---

Business Taxes and Incentives

2 Reduce number of B&O rates and classifications	
3 Reform B&O apportionment	<ul style="list-style-type: none"> • Low profit margin firms suffer a competitive disadvantage compared to firms in other states. (#9) • Businesses may locate in Oregon because of lower taxes. (#10) • Firms can avoid the B&O tax by shifting activities out of state. (#29) • Washington's tax system is significantly different than that of "typical" states. (#30)
4 Eliminate the PUT	

Sales/Use Tax

5 Remove sales tax from construction contracts	<ul style="list-style-type: none"> • WA taxes are volatile. (#1) • Low profit margin firms suffer a competitive disadvantage compared to firms in other states. (#9) • Businesses may locate in Oregon because of lower taxes. (#10) • New and expanding businesses tend to have higher property tax burdens. (#13) • Washington's tax system is significantly different than that of "typical" states. (#30)
6 Simplify exemptions and credits	<ul style="list-style-type: none"> • Retailers are not compensated for the cost of collecting sales tax. (#25)