DRAFT

ADJUSTMENT ALTERNATIVES FOR WASHINGTON TAXES
(Alternative Subcommittee)

User Fees & Dedicated Taxes	Calendar 2005 State Impact Only	Advantages	Disadvantages	Tax Principles Most Advanced By Tax	Tax Principles Most Eroded By Tax	Administrative Issues
1 **User Fees** Replace taxes on private goods with user fees paid directly by those imposing burdens	• Revenue neutral	• Perceived as fair • Helps allocate scarce resources • Lowers taxes for public goods	• Burdens low income • May be inappropriately applied	• Equity (benefits principle)		
2 **Avoid new dedicated taxes except "user fees"**	• Revenue neutral	• Improved compliance • Fewer legal challenges • Less complex		• Stability • L-T Adequacy • Simplicity • Equity		

Business Taxes and Incentives

3 **Exempt Construction Labor from Sales Tax** Exempt labor portion of construction contracts from sales tax.	• $400 million loss	• Encourages business investment. • Encourages homeownership	• Complex for contractors to maintain separate accounting of contracts.	• Competitiveness	• L-T Adequacy	
4 **Start-up B&O exemption** Exempt all businesses from the B&O tax for two years.	• $156.5 million loss	• Encourages new business formation • Reduces tax burden on start-ups and unprofitable businesses	• Potentially unfair to existing businesses. • Hard to distinguish between new businesses and reorganizations	• Competitiveness	• L-T Adequacy • Simplicity	• Difficult to track two-year start up period • Liability of successors
5 **Increase small business credit** Double the credit to $70 a month, phase out at $140	• $28 million loss	• B&O creates burden for smaller firms that tend to be less profitable	• New and expanding firms may unprofitable, but too large to receive credit	• Competitiveness • Equity	• L-T Adequacy • Stability • Neutrality	

Tax alternatives are evaluated on the basis of the following principles: Simplicity, Economic Neutrality, Equity/Fairness, Stability, Transparency, Interstate Competitiveness, Long-Term Adequacy.

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Business Taxes and Incentives (continued)	Calendar 2005 State Impact Only	Advantages	Disadvantages	Principles Most Advanced By Tax	Principles Most Eroded By Tax	Administrative Issues
6 **Review business incentives** Review and retarget discretionary business exemptions, sunset review of new exemptions	• Indeterminate	• Exemptions that outlive their purpose are rarely repealed	• Uncertainty	• Neutrality • Simplicity		• Time and resources necessary to review exemptions

Taxes on Property and Assets

7 **Homestead exemption** Property tax exemption for first $50,000 of residential value	• $43 million loss	• Makes an unpopular tax more palatable • Provides individual tax relief • Many states have a homestead credit or exemption	• Not targeted to low income • Renters receive no relief • Shifts taxes to businesses	• Equity	• L-T Adequacy • Simplicity (if renters are included)	
8 **Property tax relief targeted by income** Similar to senior exemptions but available to all low-income homeowners	• Tax shifts to existing property owners	• Targeted low-income tax relief	• No means for county assessors to determine income	• Equity	• Simplicity • L-T Adequacy	• Complex for County assessors
9 **Estate tax** • 100% state credit • Conform to federal filing threshold • Phase out in 9 years	• $20 million loss in CY 2005 rising to $28 million in CY 2007	• Taxes the accumulation of wealth	• Out of sync with feds • “Stand alone” inheritance & estate tax in only 13 states	• Equity • Transparency	• Simplicity • Neutrality	• Resources necessary to administer tax, educate taxpayers and practitioners

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Taxes on Property and Assets (continued)	Calendar 2005 State Impact Only	Advantages	Disadvantages	Principles Most Advanced By Tax	Principles Most Eroded By Tax	
10 **Fully conform with federal estate tax repeal** • 25% state credit phase out • Conform to federal filing threshold • Phase out in 3 years	• $89 million loss in CY 2005 rising to $113 million in CY 2007	• In sync with feds and other states	•	• Simplicity	• Equity	
11 **Motor vehicle tax** Similar to property tax, tax base is market value, rate is 1% annually	• $400 million gain	• Broadens the tax property tax base • Most states tax the value of motor vehicles	• Motor vehicle excise tax repealed effective in 2000	• L-T Adequacy • Transparency		• Requires coordination with DOL for collection
12 **Extend sales tax to consumer services** Tax on consumer services, e.g. beauty/barber, cable TV, residential phone	• $420.9 million gain consumer services • plus $52 million residential phone	• Captures the shift from a goods- to service-based economy • Broadens the tax base	• Few states tax services	• L-T Adequacy • Stability • Equity	• Competitiveness	• Taxpayer education necessary
13 **Streamline sales tax** Enact uniform legislation along with other sales tax states: • Common definitions • Simplified administration	• Indeterminate	• WA relies more heavily on sales tax than almost all other states • Simplicity for multi-state retailers	• May be some loss of flexible state and local authority over sales tax.	• L-T Adequacy • Simplicity		
14 **Compensate retailers for collecting the sales tax** Retailers retain a percentage of collected sales tax	$113.9 million loss	• Many states compensate retailers • Collecting state and local sales taxes is costly for small retailers	• Fiscal loss	• Harmony with other states • Competitiveness	• Simplicity	• Taxpayer education necessary

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Local Fiscal Capacity	Calendar 2005 State Impact Only	Advantages	Disadvantages	Principles Most Advanced By Tax	Principles Most Eroded By Tax	
15 **Eliminate state school levy** Give state property tax levy to local government.	• $1,396 million loss	• Tax more appropriate as local source	• Need to find alternate source for school funding	• L-T Adequacy (Local) • Stability • Simplicity	• L-T Adequacy (State)	• Coordination necessary with local governments • Change should be effective at start of calendar year. • Reduction in state Property tax personnel.
16 **Simplify local B&O** Define common tax base. Resolve apportionment issues between business and cities.	• 39 cities collect $200 million in tax • Substantial shifts in revenues likely	• A large potential source of taxing authority • Easier for business to comply	• May be some loss of flexible local authority over B&O tax	• Simplicity	• L-T Adequacy (local) • Stability	• Coordination necessary with local governments and businesses • Taxpayer education necessary

Rainy Day Funds/Trigger Mechanisms

17 **Rainy Day Fund**						

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