Washington Tax Structure Study
Sample Packages

<u>RESULTS OF COMMITTEE QUESTIONNAIRE</u>

Package 1: Subtraction Method VAT replaces B&O

Purpose: Eliminates pyramiding that exists in the B&O Tax.

Tax incidence: All businesses operating in Washington State

Rate: 2.15%

Yield: $2,302.3 million in CY 05 would replace $2,304.3 million lost by eliminating the B&O

Details: This is an origin-based tax. Imports are exempt from the tax. Exports are taxed.

Vote on Package 1

__2__No, I do not support this package
__5__Yes, with no changes
__4__Yes with changes (indicate changes below)

Changes:

__1____Do not exempt imports

_____Exempt exports

__3___Other change_ **Apportionment for exporters to maintain competitiveness.
Lower export rate and raise overall rate to balance**

Comments: I support this package if there are no other changes to the tax system.

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Package 2: GST replaces B&O and Retail Sales Tax

Purpose: GST eliminates pyramiding that exists in the B&O Tax. Broadens taxable base.
               Business taxes become transparent to individuals.

Tax incidence: All businesses operating in the state of Washington

Rate: 9%

Yield: $9,093.8 million to replace $6,693.8 million in Retail Sales Tax and $2,304.3
               million in B&O Tax

Details: Food, medical services, and prescription drugs are exempted to ameliorate
               regressivity.

Vote on Package 2

__8__No, I do not support this package
__3__Yes, with no changes
_____Yes with changes (indicate changes below)

Changes:

_____Do not exempt food

_____Do not exempt medical services

_____Do not exempt prescription drugs

_____Replace only Retail Sales Tax, not B&O

Comments: Rate is too high

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Structure Study Committee by the
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Package 3: Progressive VAT replaces B&O and includes a tax on wages as a mechanism for giving low-income relief

Purpose: Eliminates pyramiding that exists in the B&O Tax. Provides low income relief

Tax incidence: All businesses operating in Washington State, all wage earners

Rate: To be determined

Yield: To be determined

Details: To be determined

Vote on Package 3

Please vote on whether the Committee should continue to explore this option.

__3__Yes   ____8__No

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Package 4: Flat Personal Income Tax buys down Retail Sales Tax and eliminates state Property Tax

Purpose: Flat Personal Income Tax is a proportional tax, which would buy down a regressive tax. Less reliance on the RST ameliorates the tax base erosion problem. Individuals can export a portion of income tax to the federal government. $20,000 deduction provides relief for low-income households.

Tax incidence: Resident households in Washington State, and individuals earning income in Washington State

Rate: Personal Income Tax--3.0%
               Retail Sales tax--4.5%

Yield: $3,530 million to replace $1,957.8 million in Retail Sales Tax and $1,573.1 million in Property Tax

Details: $20,000 deduction per return

Vote on Package 4

_1___ No, I do not support this package
_3___ Yes, with no changes
_7___Yes with changes (indicate changes below)

Changes:

_____Change deduction to $0

__1___Change deduction to $50,000

_____Change deduction to $75,000

__4___Have a deduction based on family size

__1____Include an earned income tax credit (EITC)

_____Do not buy down RST, eliminate state Property Tax only.

__3____Do not eliminate state property Tax, buy down RST only.

__3____Buy down RST to another rate (specify rate)__3.5% (2), 1%_____

__3____Eliminate RST

_____Other change

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Corporate income tax creditable against B&O

Deduction based on family size should have joint/single

Have both family size and EITC with lower deduction

Allow married to file separately or increase the exemption for married. With only one exemption amount of $20,000 there is a marriage penalty ($20,000 for two people vs. $20,000 for single) unless married may file separately. Filing separately can create a marriage bonus. Therefore, married could have a higher exemption or some other method of reducing the marriage penalty and not increasing the marriage bonus.

Adopt flat tax proposals that Debbe and Lily will present tomorrow
Present both buy-down and elimination of RST as two separate options

Comments:
This package is not revenue neutral and needs a higher rate.
If the deduction is $50,000 that should take care of the low income/family size concern.

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Package 5: Graduated Personal Income Tax buys down RST and eliminates state Property Tax levy

Purpose: Graduated personal income tax is a progressive tax, which would buy down a regressive tax. Less reliance on the RST ameliorates the tax base erosion problem. Individuals can export a portion of income tax to the federal government.

Tax incidence: All resident households in Washington and individuals who earn income in Washington State.

Rate: Graduated personal income tax:

Single/	$0 - $24,950	1.5%
Married Filing	$24,950 - $60,325	2.5
Separate	Over $60,325	4.5%

Joint/	$0 - $49,900	1.5%
Head of Household	$49,900 - $120,650	2.5
	Over $120,650	4.5%

Retail Sales Tax: 4.5%

Yield: $3,530 million to replace $1,957.8 million in Retail Sales Tax and $1,573.1 million in Property Tax

Details: Includes an earned income tax credit equal to 5% of federal EITC

Vote on Package 5

_2___No, I do not support this package
_2___Yes, with no changes
_7___**Yes with changes (indicate changes below)**

Changes:

___1___Do not have an EITC credit

___3___Have a deduction based on family size

___1___Eliminate the marriage penalty

_____Do not buy down RST, eliminate state Property tax only.

___4__Do not eliminate state property tax, buy down RST only.

___2___Buy down RST to another rate (specify rate)____3.5% ___

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___**2**___ Eliminate RST

_____ Other change:

Corporate income tax creditable against B&O

Index bracket thresholds for inflation.

Take into consideration the marriage penalty or marriage bonus .

Adopt flat tax proposals that Debbe and Lily will present tomorrow

Present both buy-down and elimination of RST as two separate options

<u>Comments:</u> There is no marriage penalty; only a "single penalty" and there's no way to have marriage neutrality with a graduated rate structure under community property.

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Package 6: Flat Personal Income Tax buys down RST and eliminates state Property Tax levy. Corporate Income Tax replaces B&O

Purpose: Graduated personal income tax is a progressive tax, which would buy down a regressive tax. Less reliance on the RST ameliorates the tax base erosion problem. Individuals can export a portion of income tax to the federal government. Corporate income tax would eliminate pyramiding.

Tax incidence: All resident households in Washington and individuals who earn income in Washington State

Rate: Flat Personal Income Tax: 4.53 %
               Corporate Income Tax: 4.53%
               Retail Sales Tax: 4.5%

Yield: $5,835 million to replace $1,957.8 million in Retail Sales Tax, $1,573.1 million in Property Tax and $2,304.3 million in B&O tax.

Details: $20,000 deduction per return

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Vote on Package 6

_5___No, I do not support this package
_3___Yes, with no changes
_3___Yes with changes (indicate changes below)

Changes:

_____Change deduction to $0

__1____Change deduction to $50,000

_____Change deduction to $75,000

__1____Have a deduction based on family size

__1____Include an EITC credit

__1____Do not buy down RST, eliminate state Property Tax only

__1____Do not eliminate state Property Tax, buy down RST only

__1____Buy down RST to another rate (specify rate)__3.5%_____

__1____Eliminate RST

__1____Do not eliminate B&O, have a combination B&O, Corp. income tax

_____Other change

I would explore not buying down the property tax and increasing the deduction.

Have deduction based on family size (joint/ single)

Replace B&O with business VAT

2.3% flat tax to replace property tax.

Flat deduction problem discussed before.

Reduce income tax rates to 4%.

It doesn't matter if it is a flat tax or graduated tax as long as the yield is the same.

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Package 7: Adjustments

Purpose: -Homestead exemption and/or extending senior exemption to other low-income households addresses regressivity
-Sales tax on consumer services and streamlined sales tax address erosion of the tax base
-B&O apportionment addresses neutrality
-Rainy day fund addresses adequacy/volatility
-Sending a resolution to Congress regarding deductibility of Sales Tax addresses exportability of the Sales Tax.

Yield:

-Homestead exemption	$0 (shift to other taxpayers)
-Extending senior exemption	$0 (shift to other taxpayers)
-Extend Sales Tax to consumer services	$229.6 million
-Streamlined sales tax	N/A
-B&O apportionment	impact yet to be determined
-Rainy day fund	N/A
-Sending a resolution to Congress	N/A

Vote on which elements of Package 7 to include:

	Yes	No	
-Homestead exemption	_9__	_2__	
-Extending senior exemption	_6__	_4__	**1 no response**
-Extend Sales Tax to consumer services	_10__	_1__	
-Streamlined sales tax	_11__	_0__	
-B&O apportionment	_11__	_0__	
-Rainy day fund	_11__	_0__	
-Sending a resolution to Congress	__7_	_3__	**1 no response**

Other adjustments (specify: **Extend property tax to automobiles.**
                        Increase reliance on user fees including pollution fees.

Comment: I don't know what the "resolution to Congress" means.

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Package 8: Sustainability of the Current Tax System
(Note: this is the package Russ Brubaker presented at the meeting on Friday, Sept. 6th.)

Purpose: Remove Sales Tax from construction services
            Reform state B&O apportionment methods
            Reduce number of B&O rates and classifications
            Eliminate the Public Utility Tax
            Extend Sales Tax to personal services
            Streamline sales tax, enact uniform legislation
            Rainy day fund

Tax incidence: All businesses operating in Washington State.

Rate: B&O rates (for the reducing rates and classifications proposal)
            0.484% selling, manufacturing, and some services
            1.5% other services
            3.8% utilities

Yield: $194 million net gain for the entire package.

Details: See Tax Adjustment package presented 9/6/02. Additional details regarding
            apportionment and other questions posed on 9/6/02 will follow in a subsequent
            email.

Vote on which elements of Package 8 to include:

	Yes	No
Construction	_ 7__	_4__
Apportionment	_11__	_0__
B&O consolidation	_10__	_1__
Eliminate Public Utility Tax	_10__	_1__
Sales Tax on personal services	_10__	_1__
Streamline sales tax	_11__	_0__
Rainy day fund	_11__	_0__

Prepared for the Washington State Tax   11   September 13, 2002
Structure Study Committee by the
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