



Department of Revenue Technical Advisory Group

Washington State Tax
Structure Work Group





Why did we ask you
to join us today?

- ▶ To hear your interests, values, and preferences about Washington State's taxes
- ▶ Help the Tax Structure Work Group create new tax legislation in the future

Today's Conversation

Share	Share background information about Washington State taxes
Breakout	Discuss different tax ideas for the future
Wrap up	Wrap up and next steps

What is one word or phrase that comes to mind when you hear the word 'tax'?

Type your answer in the chat

Who is the Tax Structure Work Group (TSWG)?



Rep. Noel Frame, Co-Chair
(D-Greenwood)



Sen. Keith Wagoner, Co-Chair
(R-Sedro-Woolley)



Rep. Pat Sullivan (D-Covington)



Rep. Ed Orcutt
(R-Kalama)



Rep. Jesse Young (R-Gig Harbor)



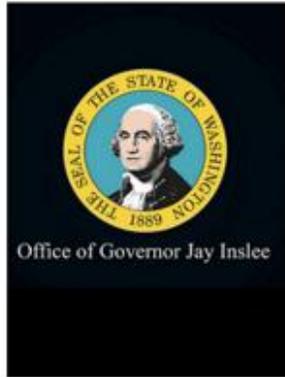
Sen. Joe Nguyen
(D-White Center)



Sen. Lisa Wellman (D-Mercer Island)



Sen. Phil Fortunato
(R-Auburn)



Scott Merriman,
Governor's Legislative
Liaison



Dean Carlson, Senior
Tax Policy
Coordinator, DOR



Mayor Anne McEnery-Ogle, City of Vancouver
(representing the
Association of
Washington Cities)



Councilmember Derek
Young, Pierce County
(representing the
Washington State
Association of
Counties)

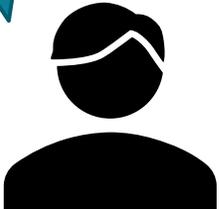
GOAL:

To improve Washington's state taxes to better serve the people of Washington.

What is the Tax Structure Work Group?

Why Are We Talking About This Now?

In 2018, the Work Group held public meetings across the state and heard...



Taxes for individual taxpayers are unfair!



Taxes for businesses are unfair!

Where Are We in the Process?

We are here



If taxpayers want to see changes...

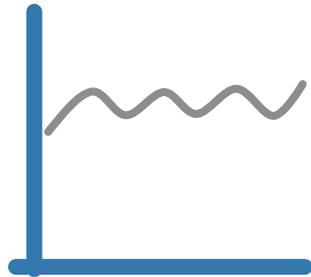


Why update taxes?

What principle is most important to you?



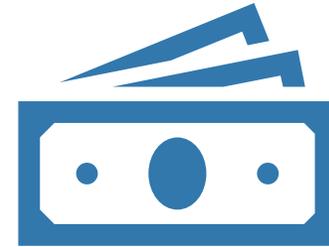
Fairness



Stability



Transparency



Adequacy

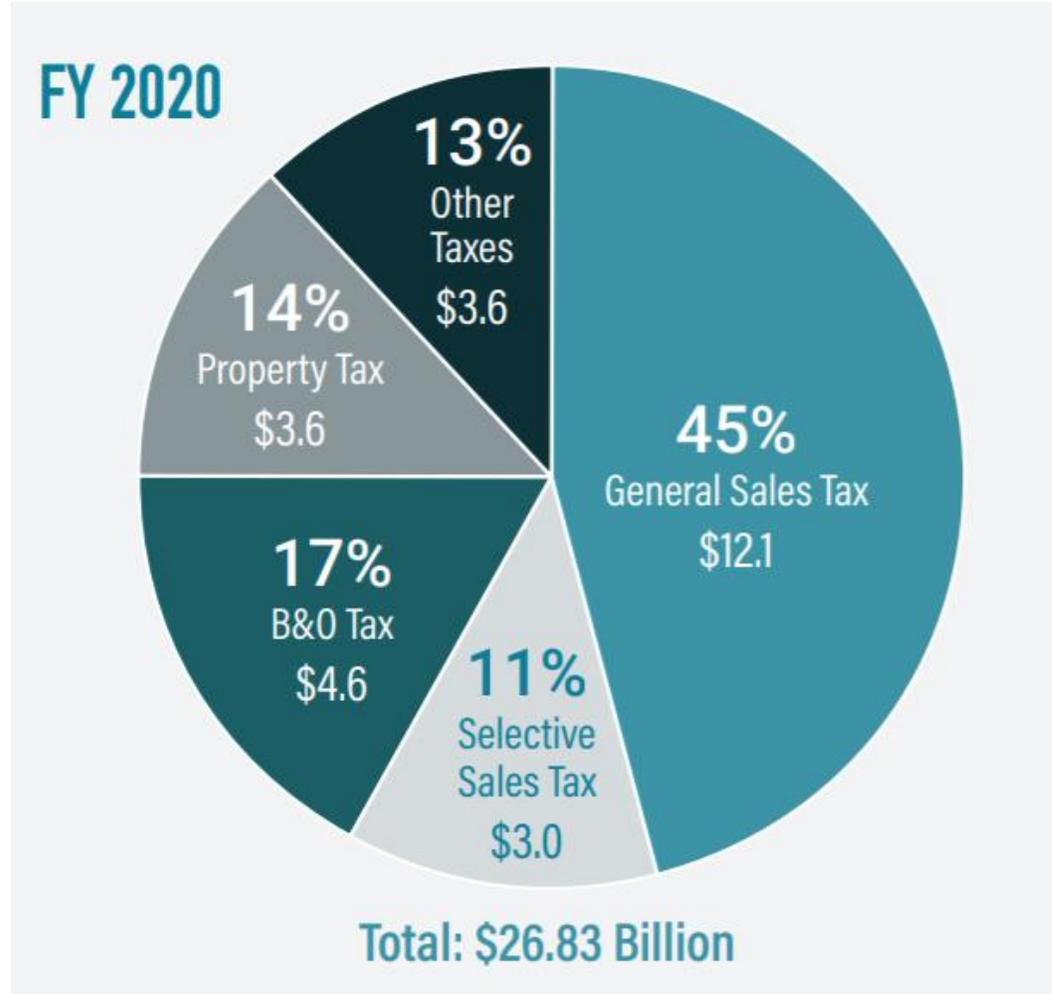
What is a fair tax system?

Which statement best matches your sense of a fair tax for individuals and businesses?



- a. **Capacity:** Those individual and business taxpayers with **higher incomes** or revenue should pay a **higher percentage** of their income or revenue in taxes, and those with **lower incomes** or revenue should pay a **lesser percentage**
- b. **Consistency:** All individual and business taxpayers should **pay the same percent** of their income or revenue on taxes regardless of their income

Washington State Taxes in 2020



Source: WA Department of Revenue

How can taxes be improved?

How can Washington State's Taxes Be Improved?

<https://vimeo.com/showcase/8818918/video/601193065>

Summary of Tax Scenarios: Ideas for You to Consider

Change Property Tax Limit Factor



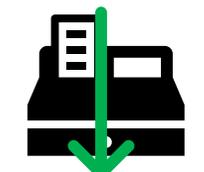
Update Property Tax and Tax Personal Wealth



Replace B&O Tax and add Employer Compensation Tax



Tax Personal Income and Corporate Income



But wait - isn't an income tax unconstitutional?

In the past, the Washington State Supreme Court has found that a **progressive/graduated income tax** is unconstitutional.

If the Tax Structure Work Group wanted to move forward with an income tax based on feedback from the public, it would have to address constitutional issues.



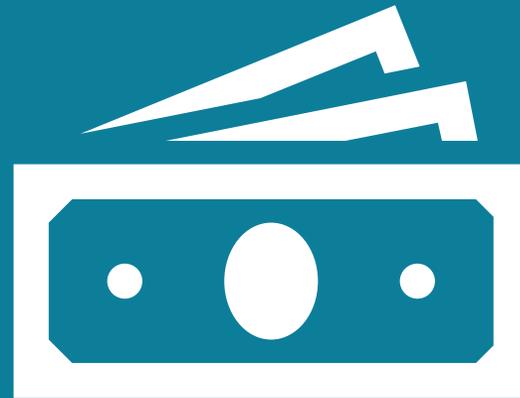
But wait - what if I'm happy with the tax structure?

If the Tax Structure Work Group hears a desire to change the state's taxes, there might recommendations from the Work Group to the Legislature.

Scenarios are meant to stimulate conversation - they aren't policies.

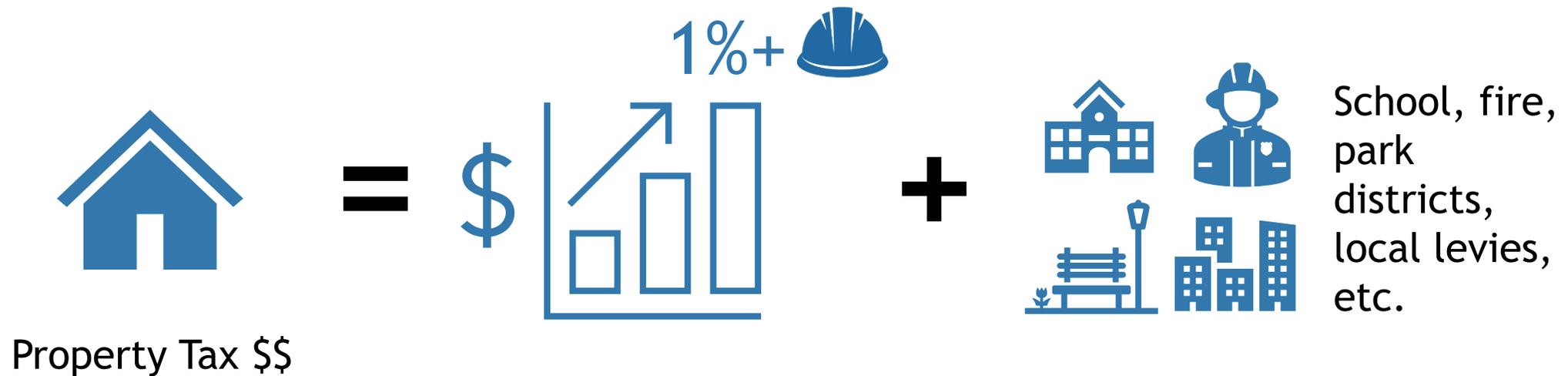


Scenario: Updating the Property Tax to Address Adequacy



Updating the State Property Tax

- **Property Tax:** Taxes on land and buildings
- **Property Tax 1% Growth Limit:** By law, the annual growth of property tax by the state is limited to 1% growth (not including local levies) + new construction add-on value



Scenario

Change the state property tax to fund education as the state grows by increasing the property tax limit factor to match our economy's growth (inflation and population)



**Property
Tax Limit
Factor**

=



**Population
Growth**

+



Inflation



What do you think is a better limit on how much property tax revenues can grow?

1. The current system of 1% maximum growth per year.
2. A revised limit based on growth of population and inflation.
3. I am not sure

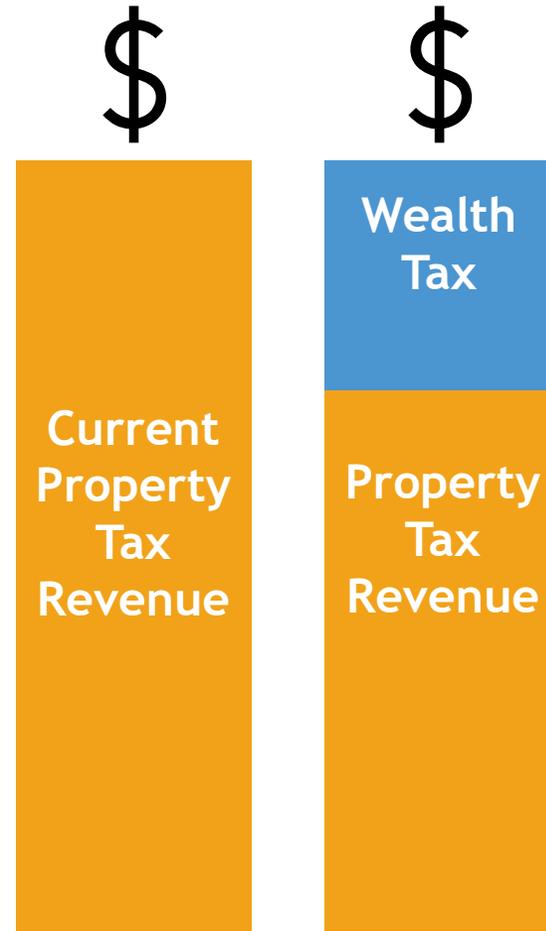
Scenario: Updating the Property Tax and Taxing Personal Wealth to Address Fairness



Scenario

Wealth Tax: 1% tax on financial property (stocks, bonds, etc.), with the first \$1 billion exempt

Property Tax exemption: The first \$250,000 of a person's primary residence value would not be taxed.



Fairness Issues Regarding Updating the Property Tax and Taxing Personal Wealth

- ▶ Capacity of homeowners to pay their property tax
- ▶ Capacity of individuals with financial property in excess of \$1 billion to pay a wealth tax
- ▶ Consistency in the **amount** of property taxes collected from all homeowners
- ▶ Consistency in the **application** of taxes to financial property including stocks, bonds, etc.

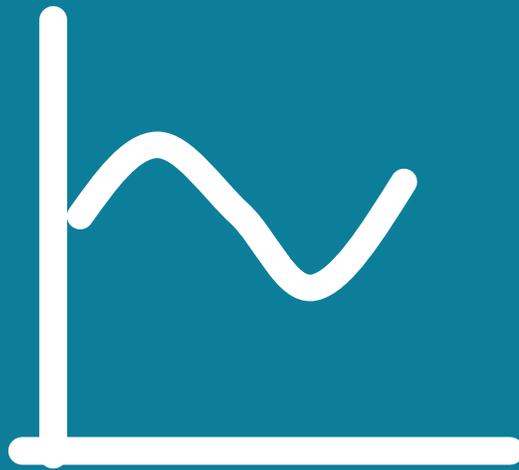
Discussion: Which is fairer?

Maintain
current
property
tax



Add a
wealth tax
and
decrease
current
property
tax

Scenario: Introducing a Corporate Income Tax
and Personal Income Tax
to Address Stability



Current Tax Structure



B&O Tax



Sales Tax



Property Tax

Scenario



B&O Tax



Sales Tax



Property Tax



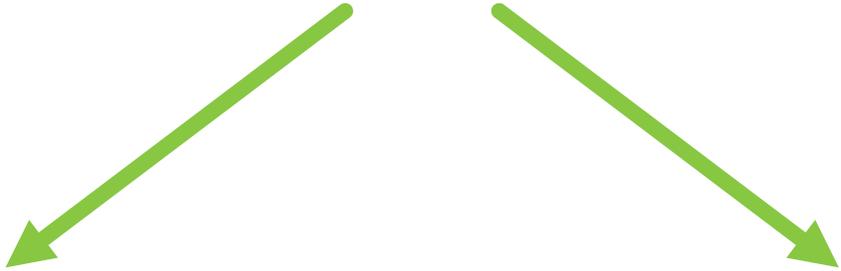
Corporate Income Tax



Personal Income Tax

Personal Income Tax

Tax on the **income**
people earn



Progressive Tax: As a person's income increases their tax rate would also increase.

Flat Tax: All people's income would be taxed at the same flat rate.

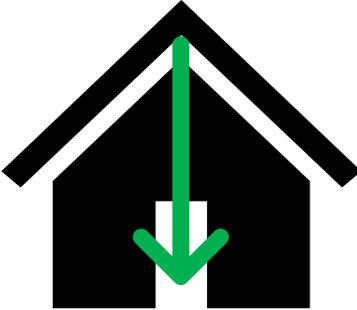
Scenario



Personal Income Tax



Sales Tax



Property Tax

Discussion: Which is fairer?

Flat
income
tax



Progressive
income tax

Discussion: Which is fairer?

Maintain
current
sales and
property
taxes



Decrease
sales and
property
taxes and
add a
progressive
income tax

Discussion: Which is fairer?

Maintain
current
sales and
property
taxes



Decrease
sales and
property
taxes and
add a flat
income tax

Questions and Comments?



Business & Occupation Tax

Improving Washington State's Taxes on Businesses

<https://vimeo.com/showcase/8818918/video/597462401>

~~B&O Tax~~

Value-Added Tax

Employer Compensation Tax

Corporate Income Tax

Margins Tax

Value-Added Tax

Business tax on the value a business adds to goods or services it sells.

In this example Jane would be taxed on the increased value of lemonade that she sells for \$3 each.

In this example, Jane added value to just the cost of raw materials by making lemonade.



A small business Value Added Tax exemption of \$1 million would be introduced

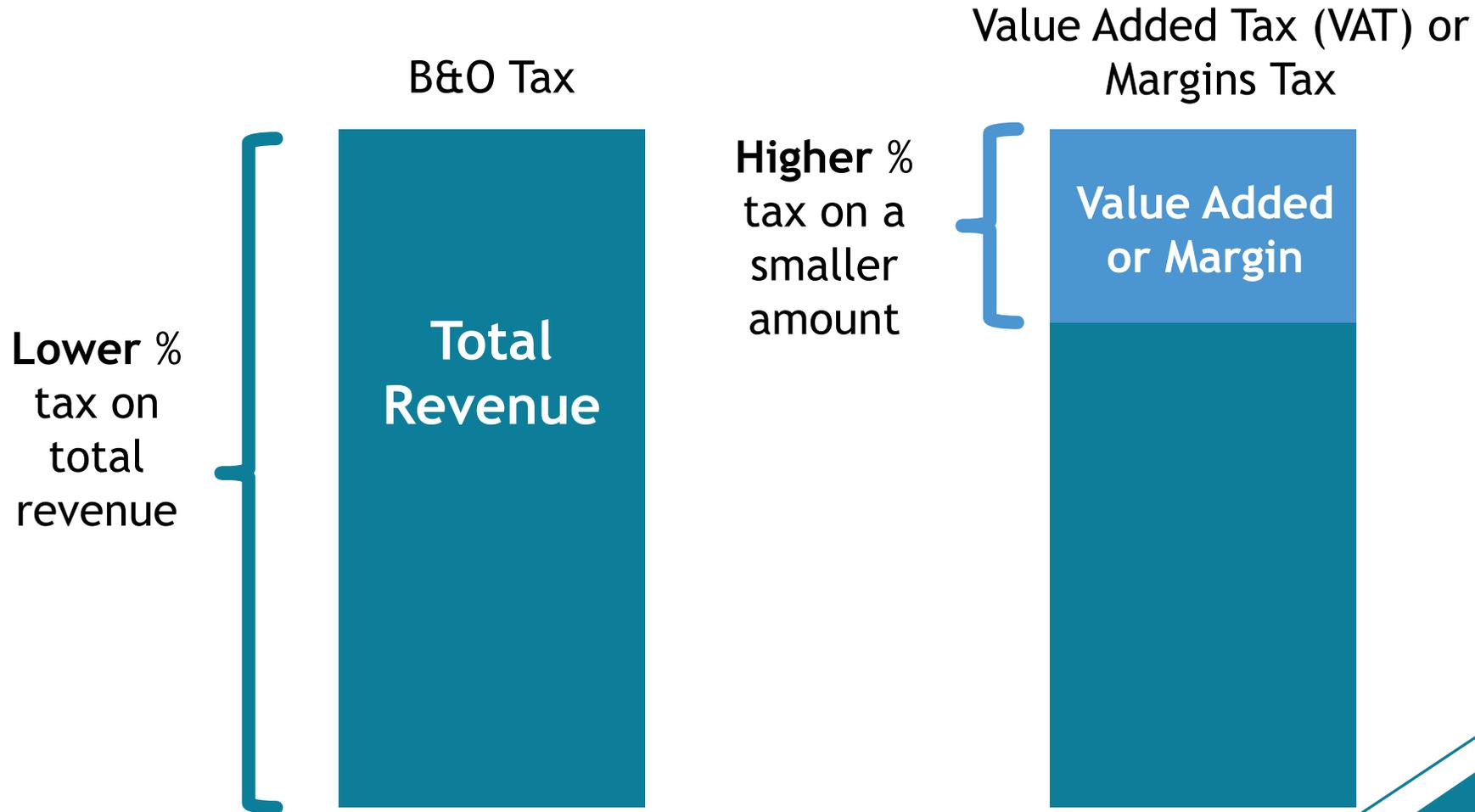
Margins Tax

Subtract **certain expenses**
from the **total amount**
the business makes
And only pay tax on
the remaining amount
of income



*cost of
goods sold,
wages, 30%
of revenue*

Business and Occupation Tax Rate compared to Value Added Tax and Margins Tax Rate



Discussion: Which is fairer?

B&O tax



Margins
Tax

Discussion: Which is fairer?

B&O tax



Value
Added Tax

Employer Compensation Tax

A tax businesses pay on total
employee compensation



- Applies to companies with total worldwide payroll of more than \$7 million a year.
- Tax only applies to employee compensation of over \$150,000 per employee.

Scenario: Replacing the B&O Tax with a Value Added Tax/Margins Tax + Employer Compensation Tax to Address Fairness



Discussion: Which is fairer?

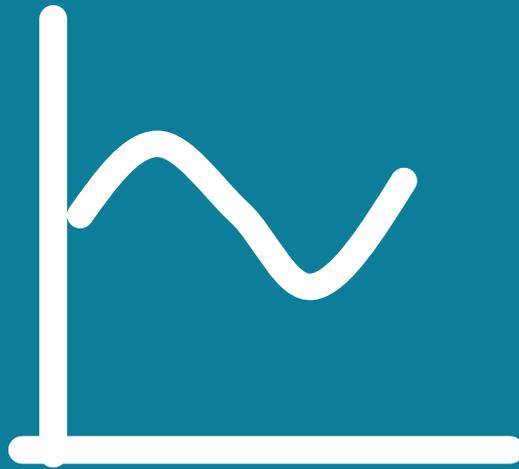


**VAT/Margins
Tax**



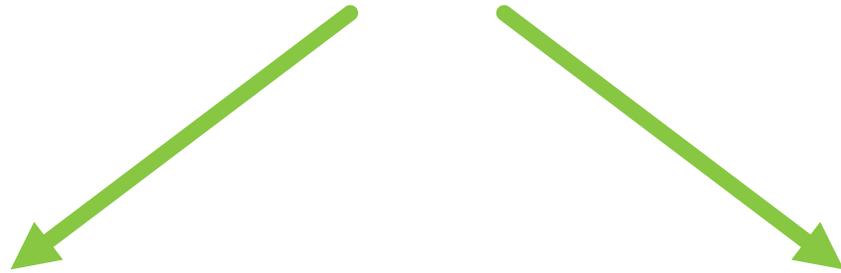
**VAT/Margins + Employer
Compensation Tax**

Scenario: Introducing a Corporate Income Tax
and Personal Income Tax
to Address Stability



Corporate Income Tax

A tax on how much a business
made after expenses



Progressive Tax: As business' income increases, their tax rate also increases.

Flat Tax: All business income would be taxed at the same flat rate.

Discussion: Which is fairer?

Corporate
Income Tax
with a
progressive
tax rate



Corporate
Income
Tax with a
flat tax
rate

Current Tax Structure



B&O Tax



Sales Tax



Property Tax

Scenario



B&O Tax



Sales Tax



Property Tax



Corporate Income Tax



Personal Income Tax

Discussion: Which is fairer?

B&O tax



Corporate
Income
Tax with a
flat tax
rate

Discussion: Which is fairer?

B&O tax

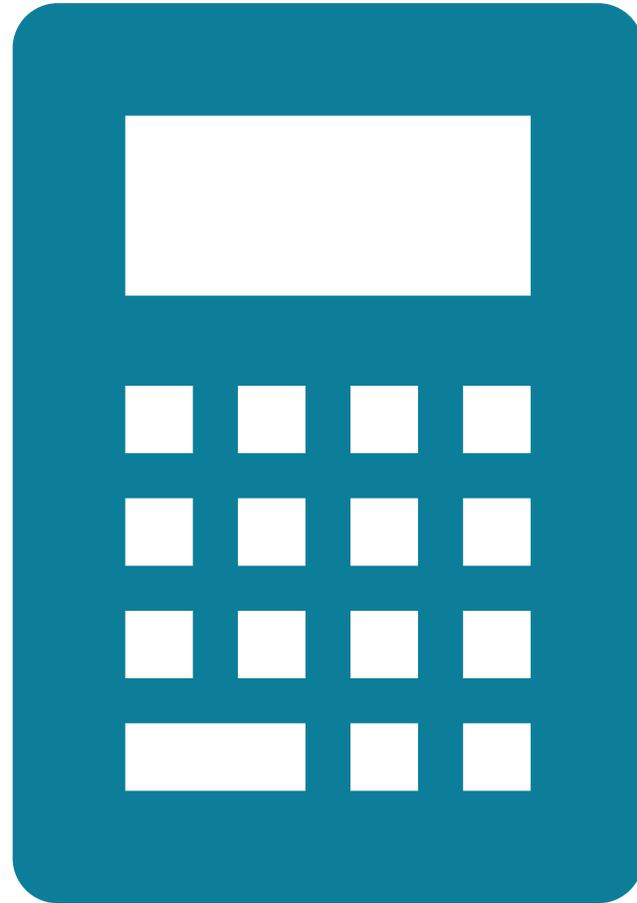


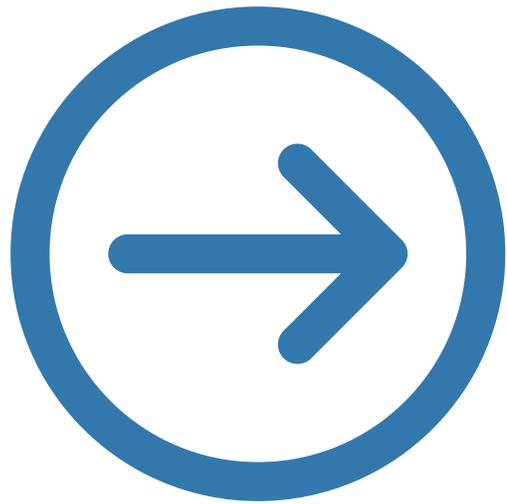
Corporate
Income Tax
with a
progressive
tax rate?

Questions and Comments?



Tax Calculator Demo





Wrap Up and Next Steps

Take the Survey

Click the link in the chat

or

Go to TaxWorkGroup.org/survey and
click “Take the Survey”

Multilingual Sessions

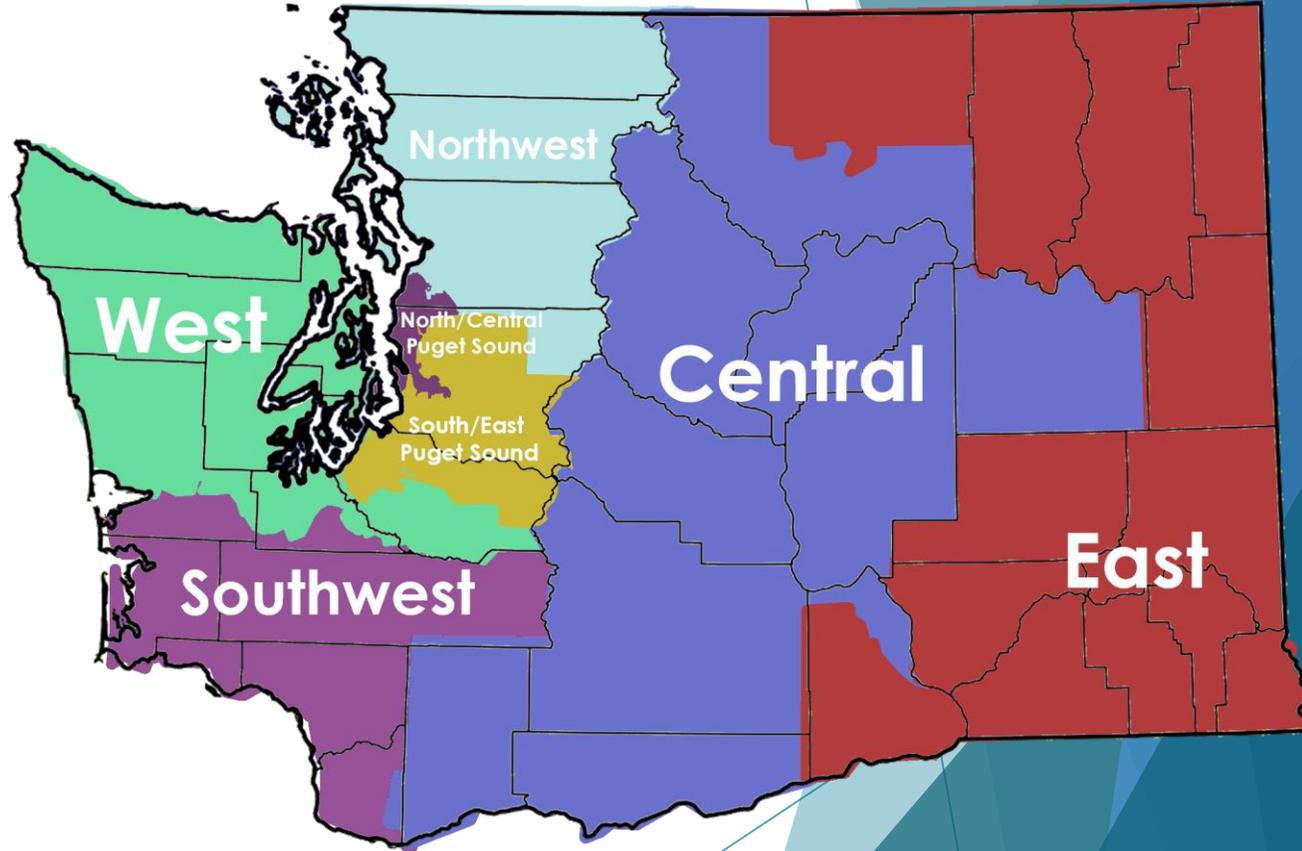
- ▶ Spanish
- ▶ Mandarin
- ▶ Cantonese
- ▶ Russian
- ▶ Korean
- ▶ Vietnamese

Check the Tax Structure Work Group for dates in October!



Spread the Word about Tax Town Halls

Region	Date
Eastern	September 22 (2:30 & 6:30 PM)
Central	September 29 (2:30 & 6:30 PM)
Northwest	October 6 (2:30 & 6:30 PM)
West	October 13 (2:30 & 6:30 PM)
Southwest	October 20 (2:30 & 6:30 PM)
Central/North Puget Sound	October 27 (2:30 & 6:30 PM)
South/East Puget Sound	November 3 (2:30 & 6:30 PM)



THANK YOU!

General feedback about the Town Hall:
info@taxworkgroup.org