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If it is Determined Reliance on a Particular Tax or Group of Taxes is Too Great, What Would be Some Options for Lowering Such Reliance?

Following are some ideas to lower the state's reliance on certain tax sources or to address negative features of our current tax system. These ideas are restricted to statutory changes that can be made within the basic framework of the current system. None would require a constitution amendment. No particular source of replacement funds is recommended.

Lower Reliance on the property tax

Given the nature of the current property tax system, and absent the option of exploring various remedies that would require a constitutional change, the only way to significantly lower property tax levels is to lower tax rates.

1. Remove, or phase-out, the state as a taxing district.

Comment: In most states the property tax is strictly a local matter. The state levy for public schools amounts to nearly 25% of all property taxes paid, statewide. If the state does make a property tax levy, the constitution requires that receipts be used for public schools.

2. Reduce the maximum allowable regular property tax rate for each taxing district by a uniform percentage.

Comment: Because of the growth limit on regular levies (now 1% per year) the rates for most taxing districts are already below their statutory maximum. In order to achieve the desired result, an absolute reduction in property taxes levied, it would be necessary to amend the regular levy growth limit statute.

Primary goals addressed: encourage home ownership, encourage commerce and business creation.

Lower the tax burden on business

Lacking a progressive personal income tax, it is not surprising that Washington's tax burden on business (taxes with an initial impact on business) is amongst the highest of any state. Also, the B&O tax in Washington is more productive than the sales tax and, therefore, the relative burden paid by business should increase over the long term. This situation contrasts with other states, where the corporate income tax is their primary business tax. A corporate income tax is less productive than the sales tax or the B&O tax and, therefore, the share of taxes paid by business should decline over the long term. Two

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of the primary taxes on business, the B&O tax and the public utility tax, could be lowered through the following measures.

1. ***Extend the sales tax to most business and professional services, and dedicate the increased revenue to reducing B&O rates.***

Comment: Extending the sales tax to services would result in: a) sales tax being due from customers, and b) the B&O classification for the service provider being changed from service (1.5% rate) to retailing (0.471% rate). The net increase in state revenue could be used to reduce B&O tax rates in general.

2. ***Eliminate the pyramiding nature of the B&O tax. Have the measure of the tax be gross receipts derived from sales to final customers only.***

Comment: The basic nature of the B&O tax (but not the public utility tax) is that it applies at all stages of production process as long as gross receipts are generated. This idea would limit the application of the tax only to sales to final consumers.

3. ***Require the definition of activities subject to the state B&O tax and local B&O taxes to be the same. Also, adopt in statute a uniform method of apportionment for local B&O purposes.***

Comment: Cities that use the gross receipts form of business tax have the latitude to define the activities subject to the tax as they see fit. Therefore, one city may define an activity as a retailing whereas the same activity may be defined as a service in another city. This situation adds complexity and compliance costs for business that operate in a number of cities within the state. The lack of uniform rules of apportionment increases the potential of paying tax on more than 100% percent of income for activities that occur in more than one jurisdiction.

4. ***Lower B&O and public utility tax rates.***

Comment: This idea could be restricted to the state taxes or extended to local taxes as well.

5. ***Eliminate or cut-back on preferential tax rates and major exemptions. Use the additional revenue to reduce state B&O and public utility taxes rates in general.***

Comment: Elimination of currently authorized preferential rates, coupled with total or partial elimination of some of the major exemptions (list some) could generate enough revenue to allow for a material reduction in the general rate structure for both state sources.

6. ***Increase the small business credit, and the level of gross receipts below which such businesses do not have to report state B&O tax.***

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Comment: Businesses who have gross receipts below \$28,000 per month must register with the Department of Revenue but do not have to remit tax returns, provided they do not have other reasons to file (such as report sales tax collected). There is also a small business credit, of \$35 per month (maximum).

Primary goals addressed: encourage commerce and business creation.

Reduce the burden on the purchase or construction of improvements to real property.

1. Exempt construction labor from the measure of the state and local sales tax.

Comment: Washington is in the minority in its application of the sales tax to the labor portion of construction costs.

2. Lower the rate of the real estate excise tax (state only or state/local).

Comment: The tax applies to the total sales price of real property conveyed. It is paid by the seller but normally passed on to the buyer in the sales price.

3. Reinstate the conveyance tax and reduce or replace the real estate excise tax.

Comment: The conveyance tax, imposed from 1935 to 1987, applied to the sales price of the real property sold, excluding the amount of debt on wing. Therefore, it applied to the equity conveyed. The yield from the conveyance tax could be used to replace or substantially reduce the rate of the real estate excise tax.

Primary goal addressed: encourage home ownership.