WA State Revenue
Action Workshop
December 4, 2021

Cynthia Stewart, Revenue Issue Chair
Revenue / Budget

Revenue: How we get the money
- Legislature passes bills authorizing certain taxes
- Total income is estimated for budget but not included in the budget

Budget: How we spend the money
- Legislature passes three bills with authority to spend
  - General Fund
  - Capital
  - Transportation
Current State Revenue Sources

MAJOR WASHINGTON STATE TAXES

Percentage Distribution - Fiscal Year 2019
(Does not include local government taxes)

- Retail Sales/Use Tax: 38.8%
- Selective Sales Taxes: 27.4%
- Business & Occupation Tax: 14.4%
- Property and Utility Taxes: 15.0%
- All Other State Taxes: 4.2%
Washington’s worst-in-the-nation tax code: Highest rates for those with the least

Washington state and local taxes as a share of annual income by income group

This is a “regressive” tax structure

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<thead>
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Source: Institute on Taxation and Economic Policy, 2018
Washington’s worst-in-the-nation tax code: Highest rates for those with the least

Washington state and local taxes as a share of annual income by income group

Progressive Approach

Income group
- Less than $24,000 (Lowest 20%)
- $24,000 to $44,000 (Second 20%)
- $44,000 to $70,100 (Middle 20%)
- $70,100 to $116,300 (Fourth 20%)
- $116,300 to $248,200 (Next 15%)
- $248,200 to $545,900 (Next 4%)
- Greater than $545,900 (Top 1%)

Taxes as a percent of income
- Less than $24,000: 17.8%
- $24,000 to $44,000: 12.4%
- $44,000 to $70,100: 11.0%
- $70,100 to $116,300: 9.2%
- $116,300 to $248,200: 7.1%
- $248,200 to $545,900: 4.7%
- Greater than $545,900: 3.0%

Source: Institute on Taxation and Economic Policy, 2018
What is a “Progressive” Tax?

“Progressive” tax is not a political term

• A progressive tax is based on the taxpayer's ability to pay. It imposes a lower tax rate on low-income earners than on those with a higher income.

• Compare to the current WA “regressive” tax structure, where those least able to pay contribute the greatest share of their incomes.

• Not new: US income tax has been defined as “progressive” since 1862.
New State Revenue Sources in 2022

Capital Gains Tax
  • Begins 1/1/22
  • 7% capital gains tax on long-term capital gains above $250K
  • Many exemptions protecting most residents

Long-Term Care Trust Tax
  • Begins 1/1/22
  • .58% payroll tax

Working Families Tax Credit
  • Begins 1/1/23
  • Payments ranging from $300 to $1,200 to eligible low-to-moderate income individuals
Effects of New Taxes

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Goal of Equity (at a minimum)

Effect of capital gains, wealth & estate taxes

Note: Not to scale

Source: Institute on Taxation and Economic Policy, 2018
Revenue Forecast

Before Omicron variant and new taxes

• Forecast $4 billion biennium surplus compared to budget
• Unemployment 4.2%

However, unmet needs remain
• Particularly racial disparities
1 in 3 Black & Latinx families – can’t pay rent/mortgage

1 in 6 non-white households with children do not have enough food

Latinx families with children are 3 times more likely to have no health insurance

1 in 10 non-white children do not have internet or digital device

WA State Budget & Policy Center reports that…

Smart investments can improve long-term health of Washington kids, 11/21
How should these be funded?

Some Examples:

• Additional adjustments to school funding
• Support for low-income needy families
• Child care & early learning
• Affordable housing and homelessness prevention & response remains insufficient
• Health care (not everyone has coverage even with ACA)
• Government has never caught up since 2008-2010 recession (pre-COVID recession)
Funding Unmet Needs Equitably in WA

Increases in current taxes would be inequitable

- Increase in sales or property tax worsens the inequities
- B&O tax increases without changes in structure hurts small businesses

Better choices – combine:

- Add new tax that is “progressive” (payment comes from those who can afford it most); e.g., wealth tax, estate tax
- Removal of inappropriate tax exemptions
- Adjust B&O tax
- Long-term, move to “progressive” corporate & personal income tax
- Authorize Public Bank
## 2021 Bills: Wealth & Estate Taxes

| Bill # | Subject      | Contents                                                                 | Status                                         |
|--------|--------------|--------------------------------------------------------------------------|                                               |
| HB 1406 | Wealth Tax   | **Tax:** 1% on “Taxable worldwide wealth" (a person's worldwide wealth, excluding the fair market value of any intangible property) exceeding $1 billion  
**Excludes:** nonfinancial intangible assets, worldwide wealth of companies  
**Generates:** $2.4 billion annually, 2024-on | Had public hearing; no movement; pending capital gains tax disposition |
| HB 1465 | Estate Tax   | **Tax:** Graduated percentage, 10% - 40%, based on value of estate (over $1 million); 40% at $1 billion & over, after exclusion  
**Excludes:** first $2.5 million  
**Distribution:** The Equity in Housing Account, with $6 million transferred to Foreclosure Fairness Account  
**Generates:** ~$80 million | Had public hearing; no movement to date. Likely to be brought forward later |
Tax Structure Work Group

• Report due, end 2022
• Legislation anticipated 2023

• Options under consideration
  • Changes to B&O tax
  • Changes to limits on property tax
  • Evaluation of border state tax structures
  • Analyze personal & corporate income taxes
  • Consider value-added tax
Local Taxes

Counties are operating with 2-legged stool

**State**
- THREE “LEGS”
  - 41% Sales and Use Taxes
  - 16% Business and Utility Taxes
  - 9% Property Taxes

**County**
- TWO “LEGS”
  - 58% Property Tax
  - 29% Sales and Use Tax

**City**
- THREE “LEGS”
  - 33% Property Tax
  - 32% Sales and Use Tax
  - 31% Business and Utility Taxes
Local Taxes

Many local options and additional flexibility have been added, focusing primarily on affordable housing & homelessness responses –

In 2021:
- REET allowed for housing & homelessness
- Housing and homelessness added to the permissible uses for a portion or all of a variety of local option taxes
- $100 document recording fee for housing/homelessness
- Suspended interest and penalties on nonpayment of property tax during the COVID 19 emergency
Local Taxes, *cont’d*

2019-20:

- Local option sales tax 1/10 of 1% for housing/homelessness; shifted to Councilmanic approval
- Local retention of state sales tax (shifted, not new tax) for housing/homelessness

Together, helpful; but still not enough
Thank You!

Q & A