

WA State Revenue Action Workshop December 2, 2023

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This Presentation

- Revenue vs Budget
- Current Revenue Sources
- Recent Legislation
- Where the Money Goes
- Forecast
- Issues
- What's Next

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

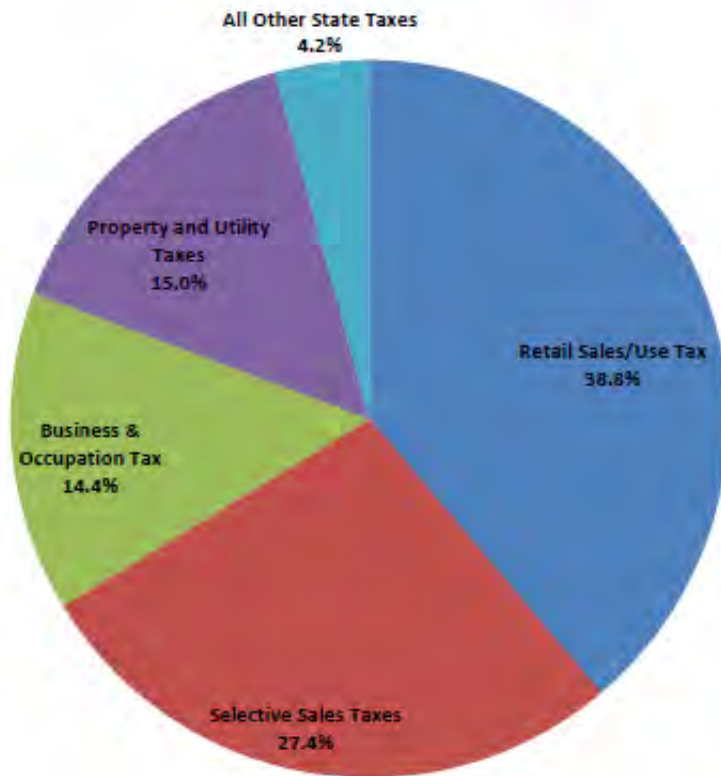
Budget: How we spend the money

- 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)



ADDITIONAL NEW SOURCES 2022-23

- Capital Gains Tax
- Working Families Tax Credit
- Climate Commitment Act
- Long-term Care Trust Tax

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WA State DOR

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

Capital gains tax

- Effective January 1, 2022, individuals pay a **7% tax** on the sale or exchange of long-term capital assets such as stocks and bonds.
- Deductions are limited to \$250,000 for individuals and couples. Assets held in certain retirement accounts (RCW 82.87.050(3)) are exempt.
- First \$500 million (adjusted for inflation) goes to the Education Legacy Trust Account; remainder goes to the Common School Construction Account.
- Capital gains tax revenue, September 2023 forecast:

(\$ in Millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Education Legacy Trust Account	\$500	\$530	\$544	\$555	\$567
Common School Construction Account	\$346	\$176	\$343	\$354	\$366
General Fund-State (B&O Tax Credit)	\$0	(\$15)	(\$14)	(\$19)	(\$19)
TOTAL	\$846	\$692	\$873	\$890	\$914

Working Families Tax Credit

- Individuals and families may receive up to \$1,200 back if they meet the eligibility requirement at workingfamiliescredit.wa.gov.
- The online application is open now, and free in-person help is provided by the Department of Revenue.
- Over 154,000 refunds totaled \$109.9 million, with an average refund of \$714.
- \$483 million allocated for payments in the 2023-25 enacted operating budget

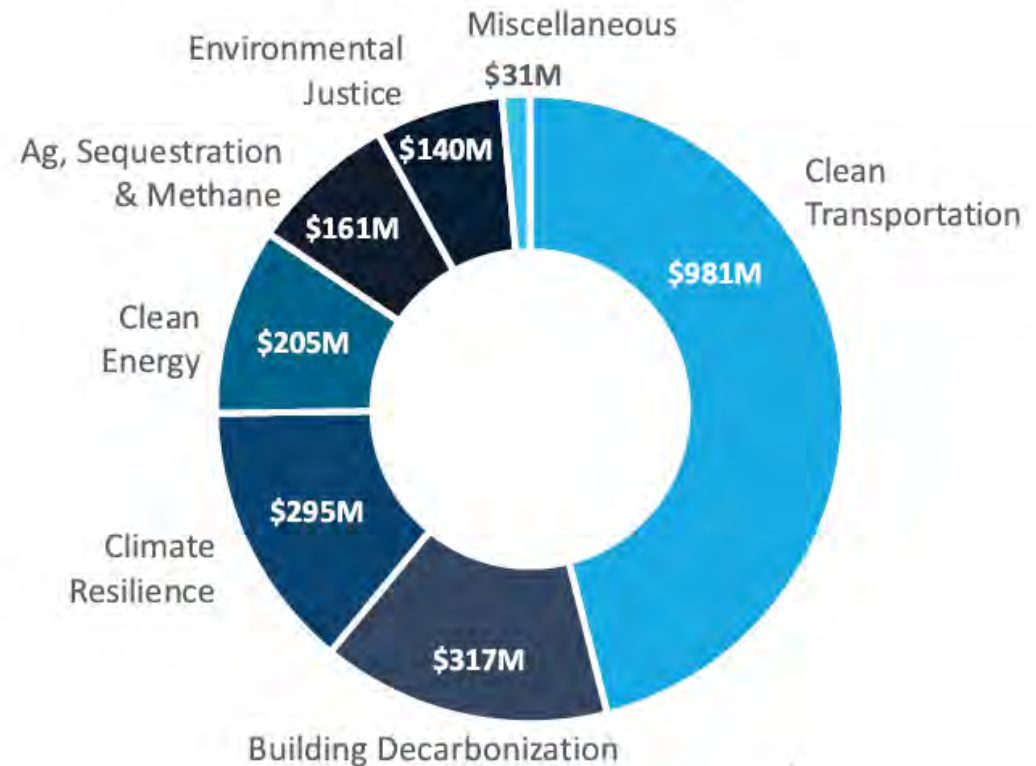
Number of Qualifying Children	Applicant must make less than ...		Max Credit Amount
	Single	Married (filing jointly)	
0	\$16,480	\$22,610	\$300
1	\$43,492	\$49,622	\$600
2	\$49,399	\$55,529	\$900
3	\$53,057	\$59,187	\$1,200



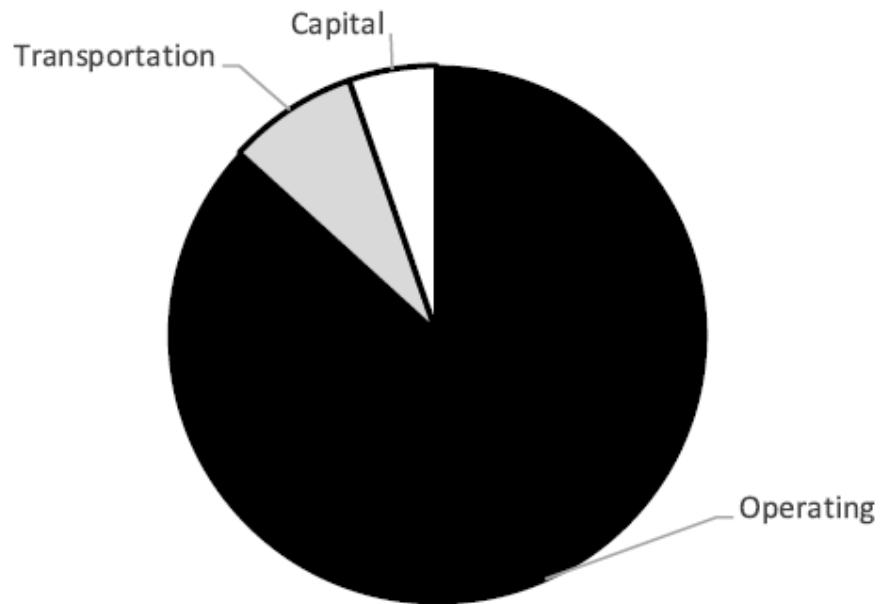
Climate Commitment Act

Where the money will go in 2023-25 (\$2.1 billion appropriated)

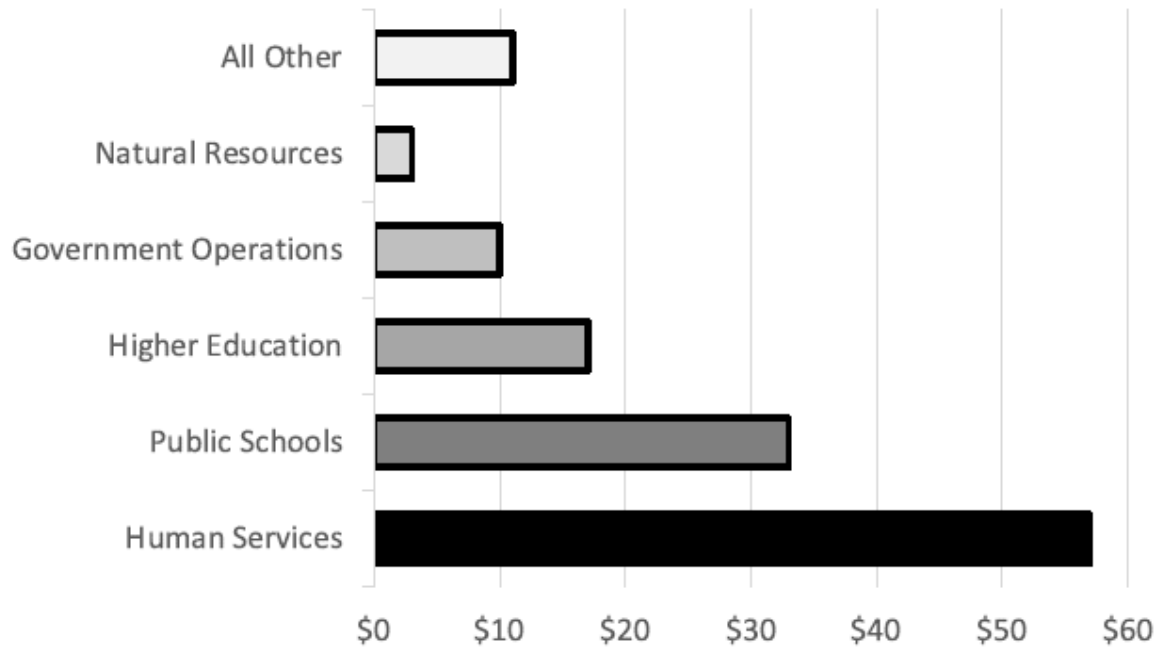
Through October 1, 2023, Washington's new cap-and-invest program has raised almost \$1.3 billion in three quarterly emissions allowance auctions and a special reserve auction.



Source: Dept. of Ecology and Office of Financial Management, Oct. 2023



	<i>2021-23 Biennium</i>	
<i>Operating Budget</i>	\$131 B	87%
<i>Transportation Budget</i>	\$12 B	8%
<i>Capital Budget</i>	\$ 8 B	5%
Total	\$151 B	



2021-23 Biennium

<i>Human Services</i>	\$57 B	44%
<i>Public Schools</i>	\$33 B	25%
<i>Higher Education</i>	\$17 B	13%
<i>Government Operations</i>	\$10 B	7%
<i>Natural Resources</i>	\$3 B	2%
<i>All Other</i>	\$11 B	9%
Total	\$131 B	

UNDERSTANDING THE WASHINGTON STATE BUDGET UNIVERSE

The Washington State Operating Budget is a complex system of funding streams and programs that support the state's various agencies and services. This infographic provides a comprehensive overview of the budget universe, highlighting the major components and their relative sizes.

The largest component of the budget is K-12 Public Schools, which accounts for approximately 25% of the total. Other significant categories include Medicaid & Health Care, NCA - Low Income Health Care, and State Government. The budget is also divided into various functional areas such as Education, Health, Social Services, and Public Safety.

The budget is funded through a combination of state taxes, federal grants, and other revenue sources. The 2021-23 budget includes \$58.98 billion in state funds, \$122.25 billion in federal COVID-19 relief, and a total of \$181.23 billion. This funding supports approximately 111,304 full-time equivalent (FTE) positions across the state.

The budget is managed by the Washington State Department of General Administration, which oversees the distribution of funds to various agencies. The budget process involves a complex interplay of legislative, executive, and judicial branches, ensuring that the state's resources are allocated effectively and equitably.

The budget is a critical tool for addressing the state's most pressing challenges, including economic recovery, healthcare access, and social equity. By providing a clear and detailed overview of the budget universe, this infographic helps stakeholders understand the state's financial priorities and the impact of budget decisions.

The budget is a dynamic document that evolves over time as the state's needs and priorities change. Regular updates and revisions are necessary to ensure that the budget remains relevant and effective. The infographic provides a snapshot of the current budget landscape, highlighting the key trends and challenges facing the state.

The budget is a complex and multifaceted system that requires a deep understanding of the state's financial and operational landscape. This infographic provides a comprehensive overview of the budget universe, highlighting the major components and their relative sizes. It is a valuable resource for anyone interested in the state's budget process and the impact of budget decisions.

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WASHINGTON STATE OPERATING BUDGET

2021-23 FUNDS: \$58.98 NCF-0 | \$122.25 Total (incl. \$8.98 Federal COVID) | 111,304 FTEs

K-12 Public Schools
\$25.00 (incl. \$2.00 NCF-0)

NCA - Low Income Health Care
\$10.00

MEDICAID & HEALTH CARE
\$15.00

State Government
\$10.00

JUSTICE & COURTESY
\$5.00

HUMAN SERVICES
\$10.00

Public Safety and Corrections
\$10.00

TRAINING, PROFESSIONS AND EMPLOYMENT
\$5.00

PUBLIC SAFETY AND CORRECTIONS
\$10.00

GRAND AGENCIES
\$5.00

TOLLS & OTHER PAYMENTS
\$5.00

State Payments
\$5.00

Department of General Administration
\$5.00



<https://fiscal.wa.gov/statebudgets/operatingbudgetmain>

Forecast

November economic forecast estimated \$579 million increase in revenue for 2023

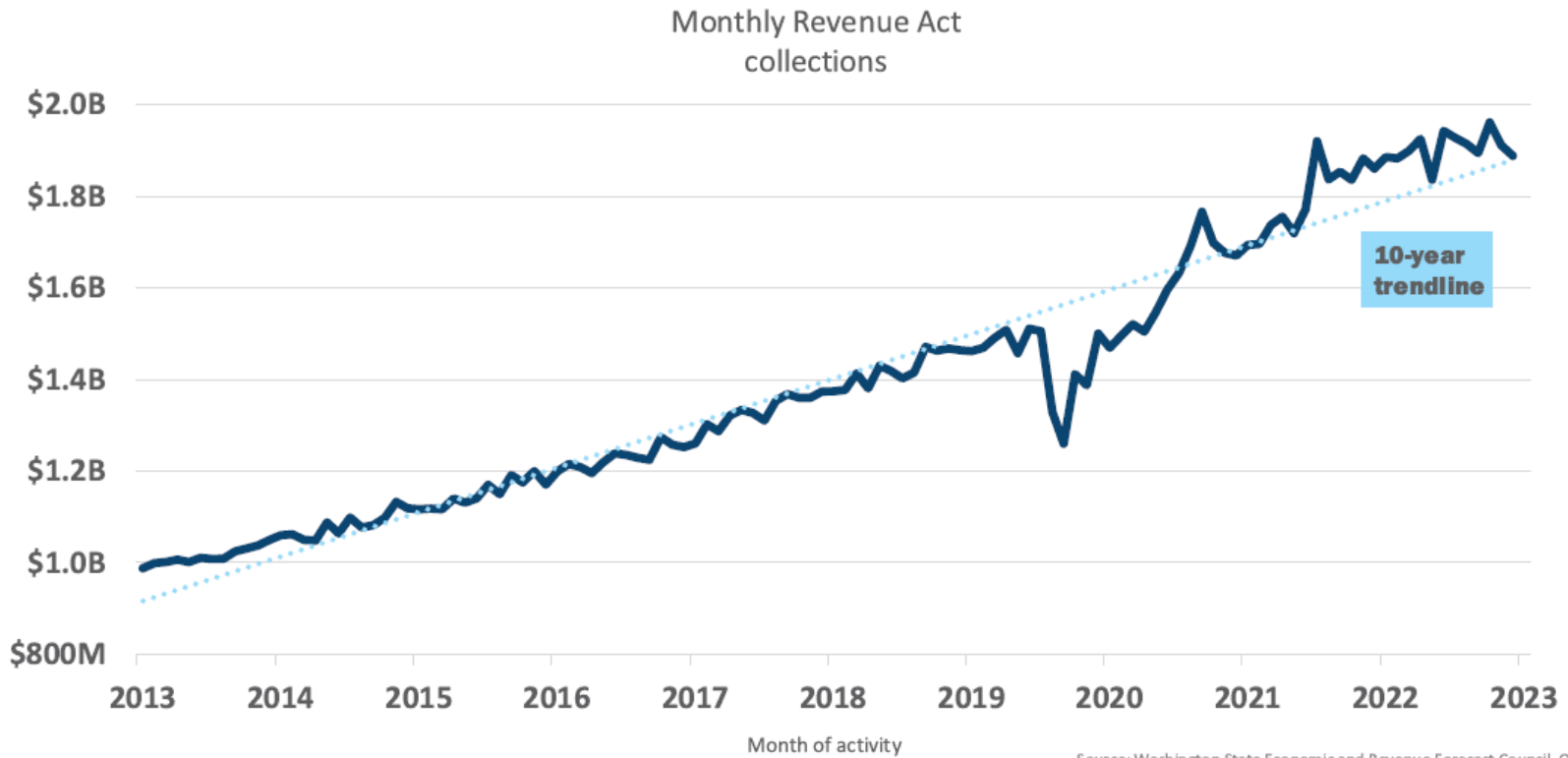
- Personal incomes are stronger
- Employment & construction increases
- However, at .4% - not meaningful increase

Anticipated economic trends

- Lower housing sales prices
- Lower job growth
- Slower construction
- In spite of major recovery from 2020, most of recent revenue gains were sales tax related; other major revenues are down

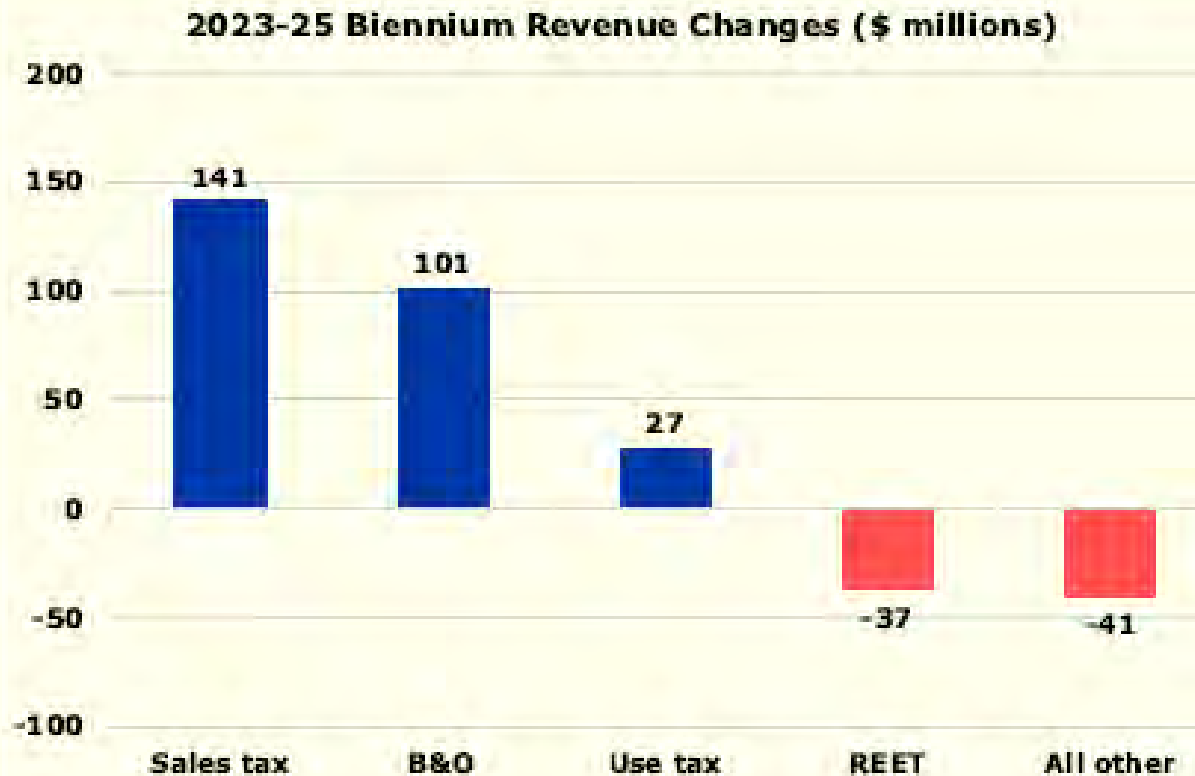
Influencing factors point to little net change

Our revenue collections have recovered from the drop in 2020





Majority of 2023-25 revenue change due to sales and B&O taxes



Revenue Review
November 20, 2023

Slide 20

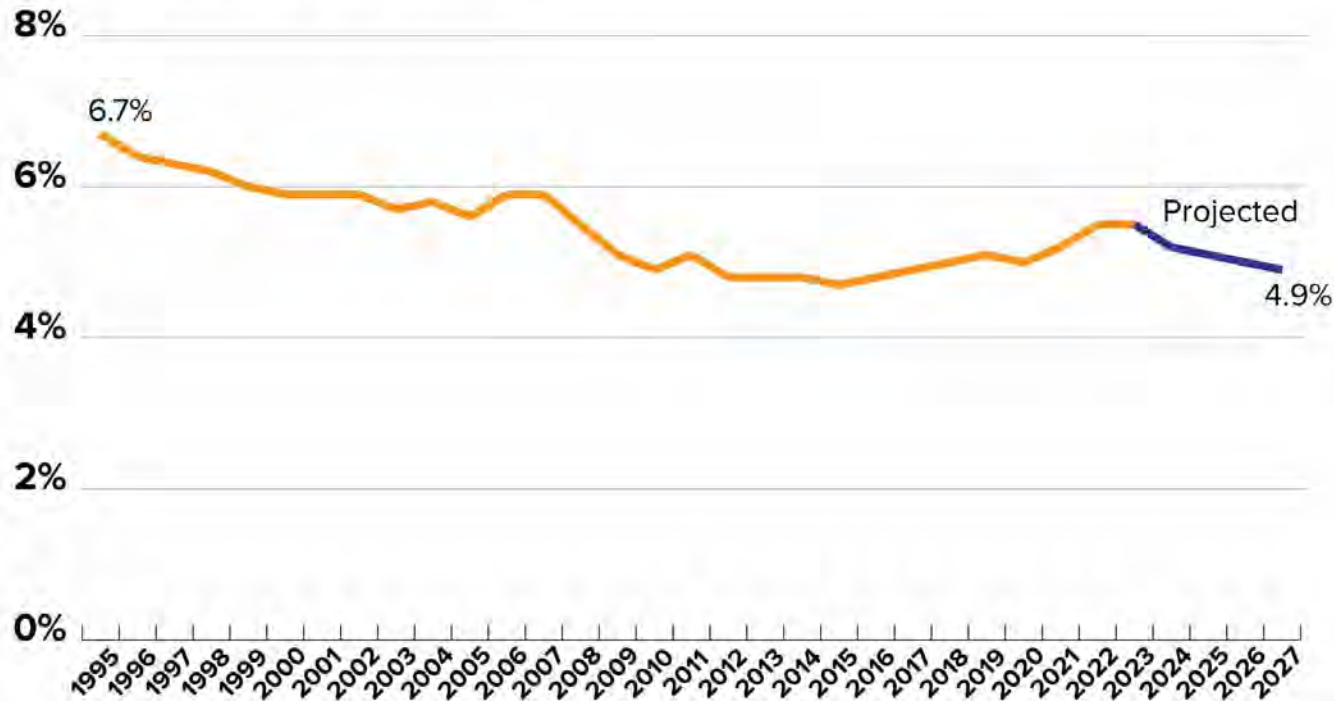
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Issues

- Washington remains the most regressive tax system in the US
- Overall state taxes as a share of the economy are below average in US
- Contrary to myth, taxes as a share of average personal income have not increased
- In spite of above average wealth in WA State, many families remain in poverty – and many homeless
- State tax policy is not keeping up with state needs

State tax revenues are not keeping pace with communities' needs

Washington state tax revenues as a share of the state economy, fiscal years 1995-2027 (projected)*



Source: Washington State Budget & Policy Center Calculations; data from the U.S. Bureau of Economic Analysis (BEA) and the Washington State Economic and Revenue Forecast Council (ERFC).
*Revenues include total GF-S, ELTA, OPA and WEIA from the June 2023 Economic and Revenue Forecast; State economy as measured by average total WA personal income by fiscal year.



budgetandpolicy.org

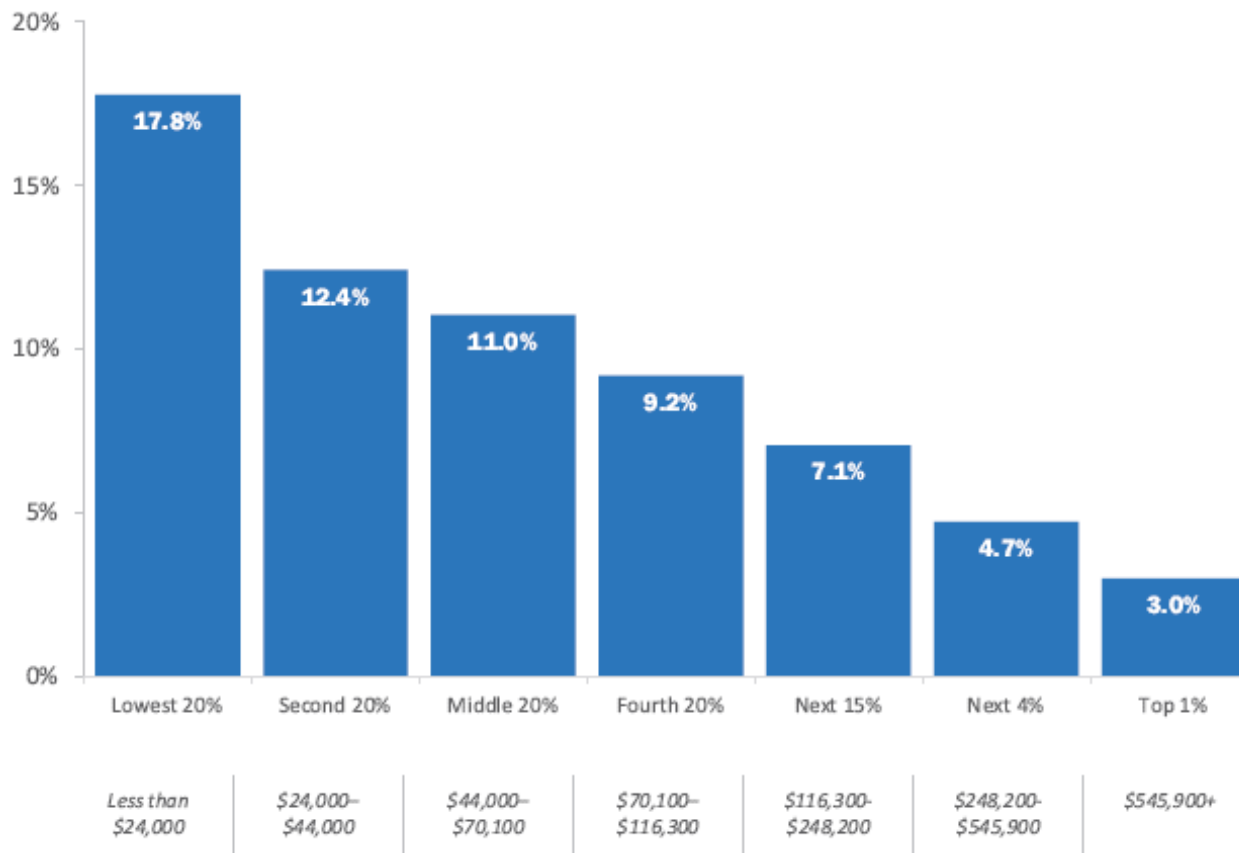
What is a “Progressive” Tax?

“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

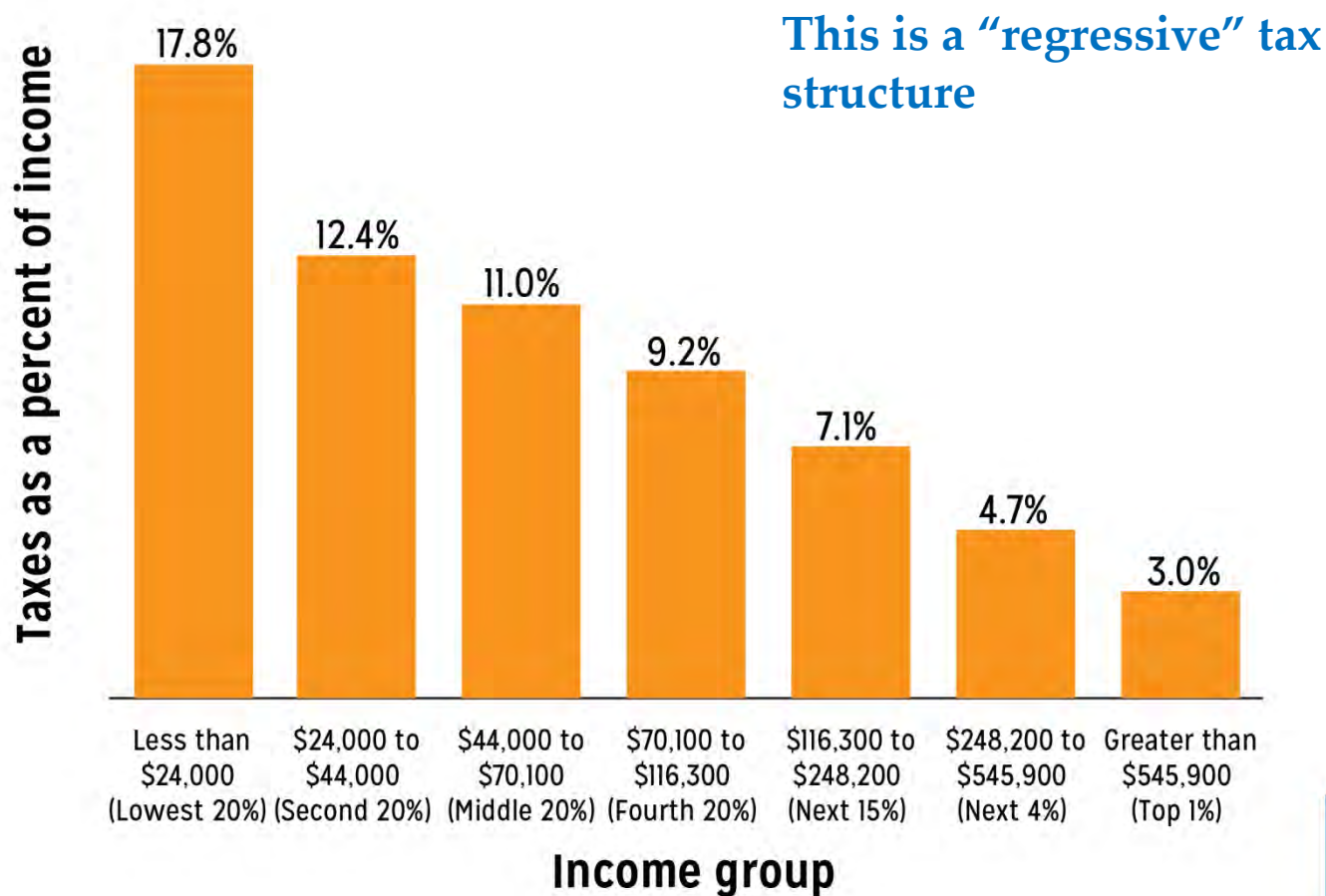
Washington has the most regressive state and local tax system in the nation

State and local taxes as a share of family income for non-elderly taxpayers



Washington's worst-in-the-nation tax code: Highest rates for those with the least

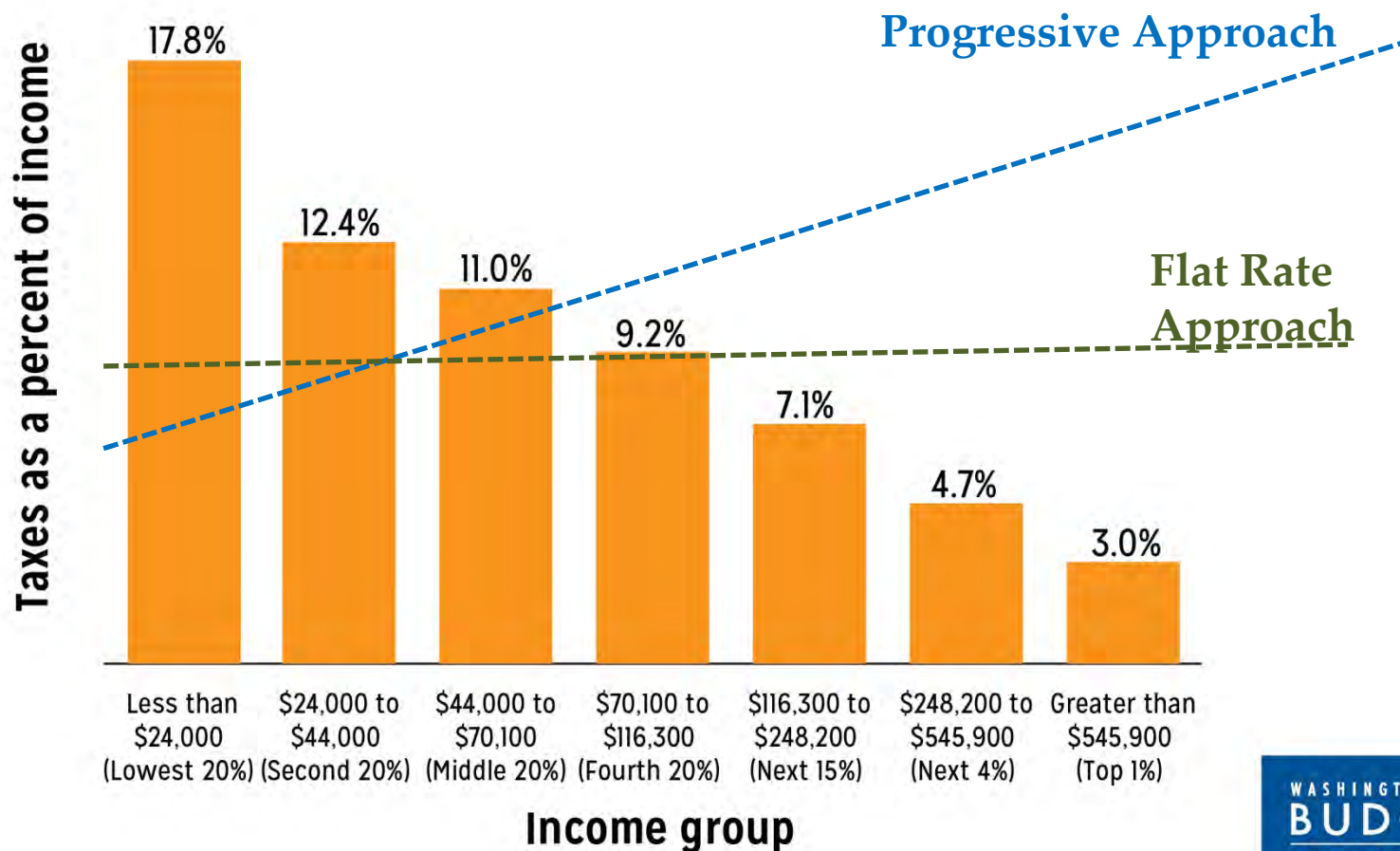
Washington state and local taxes as a share of annual income by income group



Source: Institute on Taxation and Economic Policy, 2018

Washington's worst-in-the-nation tax code: Highest rates for those with the least

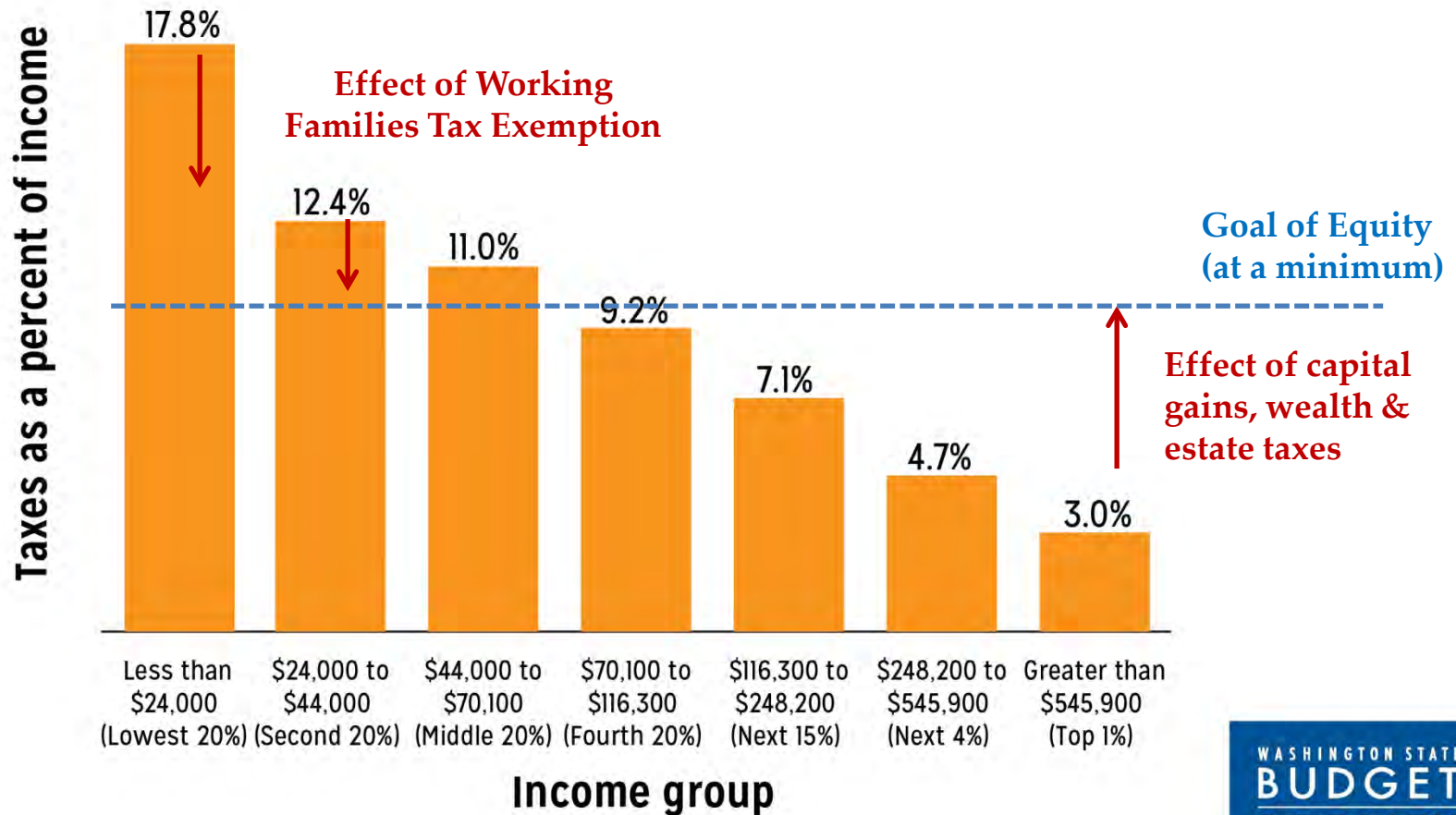
Washington state and local taxes as a share of annual income by income group



Source: Institute on Taxation and Economic Policy, 2018

Effects of New Taxes

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



Note: Not to scale

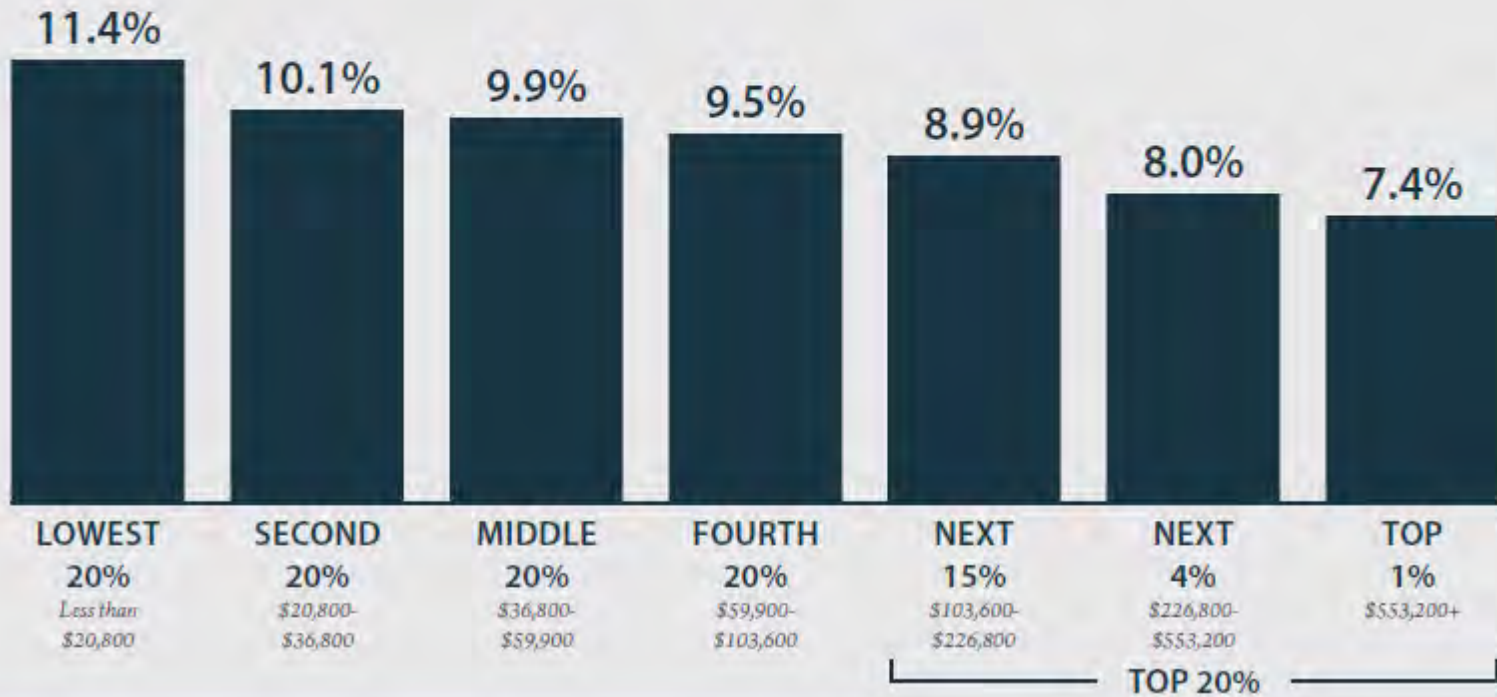
Source: Institute on Taxation and Economic Policy, 2018

Tax Structures – States Averaged



AVERAGE EFFECTIVE STATE AND LOCAL TAX RATES IN THE U.S.

Percentage of Total State and Local Taxes as a Share of Income for non-elderly residents



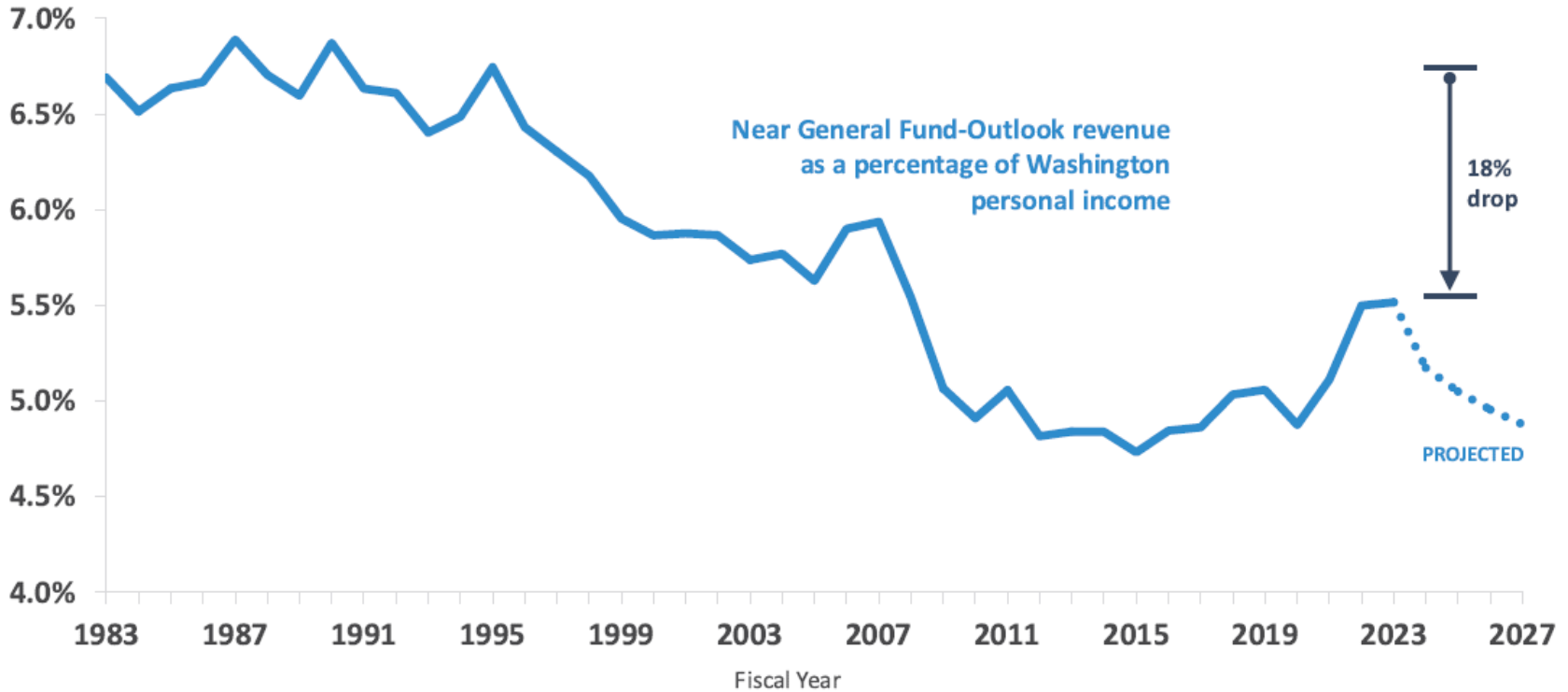
Washington's overall taxes as a share of the economy are below average

STATE AND LOCAL TAX COLLECTIONS PER \$1,000 PERSONAL INCOME (2020)



Source: Bureau of Economic Analysis and Census Bureau, U.S. Dept. of Commerce, Oct. 2023

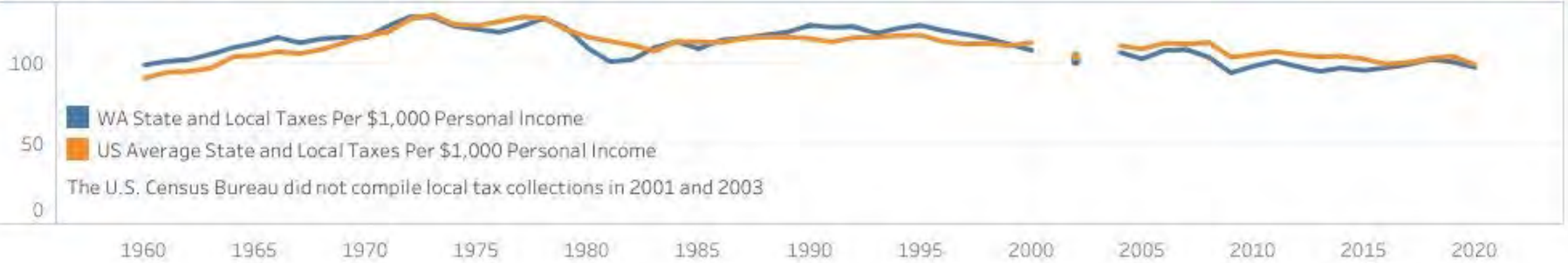
Since 1995, state revenue collections as a share of the economy have fallen by 18%



Source: Washington State Economic and Revenue Forecast Council, Oct. 2023

State and local taxes per \$1,000 of personal income

Updated February 09, 2023



WA State Budget & Policy Center reports that...

1 in 4 Washingtonians in poverty are children

WA State Budget & Policy Center reports that...

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



1 in 3

Nearly **1 in 3** Black and Latinx families with children have little or no confidence in their ability to pay their next rent or mortgage payment.



1 in 6

Approximately **1 in 6** Other and mixed race, Latinx, and Black households with children sometimes or often did not have enough food to eat in the past two weeks.



3x

Latinx families with children are over **3x more likely** to not have health insurance compared to the state average overall (28% compared to 9%).

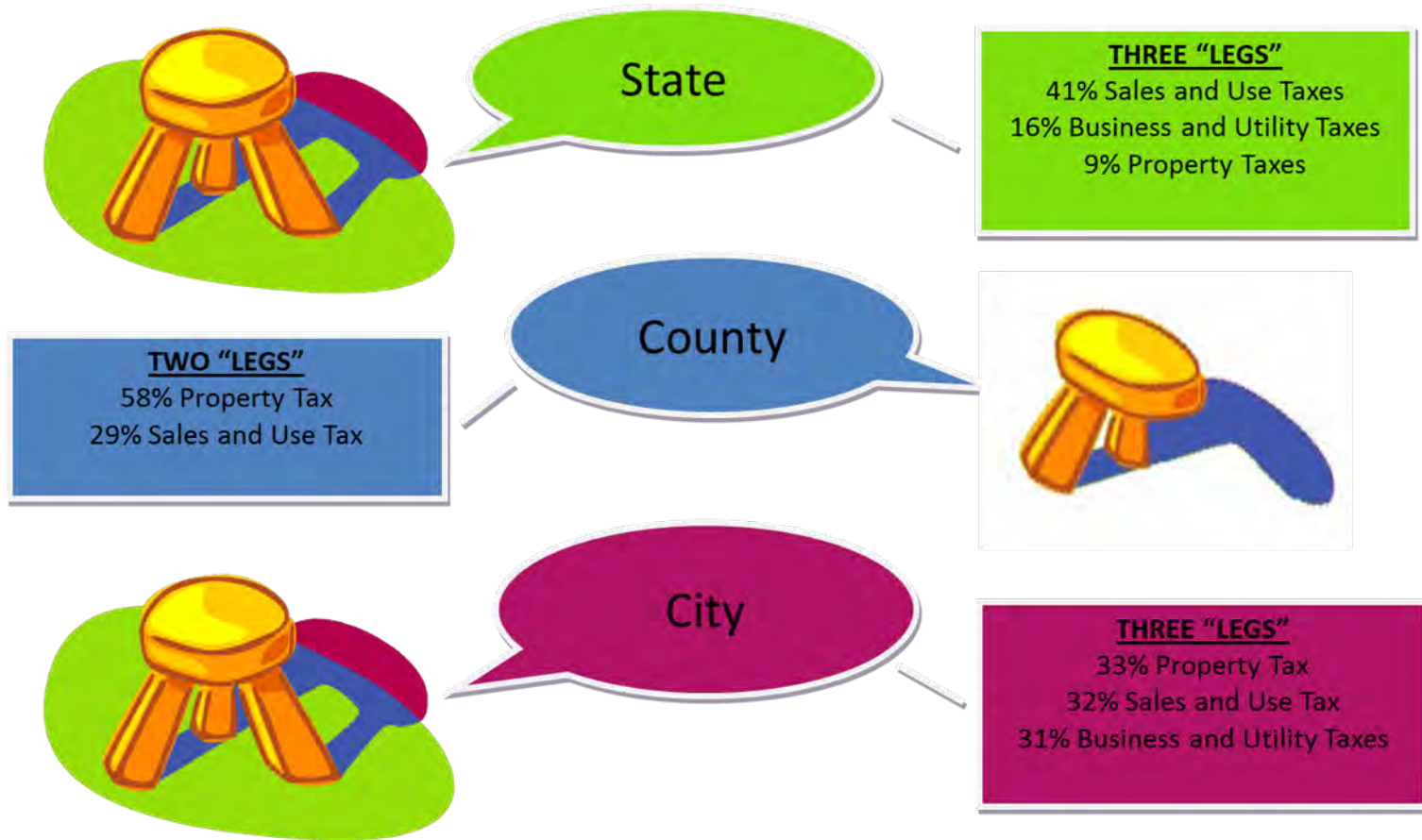


1 in 10

About **1 in 10 children** in Other or mixed race households enrolled in grades K-12 did not have internet and a computer or digital device usually or always available for educational purposes.

Local Taxes

Counties are still operating with 2-legged stool



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
and

REET dedicated to affordable housing is declining;
local governments need backfill

LWVWA Supports a Wealth Tax

- Washington's tax code is the most unfair in the nation and it does not work.
- Wealth tax would make the system more equitable
- Wealth tax would bring in \$billions without affecting those already paying more than their fair share

Legislature is also exploring basic income model

Thank You!

Q & A