LONG-TERM TAX REFORM

HDC Freshman Legislators

Fairness • Adequacy • Reliability

The current tax structure in Washington State is broken. It's complicated, unfair, and it's unstable.

These are not new discoveries. This November will mark ten years since the bi-partisan Washington State Tax Structure Study Committee came to the same conclusions. Our tax structure worked well for many years, but it is now doing the state a great disservice. It needs to be reformed.

We are a diverse group of legislators that are deeply concerned about the long-term health of our state. Our goal with these proposals isn't so much to solve the budget problems we face today, but to enact reforms that will minimize the budget problems of tomorrow. We also want a system that is more adequate, reliable, and fair for all taxpayers in Washington.

HB 2791: Funding all-day kindergarten *(Lytton)* – Washington residents pay sales tax when they purchase goods while they're in states that have a sales tax. Yet, Washington is the only state that exempts certain out-of-state residents from our sales tax. This is a missed opportunity to collect a tax that every other state with a sales tax is collecting.

Study after study shows us that early learning is crucial to a child's success later in life, and all-day kindergarten is integral to any effective early learning program. This measure would close the tax loophole on out-of-state shoppers, which is exclusive to Washington. The estimated $52 million in revenue would be re-directed to fully funding all-day kindergarten for every child in our state.

HB 2486: HOPE Act *(Reykdal)* **-** Washington is a sales tax dependent state, which means that our revenue stream is subject to drastic swings in the economy. The HOPE Act seeks to stabilize our revenue stream through a series of reforms. The measure completely eliminates the overcomplicated B&O tax and lowers the sales and use tax, while expanding it to legal and professional services. The HOPE Act implements a one percent income tax, and dedicates the additional $500 million generated to universal first-year college or technical school access and the state need grant.

> *"The poor pay more than 15 percent of their disposable income, while the very wealthy pay less than 5 percent of their disposable income in state taxes." -Rep. Chris Reykdal*

Proviso in 2012 supplemental operating budget: We pushed to include language in this year's budget that requires the Office of Financial Management to prepare a report on the income and tax burdens of the people of Washington. The citizens of Washington state can't make the best decisions about our revenue system without understanding the disparate impacts of the economic and taxing decisions of their state and local governments.

This report will be delivered to the House and Senate Ways and Means committees in September and will give us a much better picture of:

- income and the wealth distribution of Washingtonians
- combined state/local tax burden of Washingtonians by income
- tax burden of Washingtonians as a percentage of income
- amount of state and local government revenue combined in Washington as a share of the gross state product
- year-over-year estimates of real income gains or losses

HB 2563: Taxing capital gains, protecting education and health care *(Jinkins)* **–** Washington's tax structure is very regressive, meaning the poor and middle class disproportionally pay more taxes than the wealthy. In short, it's unfair. One way to fairly re-balance the tax burden is to tax capital gains. Currently, 42 states tax capital gains, including Oregon (11 percent) and Idaho (7.8 percent).

This bill would enact a 5 percent excise tax that only applies to capital gains over $10,000 per year ($5,000 for single filers). The first $10,000 of profits from selling stocks and assets would be completely exempt from the new tax. This would not apply to wage income or profits from the sale of a home. It would not impact retirement savings, sale of farmland, charitable giving, or assets left to family members as part of a will.

This is an idea that can help protect education and health care from devastating budget cuts without boosting the burden on working families and the middle class. It would generate at least $1.4 billion in the 2013-15 biennium to create jobs, fund education, and protect the public safety net.

SHB 2762: Creating tax expenditure transparency and accountability *(Carlyle)*
At various points in our state's history, excise tax preferences were introduced and approved to meet the needs of those times. Many of these tax preferences continue to meet the needs of the state and should remain in place. However, these preferences were not designed to last forever. Requiring periodic review through mandatory sunsets gives the legislature an opportunity to reauthorize effective tax preferences while allowing ineffective ones to expire. This policy would also get us closer to the principle that one legislature cannot bind another.

Under HB 2762, all excise tax preferences would expire except those for food, medications, employee wages, and those that are either constitutionally required, part of an existing legal agreement, are in place to prevent double taxation or that already have an expiration date. In total, 251 tax preferences would expire over the next ten years with a total value of $1.9 billion.

"By closing outdated B&O tax exemptions for parts of the agriculture industry, we could allocate tens of millions of additional dollars on health care and education in rural areas."
–Rep. Steve Tharinger

HB 2729: Eliminating a tax exemption for motor fuel losses *(Fitzgibbon)* **–** This measure is a testament to just how difficult eliminating a tax loophole can be. When this exemption was first adopted in 1939, it served a real purpose. Back then, when motor fuel was being transported, some of it was lost through evaporation. This exemption ensured that the small amount of fuel that was lost in transport wasn't taxed. Well, that was then. Today, environmental protections and improved technology have made evaporated motor fuel almost a non-issue.

Both the Joint Legislative Audit Review Committee (JLARC) and the Citizen Commission for Performance Measurement of Tax Preferences have recommended that the Legislature repeal this tax exemption. This bill received no opposition in its public hearing. The industry that benefits from this tax credit was neutral. Yet, the exemption costs the state $5 million year.

"The goal of long-term revenue reform is fairness and stability – critical elements if we are to fully-fund public education and foster a thriving economic climate." -Rep. Derek Stanford