A Quick Guide to Washington's Tax Code

Economic Opportunity Institute

September 23, 2021

Economic Opportunity Institute

www.opportunityinstitute.org

Why Do We Care about Revenue and Taxes?

Investment in the public good is an investment in all of us

EDUCATION

Early learning, pre-K through 12th grade public school, community and technical colleges, world-renowned research universities

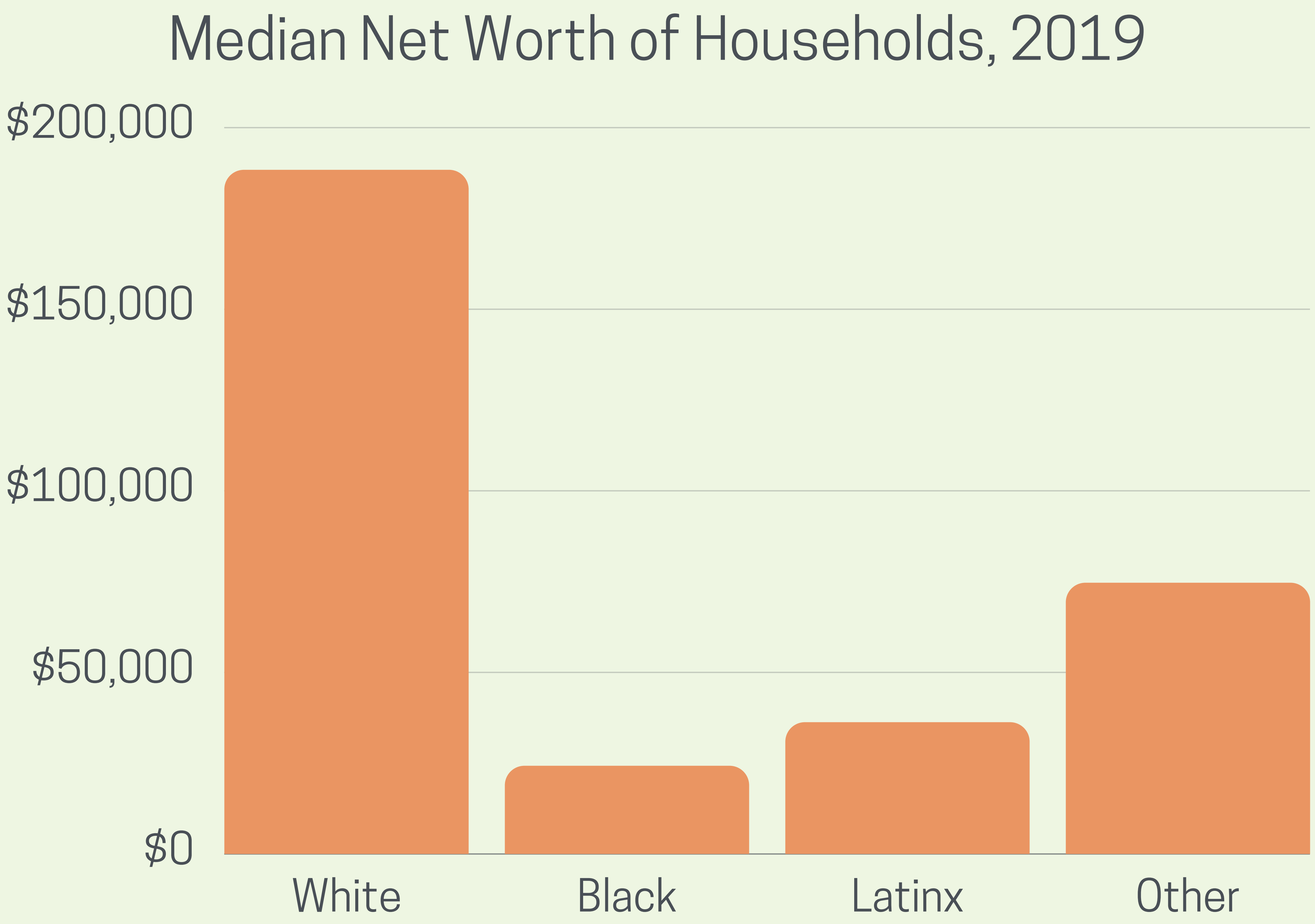
PUBLIC SPACES

Environmental protections, public parks, community centers

HEALTH & SERVICES

Public health, long-term care, fire departments

Why Do We Care about Revenue and Taxes?



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Source: 2019 Survey of Consumer Finances

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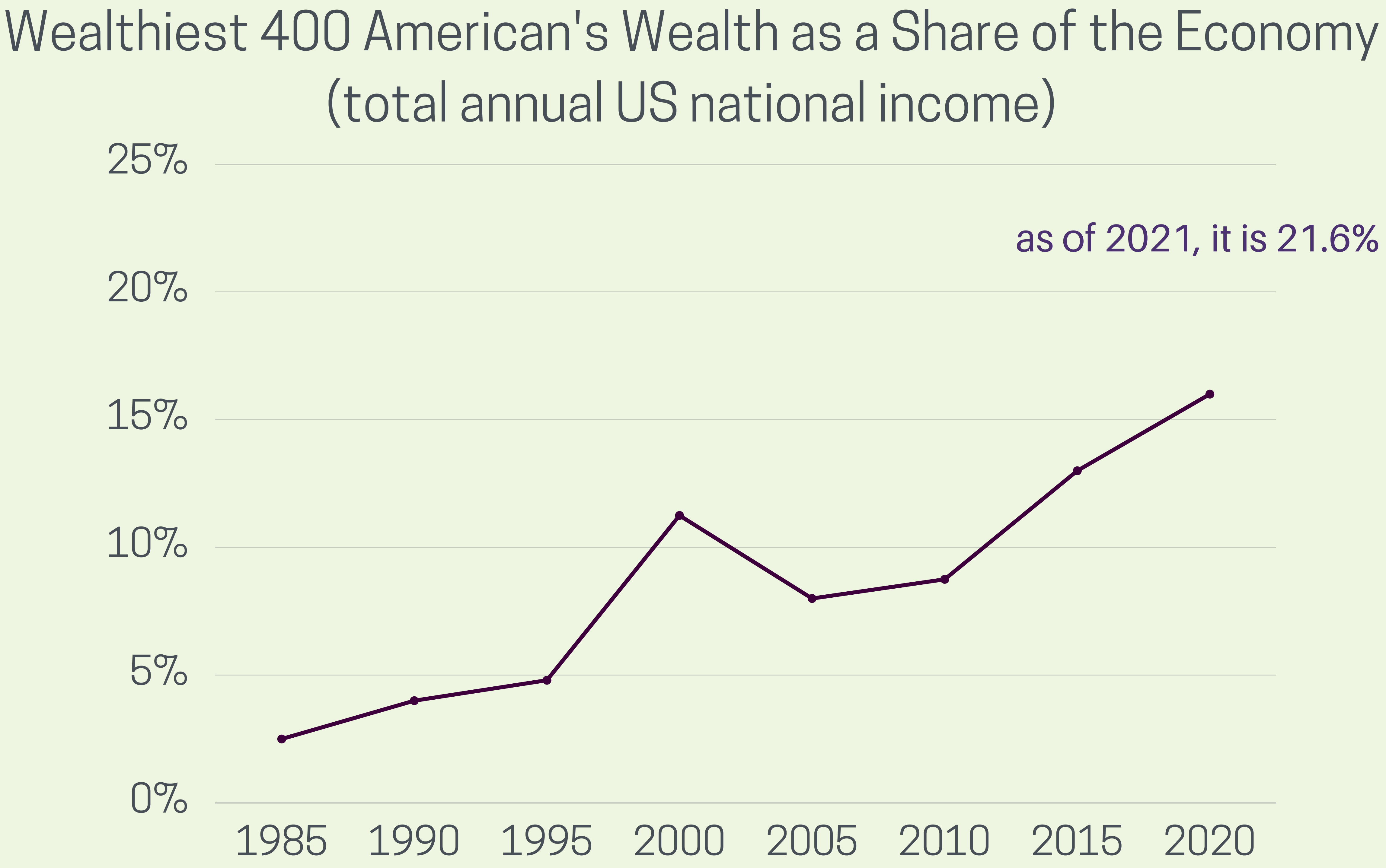

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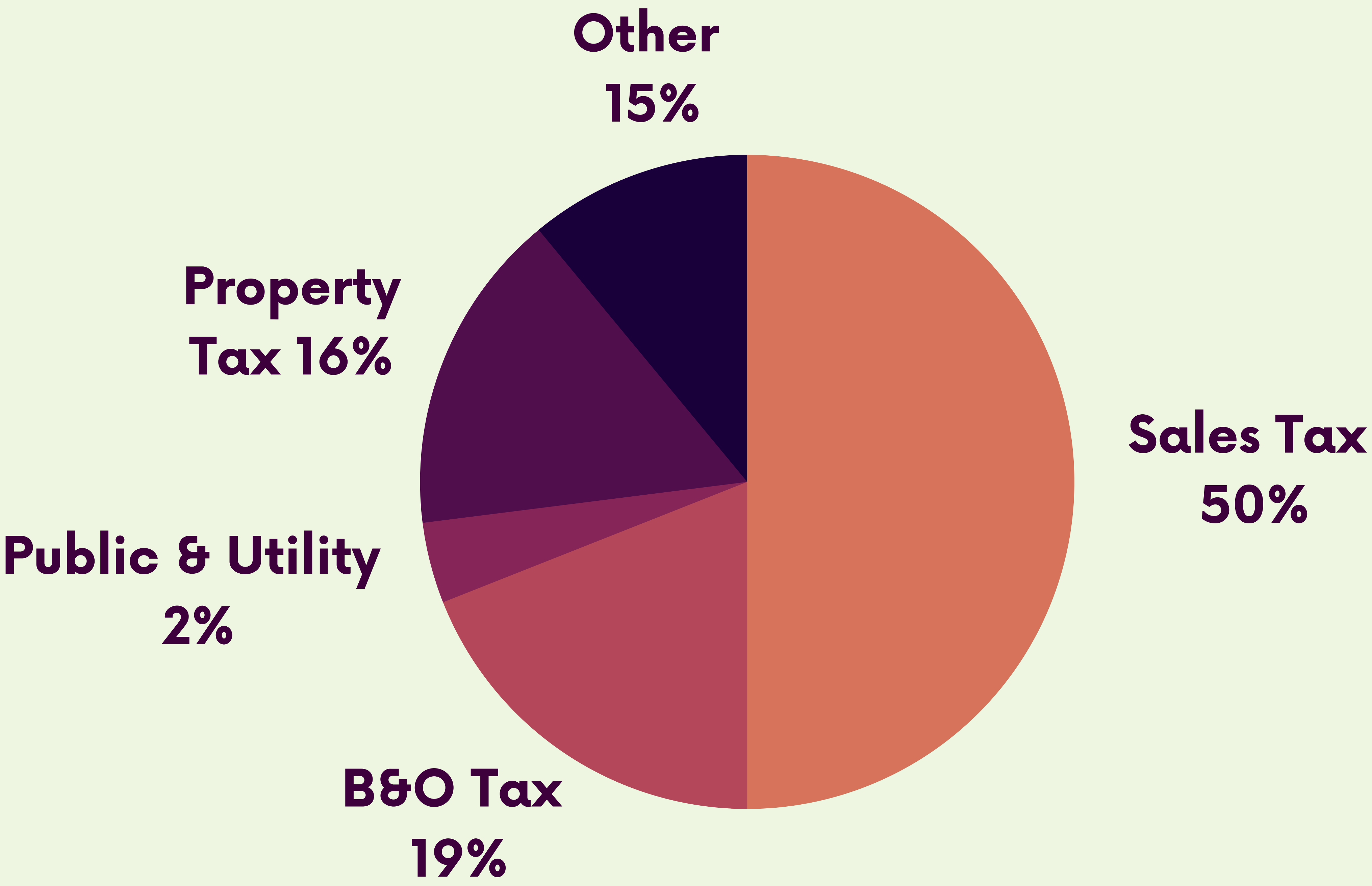
Adapted from Saez & Zucman. University of California Berkeley (2021).

Half of WA State Revenues Come from the Sales Tax

Our out-dated tax code looks much like it did in 1935



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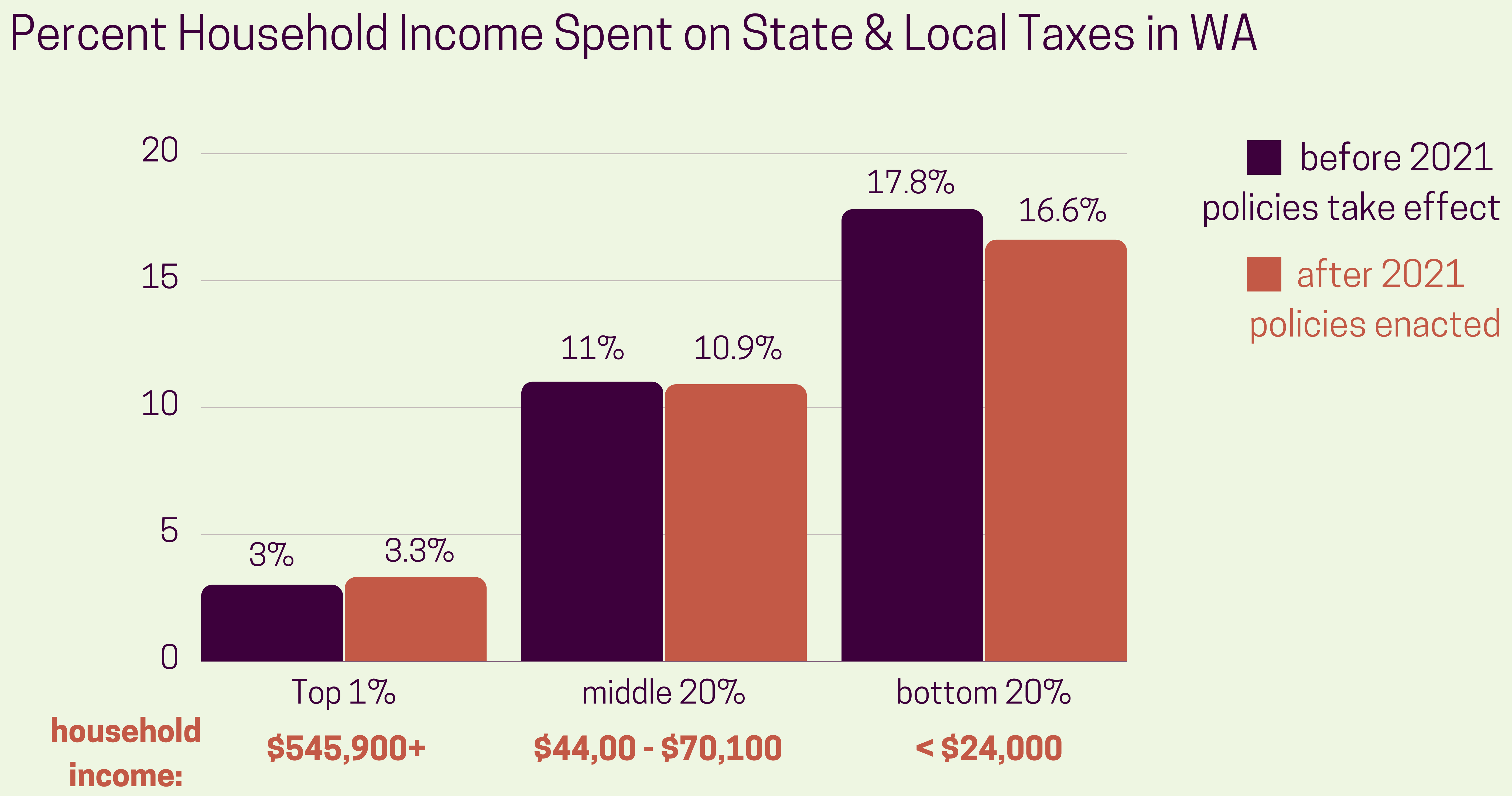
Source: Washington Economic and Revenue Forecast Council Data

Those with the Least Pay the Most in WA



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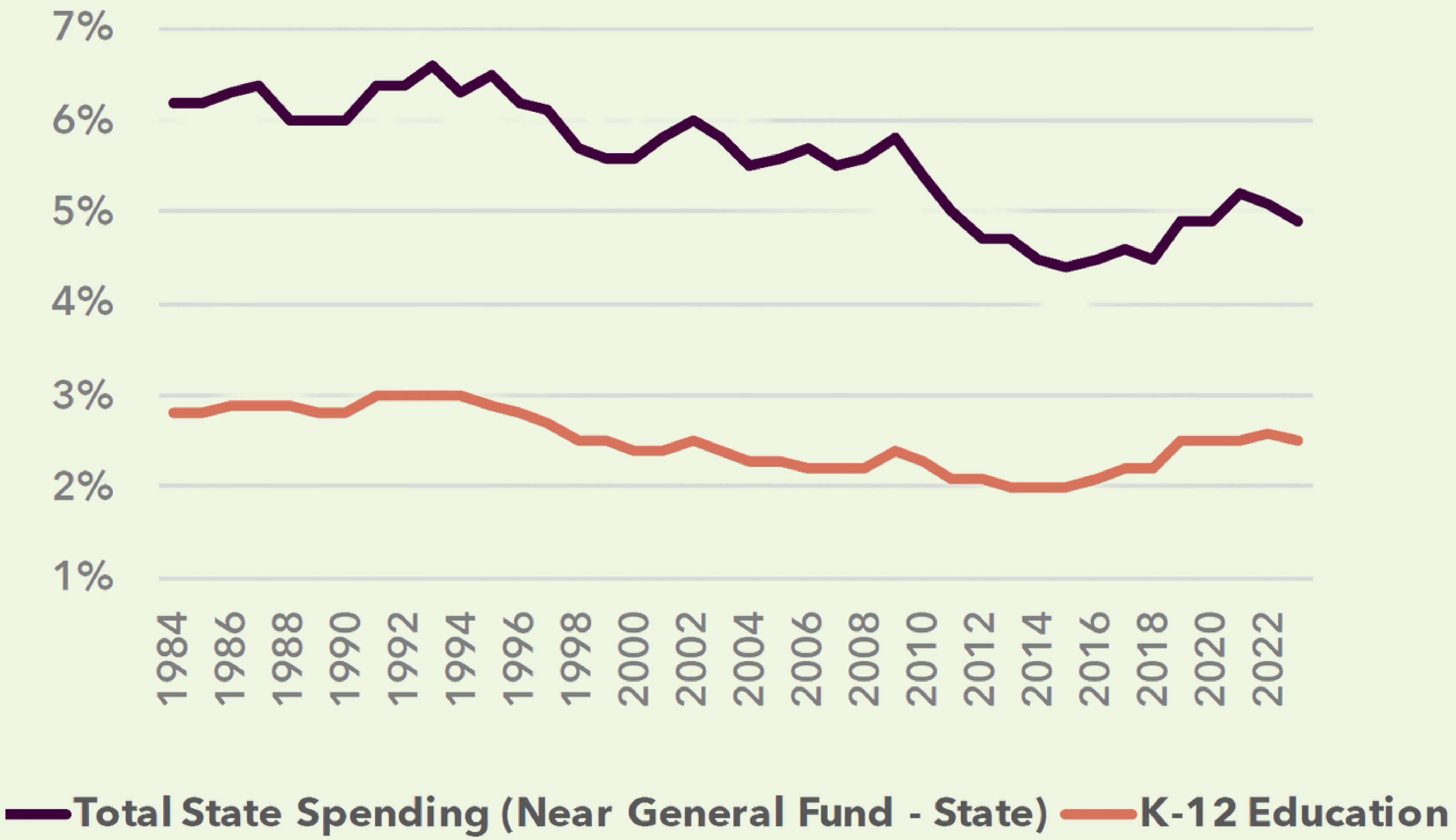
Source: Institute on Taxation and Economic Policy analysis of Washington's tax code 2021

Investment in the Public Good Hasn't Kept Up

WA State Spending as a Percentage of Total State Personal Income



Sources: EOI analysis of data from the US Bureau of Economic Analysis, Office of Financial Management, the Washington Economic and Revenue Forecast Council and 2021 state budget

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TAX FACTS TO REMEMBER:

- **Washington has the least fair (most regressive) tax code in the country** in which the poorest households pay the most relative to their income.
- Though **the legislature passed policies to help low-income families and raise taxes on the top 1% in 2021**, our taxes remain unfair.
- **Small and low-margin businesses also bear the brunt of unfair taxes** as the B&O tax is on gross receipts rather than profits. Businesses also pay the sales tax.
- While we are one of the wealthiest states, **funding of the public good hasn't kept up to meet the needs of the 99%.** State spending relative to wealth has declined since the 1980s.

What's Next?

2021-2022

Tax Townhalls

&

State Legislative Session

2022-2023

Tax Structure Workgroup

&

Holistic Tax Reform

5 PROGRESSIVE REFORMS WE CAN MAKE NOW FOR FAIRER TAXES AND STRONGER COMMUNITIES

1. **Tax the wealth of the ultra-wealthy**
   Rep. Frame's HB 1406 Raises ~$2.5 billion/year
2. **Reform the state estate tax**
3. **Close the inheritance tax loophole**
4. **Eliminate Legal Fines and Fees (LFOs)**
   High rates of interest penalize low-income people
5. **Reduce targeted property taxes to prevent displacement**

2022 LEGISLATIVE SESSION

JANUARY - APRIL 2022

Tax the Wealth of the Ultra-Wealthy

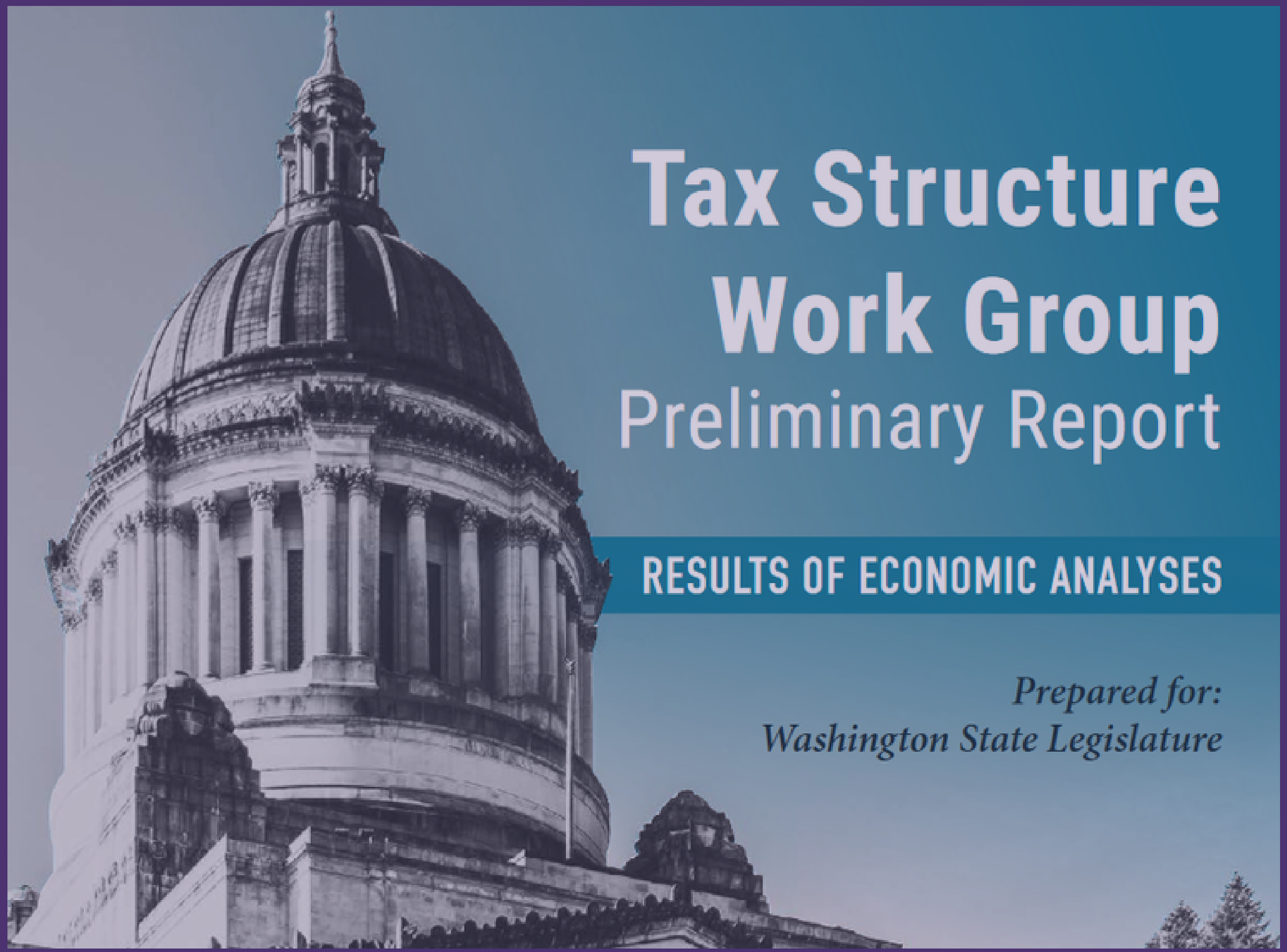
A wealth tax introduced by Rep. Frame 2021, HB 1406 would raise $2.5 billion/year

How it works

- **Structured like a property tax**
- **Taxes certain intangible property, such as stocks and bonds (not held in retirement accounts), worth more than $1 billion**

Tax Structure Workgroup & Tax Townhalls

Goals of the TSWG are to review the tax system & make suggestions for change



Tax Townhalls

- Opportunity to hear from the public what we think about the current tax system and what we'd like to see changed
- September 22 - November 3

Sign up:
https://taxworkgroup.org/tax-town-halls

TSWG

SCENARIOS

SCENARIO A

Property Tax

Change the 1% revenue limitation

- Allows total property tax collections to go up by more than 1% year-over-year
- Property taxes are regressive

SCENARIO B

Wealth Tax

\+

↓ Property tax

- Decreases regressive property tax and taxes the intangible wealth (assets like stocks) of billionaires, making this very progressive

SCENARIO C

Employer compensation tax

\+

Value added tax on businesses

\+

Eliminate B&O tax

- The VAT and employer compensation tax are more progressive than the B&O
- Multiple revenue sources are needed to replace B&O revenue

SCENARIO D

Employer compensation tax

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Margins tax on businesses

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Eliminate B&O tax

- The margins (i.e. profits) tax and employer compensation tax are more progressive than the B&O
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SCENARIO E

Flat rate personal and corporate income tax

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↓ Property tax

↓ Sales tax

\+

Eliminate B&O tax

- Replaces and reduces regressive taxes with an income tax
- More fair system than the status quo for individuals and business

SCENARIO F

Progressive personal and corporate income tax

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↓ Property tax

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- Progressive income taxes are among the most fair and sustainable over time

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Tax Reform Beyond the 2022 Legislative Session

Progressive How much we pay in taxes is based on our capacity to pay

Ample We collect enough revenue to fund public programs and services our communities need to thrive

Sustainable We create a system designed to last

EDUCATION

PUBLIC SPACES

HEALTH & SERVICES

- Sign up for EOI's e-newsletter at opportunityinstitute.org
- EOI's Changemaker’s Dinner is on September 29th

Email any questions or requests:

Carolyn@opportunityinstitute.org

Marilyn@opportunityinstitute.org

Summer@opportunityinstitute.org