



**Washington State Legislature**

# House Tax Structure Work Group Final Report

December 3, 2018

Final Report to the Legislature

As required by Substitute Senate Bill 5883, 2017 Legislature



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Final Report  
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## Introduction

A proviso in the 2017-19 Operating Budget created the House Tax Structure Work Group. The work group was created to facilitate statewide public discussion about Washington's tax structure. The work group consisted of a member from each of the major caucuses in the House of Representatives, appointed by the Speaker of the House. Representatives Noel Frame and Terry Nealey were appointed as co-chairs of the work group.

During the 2018 interim, the work group held four public meetings. The first meeting was held on July 19 in Spokane. The second meeting was held on July 20 in Yakima. The third meeting was held in Vancouver on July 23. The fourth and final meeting was held in Seattle on September 10.

During each of these meetings, the work group and attending participants received a staff briefing on Washington's revenue sources and general tax structure. Following the staff briefing, members of the public who attended the meetings were invited to break out into small groups and have discussions about the current state of the tax structure and generate ideas about changes to make to the tax code. The groups were provided with broad prompt questions to help guide their conversations (see appendix B), and flip charts were used to facilitate and track the discussion. These small groups were then asked to select a spokesperson for the group who reported the results of their discussions to other meeting attendees. Photos of the flip charts as well as summaries of the oral reports are provided in appendices A and C. Following the small group report-outs, attendees were invited to provide individual oral testimony if they wished. This testimony is summarized in appendix A.

Following the conclusion of the interim meetings, the co-chairs of the committee developed a set of survey questions to gather additional information about the public's perspective and feedback about the House Tax Structure Work Group and about tax policy issues. The survey was sent only to participants in the public meetings. Survey responses helped in the development of the ultimate recommendations contained in this report (responses are included in appendix D).

## Work Group Recommendations

*The co-chairs of the work group provide the following recommendations:*

### **Recommendation #1:**

The Legislature should reauthorize the Tax Structure Work Group for the 2019-21 biennium and expand membership to include multiple members of the House of the Representatives, the Senate, and stakeholders including, but not limited to: representatives of traditionally low-margin businesses and those paying standard business and occupation tax rates; tax preparation professionals (e.g., certified public accountants, tax attorneys, etc.); and non-profit organizations conducting tax policy analysis.

*Rationale: More than 94% of survey respondents supported the continuation of the Tax Structure Work Group, and the named stakeholders to add were rated the highest value additions in the survey (combined score of “very” and “somewhat” valuable).*

### **Recommendation #2:**

The Tax Structure Work Group should develop policy proposals addressing key challenges of the Washington State tax code including, but not limited to: the regressive nature of the tax code; the negative impact of business and occupation tax on small, low-margin and/or start-up businesses; the changing economy and the need to modernize the tax code to reflect it; and the excessive number of tax preferences and exemptions. For the purpose of recommendations, the Tax Structure Work Group should first create an agreed upon definition of “regressive.”

*Rationale: The named issues to tackle were the highest ranked issues by survey respondents. The need to define “regressive” was raised in the Seattle TSWG meeting and the co-chairs agree that this seems like a critical first step.*

### **Recommendation #3:**

To inform the Tax Structure Work Group’s policy proposals addressing key challenges of the Washington State tax code, economic modeling or other comparable analysis should be conducted that may include: replacing the business and occupation tax with an alternative taxing mechanism such as corporate income tax or margins tax; replacing the 1 percent revenue growth limit with a limit based on population growth and inflation; replacing a portion of the property tax with a capital gains tax; and replacing other existing revenue sources with alternative revenue sources.

*Rationale: The named types of economic modeling were the highest ranked by survey respondents. The final sentence is based on an agreement between Reps. Nealey and Frame that leaves it more open ended so other revenue sources (existing and not) could be examined as well.*

### **Recommendation #4:**

The Tax Structure Work Group should continue direct engagement with taxpayers and other stakeholders as part of the work group, refining the approach and type of activities used in 2018. Suggestions include: continue holding meetings across the state (not just in Olympia), offering more than four meetings for the public to provide input; offer meetings during the day and consider adding evening options; and strengthen outreach and notice to engage a broader set of taxpayers, though

consider segmenting activities by similarly-interested and informed participants for more focused and informed input.

*Rationale: More than 94% of survey respondents liked having meetings across the state, but more than half responded that four meetings was not sufficient for public input. More than 54% said daytime meetings worked, but the same percentage suggested adding evening meetings. Finally, more than 65% suggested additional outreach to invite a broader set of taxpayers, but comments reveal the broad mix of participants made conversations unfocused and that narrowing who is in the conversation might help address that.*

## Appendix A: Small Group Reports and Public Testimony - Summary

*Staff summarized the reports by the small groups as well as individual public testimony.*

### Seattle

#### *Small Group Reports*

- The tax code is overly complex, and there is a lack of transparency. Some businesses do not know what they are paying or why. Consumers also do not understand what they are paying in many cases.
- There is a geographic inequity between how taxes are levied and distributed between jurisdictions.
- Washington has an upside down tax code, and we need to ask how we pay for the services we want. Taxes should be in line with our state's values. The regressive nature of B&O tax does not reflect our values, even if it is a stable source of revenue. Status quo funding is not enough. The state needs to consider how an economic downturn will impact businesses and communities.
- The regressive nature of the entire tax system, including B&O, sales, and some of the transit taxes, is regrettable.
- The B&O tax is unfair because it is levied on gross receipts, which hurts low margin businesses. Pyramiding in the service industry makes this even worse because sub-consultants end up paying the B&O tax on their revenue. This amounts to triple taxation. It is also unfair for start-ups and struggling businesses that may be losing money to still have to pay the tax.
- The state should establish a higher floor for filing or owing B&O tax so that fewer businesses have to deal with it.
- The state should establish a deduction for cost of goods sold so that the B&O tax is on the business' margin instead of gross receipts.
- We ought to shift the tax burden more to individuals. As it is, the burden is high on businesses because they collect sales taxes and also are responsible for remitting B&O.
- Taxpayers need to be better educated on what tax revenue is being used for and why lawmakers are making certain tax policy decisions.
- The public should have more information about things such as the return on investment for existing exemptions.
- The state should work harder at incentivizing certain businesses to remain in the state.
- There is some good in our state's tax structure, including consistency for taxpayers and the review of exemptions by the Citizen's Commission on Tax Preferences. Aerospace tax breaks are good.
- The B&O tax should be less regressive, and exemptions should be reevaluated.
- The state should establish an income tax.
- The tax base for the state should be more dependent on the general fund instead of local levies. This would allow for more stability and predictability.
- The structure ought to be made more progressive overall, such as enacting a capital gains tax, corporate income tax, and reducing the reliance on sales tax.
- The sales tax should be eliminated and replaced with something more progressive, such as an income tax or capital gains tax.
- Property tax needs to be made more equitable for low-income families, renters, and seniors.

- The state also needs to review how it manages current revenue and establish cost controls and accountability.
- The Legislature should enact comprehensive tax reform to rebalance everything, including B&O, income, and sales taxes.
- We like Idaho's structure!
- The state should establish a state bank to stabilize interest rates.
- The state should have a capital gains tax on stock-trading.

### *Public Testimony*

The state needs a strong infrastructure, society, and community. It takes strong leadership on both sides of the aisle taking risks and the lead on tax issues. It is important that people can afford to do things that really matter. As a business owner, my pay cut allowed my employees to have more babies, buy homes, and invest more in retirement. Washington's regressive tax structure adds additional insult and injury to people who do not have their basic needs met.

Communities of color are the highest taxed but least able to afford paying taxes. People of color are not represented at this meeting but have lots of opinions and observations about the tax code. They want the same things as everyone else: strong communities, families, and schools. Holding meetings in the evenings in the community and providing food would encourage broader attendance. A working families' tax exemption can help lift people out of poverty. We support a capital gains tax and want to see the tax code flipped to be progressive.

Decisions about the tax code impact individual and business decisions. There can be unintended consequences, including incentivizing Washington citizens to make purchases out of state because of the sales tax. Consumers are not trying to game the system, only trying to get the best deal. This also results in the state losing B&O tax revenue as well.

We should rebalance the code to raise taxes on higher income people and reduce it on lower income people. Many people in the business community are mostly white men complaining about paying taxes when they make millions of dollars per year.

Regressivity at the bottom of the income scale is important. Refundable and targeted tax credits are a more efficient way to reduce the impact of the tax code than broad rate reductions. The working families' tax credit and targeted property tax rebates/mechanisms (often called circuit breakers) are the best way to reduce the impact of tax code on low-income people. Circuit breakers cut off property tax liability at a designated income threshold. Generally, a homeowner will receive a rebate for the amount that the property tax bill exceeded the portion of income. This addresses issues of property taxes being regressive without harming the overall ability of the property tax to fund education.

The state ought to better define what regressivity means. It also ought to verify the claims of regressivity about Washington's tax code. Studies about the regressiveness of Washington's tax code have reached different conclusions. A nonpartisan council needs to review the tax structure. The state needs a benefits analysis of a progressive tax code.



Most taxes in the state are collected and remitted by businesses. Higher level reforms should be made so that higher income individuals pay more taxes and businesses pay less. The impact of taxes levied through businesses causes transparency issues because the effects and passing on to the consumer is invisible. It is much more efficient to collect from individuals in a progressive manner.

Public ports operate in a competitive environment. There is flat to negative growth in this industry, and it has seen a loss of market share, jobs, and tax revenues.

The Council on State Taxation is a nonprofit organization representing businesses that serve multiple states. The conversation about Washington's tax structure should not be done in a box. Washington has the greatest tax burden in western states by far, and the tax structure is a challenge for multi-state businesses. Federal tax reform has decreased burden on businesses, and foreign corporations are increasingly looking to relocate to the United States more. These companies are looking at state and local taxes in making their relocation decisions now that the country has become more competitive with federal tax reform.

The state should enact a capital gains tax.

The Seattle head tax was recently proposed, which would have cost my business \$50,000 per year, whereas my rent increase cost a full million per year. The rhetoric that businesses will have to leave with more taxes ought to stop.

Changes in the tax code often have trickle down effects to other taxing districts and municipalities. For example, because of the B&O tax structure, when Seattle was looking at the head tax they had a basis of information to work from. However, the head tax was a flawed source and regressive for businesses. A different state tax structure may help model better, more progressive models for local other jurisdictions to work from.

The Department of Revenue's new tax filing system changeover was a disaster. The Department had to provide filing extensions because people were unable to actually file. The fact that people have to file in order to get the small business tax credit is an unnecessary burden. The threshold for filing should be raised so that businesses do not have to file until a much higher threshold of income. Having to file taxes in multiple jurisdictions that collect B&O tax is difficult and results in many businesses that operate in multiple jurisdictions do not actually get all the required local licenses.

## Spokane

### *Small Group Reports*

- Washington's tax structure is the most regressive in the county, with the reliance on sales tax, property tax, and business and occupation tax. The tax burden is heaviest on those who can least afford it. Any tax reform should make our tax system more equitable. It should be fair to all communities, especially those who have been historically more burdened by the tax code than others. A diversity and equity committee is needed to ensure fairness in our tax system.
- The federal tax changes need to be considered when making decisions about how to reform the state tax structure.
- There are many issues with the business and occupation tax. The tax:
  - Is too complex, vague, and unpredictable.
  - Should be levied on net revenues instead of gross revenue, in order to account for the cost of doing business.
  - Is regressive and disproportionately effects small businesses or businesses that operate with a low revenue margin.
  - Is unfair across the board because different businesses pay different tax rates.
  - Compounds for some businesses through vertical integration, specially professional service businesses.
- The business and occupation tax should be changed.
  - Decreasing the number of tax rates that businesses are subject to and categories that a business can fall into would reduce confusion. Consider applying one flat rate to all businesses.
  - Provide more incentives for smaller and low margin businesses, including reduce their B&O rate or provide them with credits. There should be a standard deduction for all businesses and deductions for labor or input costs. Differences in high margin and low margin businesses should be accounted for in setting new B&O rates.
- Businesses can pass on savings from tax reform in the form of higher wages or hiring more employees. Businesses should be provided incentives to equalize the wage gap between the highest and lowest paid employees and to reinvest in their businesses.
- An unintended consequence of changing the B&O rate to be calculated on net revenue is that the benefit would be greater for large companies that operate on a loss and luxury companies than for small businesses.
- The retail sales and use tax is volatile and regressive. The tax is dependent on how the economy is doing and how much employees are paid.
- The Working Families Tax Credit needs to be funded. It could be funded with a capital gains tax or replacing the B&O tax with a progressive income tax.
- To offset lost revenue from tax reform, the state should implement a capital gains tax. Some believe the tax should only apply to long-term assets while others thought the tax should apply to all sales. A capital gains tax should have thoughtful exemptions for farmers and businesses to avoid overburdening some groups.
- We should introduce an income tax, increasing the rate over time while reducing other taxes. A personal income tax would broaden the base of taxpayers. Businesses should not pay an income tax and B&O.

### *Public Testimony*

The state tax structure is the most regressive in the country. Our reliance on sales, property, and B&O is too high. The tax burden is greatest on people who can least afford it. We should compare our tax burden on citizens to those of neighboring states.

Washington's current tax structure already works. Washington is an economic leader in the United States. People and businesses continue to move to Washington, which indicates our tax structure is not broken. Changes to the tax code could put our economic vitality at risk and negatively impact some local industries. We need to look for ways to improve the tax burden for industries that are not thriving.

National studies show that individuals and businesses do not select which state to live in or operate in based on tax structures.

Manufacturers are not locating their businesses in Washington and moving out of the state because of the tax structure.

The aerospace B&O tax credit should apply to the entire manufacturing sector.

Tax incentives should be easier to apply for and access.

County assessors are experts about property tax and are willing to collaborate with legislators on future legislation. Any new exemptions and proposals, including those that seem revenue neutral, will cause a tax shift to other taxpayers and we should be cautious.

The majority of property tax revenue goes to local jurisdictions.

The foregone property tax revenue from the 1% revenue growth limit led to the McCleary lawsuit. If the growth limit is imposed again, the state will not be able to fully fund education and will get sued again.

Any tax reform should be sustainable. We need to think about the long term consequences of any tax reform.

People with extremely low income should not pay taxes.

Legislators in Olympia do not listen to citizens who cannot afford lobbyists. People should be heard over businesses because they power the economy. We need to have less money in politics.

## Vancouver

### *Small Group Reports*

- Municipalities, schools, counties, and other jurisdictions have problems with the 1% cap on revenue growth. The recession resulted in reductions to revenue that have not been able to keep up with growth. We think using the rate of inflation plus some kind of growth limit would be appropriate.
- Tax leakage in Clark County is a problem because of Oregon's lack of a sales tax. There should be a floor on sales tax exemption.
- The B&O rate could be lowered if other solutions result in more revenue. Sales tax on construction is a problem here on the border with Oregon. Border cities should have some consideration given to the idea of some kind of sales tax offset. The B&O is very complex and the rates can select winners and losers. We should broaden industry categories to simplify and create more geographic distribution of the tax burden. Consider a lower B&O rate for start-up businesses. Instead of providing specialized manufacturing benefits, provide all manufacturing with the aerospace preferential rate.
- Inequality exists throughout the tax system.
- B&O gross receipts penalizes small businesses. A tiered income tax would cure B&O pyramiding. The rates could be adjusted to allow for revenue neutrality. It would also help address some cross-border issues, especially for new businesses.
- The current method of funding schools with property tax is not helping rural school districts. It is difficult for some places to pass school levies. A sales tax exemption for school construction could help.
- Our tax structure is working in the sense that it is currently providing sufficient revenue and a competitive economy.
- The B&O is easy to calculate because it is on gross receipts and is also hard to evade. Over time, the tax has been tailored to specific industries, which is an advantage of the B&O. Consider implementing a small business retail sales and use tax exemption. The non-resident sales and use tax exemption is popular. We should increase small business tax credits. Smaller scale exemptions on other business inputs for small businesses would be welcome.
- Some believe the 1% revenue cap is a safeguard against inflation. Others don't believe the limit allows revenue to keep up with costs. The Legislature should do more economic modeling on some of the initiatives to change revenues.
- The Legislature should commission a reliable study of low margin businesses to better understand how they can be helped with the tax code. We should tweak the system at the margins, not throw the baby out with the bathwater.
- Revenue administration and tax enforcement could be improved in terms of fairness and equality. You could increase the trust among tax payers if this was improved. Since we have a voluntary tax remittance system, this could lead to increased tax payer remittance.
- If the tax structure is modified, there should be an equal burden on households and businesses.
- Sales tax revenue is volatile and regressive.
- Border areas also experience loss of sales and tax avoidance.
- The state needs a progressive and more diversified portfolio of taxes.

- A state head tax as a part of business licensing would increase equity. Other revenue options are an income tax, a capital gains tax, and increasing sin taxes.
- *Wayfair* should be resulting in more sales tax revenues to the state.
- There are some pieces of the tax structure that work well, such as B&O apportionment and having no income tax.
- There are specific difficulties associated with being a border city.
- We cannot offer the same incentives to start ups as Oregon does. We should work at incentivizing more small businesses to operate in our state. It is difficult to enforce sales tax avoidance over the border.
- Economic modeling of the cost of having an income tax should be done.
- Consider a tax on financial transactions.

### *Public Testimony*

Investing in education does not just help young people, but all of the state's economy. The lack of funding for education shows in the condition of our schools and curriculum. While *McCleary* was pending, the state failed to meet its paramount duty for years. There were no teacher COLAs for several years.

There is an increasing need for crisis services and interventions in schools and classrooms. Schools need more highly trained support personnel. We do not have adequate revenue. The DSHS is also underfunded which contributes to the stresses of our students and families.

Our current tax system is upside down. Working families have the greatest tax burden, and the wealthy do not pay fair share. We are balancing the budget on the back of our people. The poor pay the greatest percentage of their income in taxes but are not getting the investment back in their schools. The cost of taxes tends to be passed on to the consumers who can least afford it.

Use the dichotomy and divide between east and west parts of the state plus the fact that the money is primarily on the west side to convince small businesses that new taxation is good idea.

Some people move to Washington because there is no income tax, which helps them afford a good standard of living.

We need a stable tax structure.

B&O taxes are very complicated, even for finance professionals. The state should consider enacting an income tax for businesses only. Most people do not trust the government and do not like taxes, so it is very important to conduct and share an economic analysis and the impacts of any tax changes.

The B&O tax was designed to be temporary initially, and Washington is one of the only states that relies on this gross receipts tax. This is very difficult especially with businesses that are low margin. A margins tax or a head tax would be a great idea. Vancouver and Clark County are operating on the border of Oregon.

B&O punishes small businesses. A progressive income tax could bridge divide between progressives and conservatives. Help small businesses and make the tax structure more equitable.

The state is missing out on millions of dollars due to tax preferences.

Many businesses make the choice to locate in Oregon instead of Washington, which leads to a substantial job gap in Clark County. Vancouver has a head tax in order to fund transportation and police projects.

A capital gains tax should be considered.

Youth drug and alcohol prevention programs funded by taxes are important. The state needs to ensure marijuana revenue for substance abuse programs continues.

Loosening the 1% property tax cap would be a great idea. This would create structural relief for areas like Vancouver.

If you are selling your property for more than the median value, you pay a higher real estate excise tax (REET) rate. If you are selling for a property for less than the median, you pay a lower REET rate. We need to get out of our ideological boxes and work towards a middle-ground solution. Consider regionalizing the real estate excise tax by zip code.

The Washington Retailers Association suggests a sales tax holiday for one weekend in August.

The Legislature should adopt use of dynamic fiscal notes that demonstrate the positive impacts of some of these policy changes.

## Yakima

### *Small Group Reports*

- The pyramiding of the B&O tax increases business costs. B&O should be replaced with a value added tax or a gross margins tax, like the one in Texas.
- The B&O tax discourages businesses from locating in Washington, but not having an income tax attracts businesses and balances out the B&O issues. There should be a B&O deduction for low margin businesses.
- Any loss of revenue could be made up by adjusting other taxes, and the state will be getting additional sales tax revenue due to the Wayfair case.
- The 1% growth limit on property taxes needs to be replaced with an inflation growth factor. This would likely increase state revenues and increase tax certainty.
- Our state property tax is stable. Budget based is better than rate based for stability.
- Property tax is not based on ability to pay; it is based on value of the property.
- Property tax exemptions in particular create tax shifts within the district but do not actually reduce the amount of revenue.
- Washington ought to have a broader based tax structure in which taxes levied are applied to everyone equally. Exemptions are not meeting their original intent because they are not based on ability to pay. There are too many tax exemptions and too many ways to game the system. Exemptions should be reviewed more frequently.
- The tax structure should be more progressive. The people who earn the most should pay a fairer share of their income compared to those with a lower income.
- The potential loss of revenue should not be the focus of tax reform; the real question is who should pay.
- An income tax is encouraged. Everyone should be subject to any income tax or capital gains tax.
- The tax structure is the devil we know. The current tax code is burdensome, but change creates uncertainty and fear of unintended consequences, especially for low margin businesses.
- The state already generates enough revenue.
- Funding the working families' tax exemption would balance the regressive nature of the tax structure and could be funded with a small increase in the sales tax or a new luxury tax.
- Businesses want to pay their taxes, but the laws are ambiguous. The state needs clear and enforceable tax laws. Changes in tax laws or interpretation create uncertainty for businesses. Simplifying the administration of taxes would reduce costs of enforcement.
- The Department of Revenue should create an online filing tool like Turbo Tax with explanations and prompts.
- Local taxes should require state legislative approval.

### *Public Testimony*

The upside down tax code is affecting working families. The safety net is being shredded, wages are stagnate, and there has been a loss of employment protection. Washington is experiencing wealth inequality and decaying infrastructure.

Many people and businesses are struggling to survive even with the strong economy. Progressive revenue sources are needed to provide relief to those who need it. The work group needs to think big

and look to long-term solutions to address the problems. There are ways to raise revenue without targeting low-income people. Capital gains and income taxes deserve careful consideration.

The Legislature should work with stakeholders to understand fully the impacts of the new laws on those paying it. Instead of overhauling the tax system, create tax incentives for products that lower income individuals are more likely to buy, like fast food and purchases at Goodwill.

Businesses want to pay the right amount of tax. The B&O tax is difficult, but it is not horrible; it can be modified and made better. Businesses do not like a lot of change, and stability in the tax system is important. Clear tax laws would help businesses achieve accuracy in calculating their taxes.

Grocery is a small margin business. The B&O tax should address some of the costs of doing business.

Predictability is very important to growers and the agricultural industry. Agriculture is a high investment, low margin industry, and immediate major tax structure changes are problematic. Agriculture also has a hard time passing on costs to consumers.

The B&O structure results in double taxation for some firms and industries. Architects are in a unique position in that they pay B&O tax and have to pay subcontractors. Those subcontractors owe B&O on their income.

Small businesses do their own taxes and payroll, so they feel changes to the tax code. Legislation passed over the past few years, including minimum wage and paid sick leave, are scary, especially when combined with tax changes.

Yakima businesses do not get the same tax breaks as the big companies (e.g., Boeing). The state should do a cost benefit analysis on all tax preferences.

There ought to be more incentives to help increase employment and train and employ low-income people. Additional training for employment amongst low-income individuals would help people become economically independent. Local community colleges can provide workforce training. At least 50% of the local school district is low income.

The Tax Structure Work Group should reach out to those who will administer the legislation. Local officials need an opportunity to look at the fiscal note and impacts of any tax reform. The Legislature should have a fiscal note for every bill it passes to avoid unintended consequences. The short turnaround time for fiscal notes creates problems, and counties need at least three to five days to respond.

The sheer number of people qualifying for the senior exemption is increasing. The static income qualification creates inequities between the counties. The state needs a more balanced income threshold reflecting local property values. Qualification should be tied to county median income. Yakima County has a huge tax shift due to the senior exemption.

The litter tax was an agreement to address litter, but the revenue is being swept to the general fund.

The state should enact a capital gains tax. There are issues with the capital gains proposals the Legislature has considered recently.



## Appendix B: Small Group Reports Instructions

*During the meetings, small groups received the following instructions and questions to help guide their discussions.*

### **"Instructions:**

- Each table selects a facilitator and a note-taker
- Discuss questions as group (approx. 30 minutes)
- Summarize top two themes from discussion (approx. 10 minutes)
- Group report out

### **Discussion questions:**

- What parts of the tax structure are not working well for you, and why?
- What would you propose as a solution or alternative to this?
- If this proposed change creates a loss of revenue, how would you make up the difference?"

### Appendix C: Small Group Flipchart Notes and Large Group Discussion Notes - Photos

*Attendees were provided with flip charts to track and facilitate their discussions. Additionally, Representative Frame tracked the small group report-outs on a larger chart at the front of the room. Photos of these flip charts are included here.*

**Q1 Frustrations**

- complexity of code/efficiency
- transparency
- exemptions - who getting them? \*
- THE most regressive tax system \*
- adequacy of funding for state svcs.  
↳ not enough for educ.
- inequities b/t districts
- BBO - how to address affordability, help w/ start ups
- competitiveness for certain industries (manufacturing)
- Citizens' Review of Tax Exemptions exists to examine - is it doing all it can (Citizen's Commission for Tax Preferences)

any analysis of fairness? does sales tax reflect current economy? Positive certainty for bc

Seattle %

**Q2 SOLUTIONS / ALTERNATIVES**

- take a look @ existing exemptions to see if they are meeting its stated goals  
↳ useful vs. handout
- make more efficient, stable | effective, fair
- more transparency - can the tax payer know what they are paying and funding?
- Keep commercial affordability in mind w/ policy
- More progressive structure

regular

**FAIRNESS**

- balance
- equity
- % of income - progressivity
- who benefits?

Main themes:  
Equity + Fairness  
Be broad, don't limit conversation  
Outside influence  
Transparency  
Adequacy of system  
Accountability to taxpayers

Seattle %

**Q3 Revenue Neutrality**

OR: who pays?

- who is responsible for making up critical shortages?  
↳ who is not paying taxes (investments)
- Scrap it all - make more progressive  
↳ don't limit to piecemeal reform
- Issues w/ concept of rev. neutrality\* - not enough!  
• are we funding our obligations? → reality of Sophie's choices in educ.
- is there a focus on expenses?
- Other tools: income capital gains alt. to gas tax - vehicle miles tax?
- quantify progressivity of alternatives/ who benefits / who pays

**Main themes:**

- Equity + Fairness
- Be broad, don't limit conversation
- Outside influence
- Transparency
- Adequacy of system
- Accountability to taxpayers

Seattle %

**Q1 NOT WORKING**      • 1% CAP ON PROP. TAX GROWTH (REGRESSIVE)

- B&O \* GROSS RECEIPTS VS INCOME  
 Ex: CAR DEALERS 2% OF SALES + 0.5% TAX  
 BUSINESSES THAT LOSE MONEY STILL PAY  
 CAN CRIPPLE START-UPS  
 'PYRAMID' - TAX ON PASS-THROUGH REVENUE TO SUB-CONSULTANTS (SERVICE)  
 NEW INDUSTRIES (RIDE-SHARE) DON'T FIT IN TAX CATEGORIES
- EXEMPTIONS LACK OF TRANSPARENCY
- \* TRANSPARENCY IN GENERAL  
 HARD TO UNDERSTAND AMOUNT & HOW IT IS SPENT
- \* REGRESSIVE TAX SYSTEM
- SOUND TRANSIT TAX      LACK OF REPRESENTATION FOR SOME CONSTITUENTS

Seattle %

**Q2 HOW TO FIX**      LOST REVENUE

- B&O: ESTABLISH A FLOOR TO SHIELD SMALL BUSINESSES
- CONSIDER CAPITAL GAINS TAX
- " STOCK TRADING TAX } Q3
- ESTABLISH STATE BANK TO CONTROL COST OF DEBT
- \* B&O: TAX ON MARGINS/NET REVENUE
- \* MORE SUSTAINABLE GEN. FUND MECHANISMS (AVOID LEVIES)
- EXEMPT CAPITAL PROJECTS FROM STATE SALES TAX
- REGIONALLY-BASED HOMEOWNERS TAX EXEMPTIONS. (COST OF LIVING)

Seattle %

**Q3 ~~CONSIDER~~ HOW TO ADDRESS LOST REVENUE**

- \* COMPREHENSIVE TAX REFORM
- SHIFT FROM TAXING BUSINESSES TO TAXING INDIVIDUALS
- CONSIDER INCOME TAX
- CAPITAL GAINS TAX
- STOCK TRADING TAX
- STATE BANK TO REDUCE DEBT COST
- CONSIDER MORE BALANCE (LIKE IDAHO)  
 BLEND OF INCOME + SALES + ???

Seattle %

- UPSIDE: DOWN
  - most regressive in country
- WHAT DO WE WANT TO SEE IN OUR COMMUNITIES & THEN HOW DO WE PAY FOR IT?
- B/O TAX STABLE EVEN IF IT'S INEQUITABLE
- FAIRNESS & BEING IN LINE WITH OUR VALUES
  - IMPORTANT TO INVEST IN BUSINESS BUT DO SO EQUITABLY - SMALL BIZ SUFFER
- DOWNTURN COMING - IMPACT ON BIZ
- HOW DO WE BALANCE THAT RISK AGAINST THE RISK TO COMMUNITIES, HOMELESSNESS & MENTAL HEALTH ETC.

Group 3  
Seattle 9/10

- SAFEGUARDING AGAINST VOLATILITY
- STATUS QUO FUNDING ISN'T ENOUGH
- INCOME TAX SEEMS FAIRER & BETTER (MIGHT BE EQUITABLE), BUT DO WE TRUST GOV'T?
- FAIRNESS
  - ADEQUATELY FUNDING OUR NEEDS
  - BUSINESS ENVIRONMENT (WORKING)
  - MITIGATING BOOMS & BUSTS - STABILITY

Group 3  
Seattle 9/10

SOLUTIONS

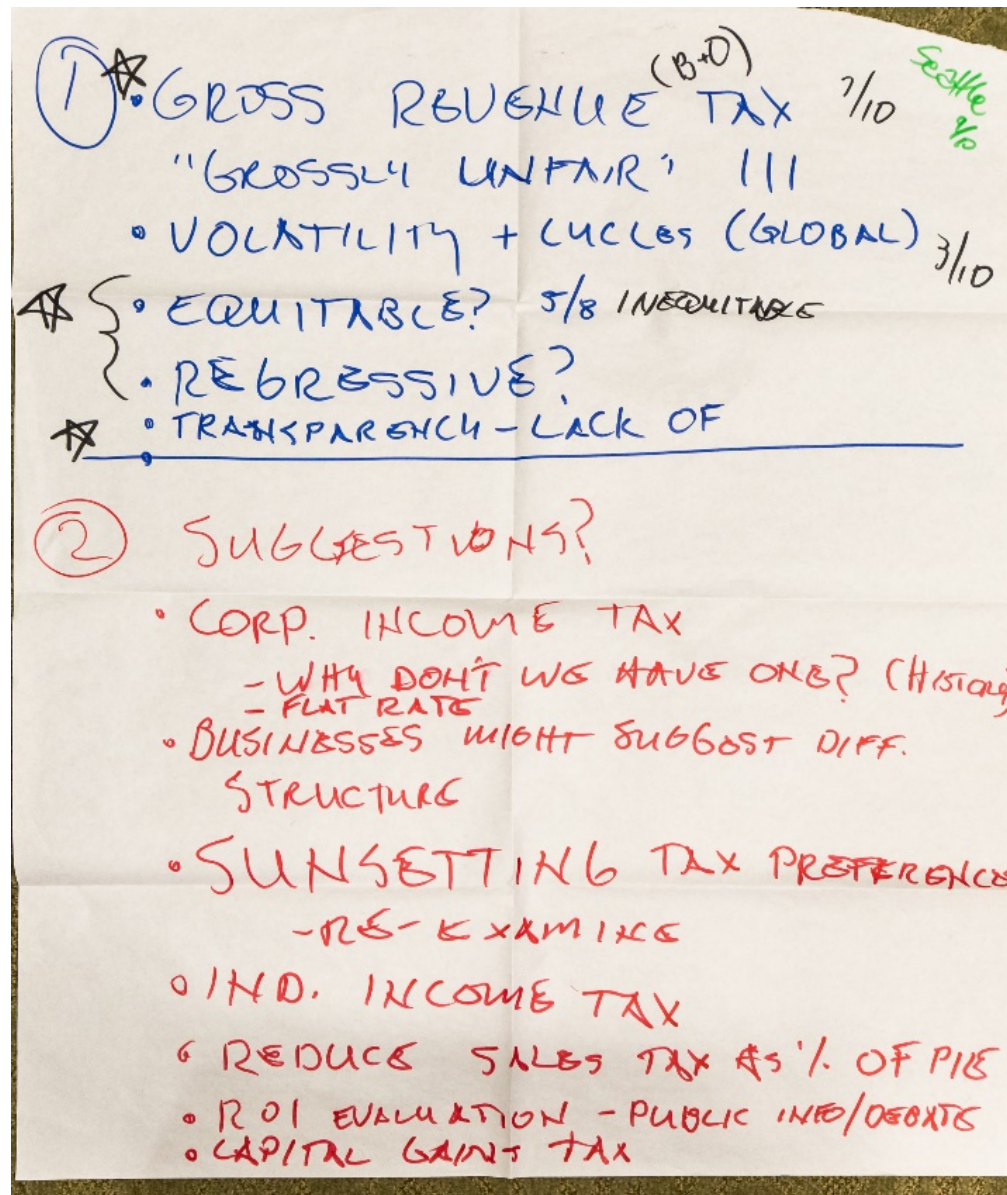
- ELIMINATE SALES TAX & REPLACE WITH ?
  - B&D LIQUOR, ETC
- TAXES AREN'T A PENALTY - THEY BENEFIT ALL OF US
- INCOME TAX AS SOLUTION
- REFORM PROPERTY TAX → EQUITABLE
  - CREDITS FOR RENTERS
  - LOW INCOME FOLKS
  - SENIORS
- CAPITAL GAINS - CAN WE'RE 1 OF FEW STATES THAT DON'T
- WHY 1%3 EXEMPTIONS? - UNFAIR
  - RE-EVALUATE - EVERY 5 YEARS? SUNSET PROVISION
- MAKE B&D LESS REGRESSIVE
- EXPANDED & FUNDED WORKING FAMILIES TAX DEBATE
- GOLD-PLATING / FLEET MANAGEMENT & MAINTENANCE

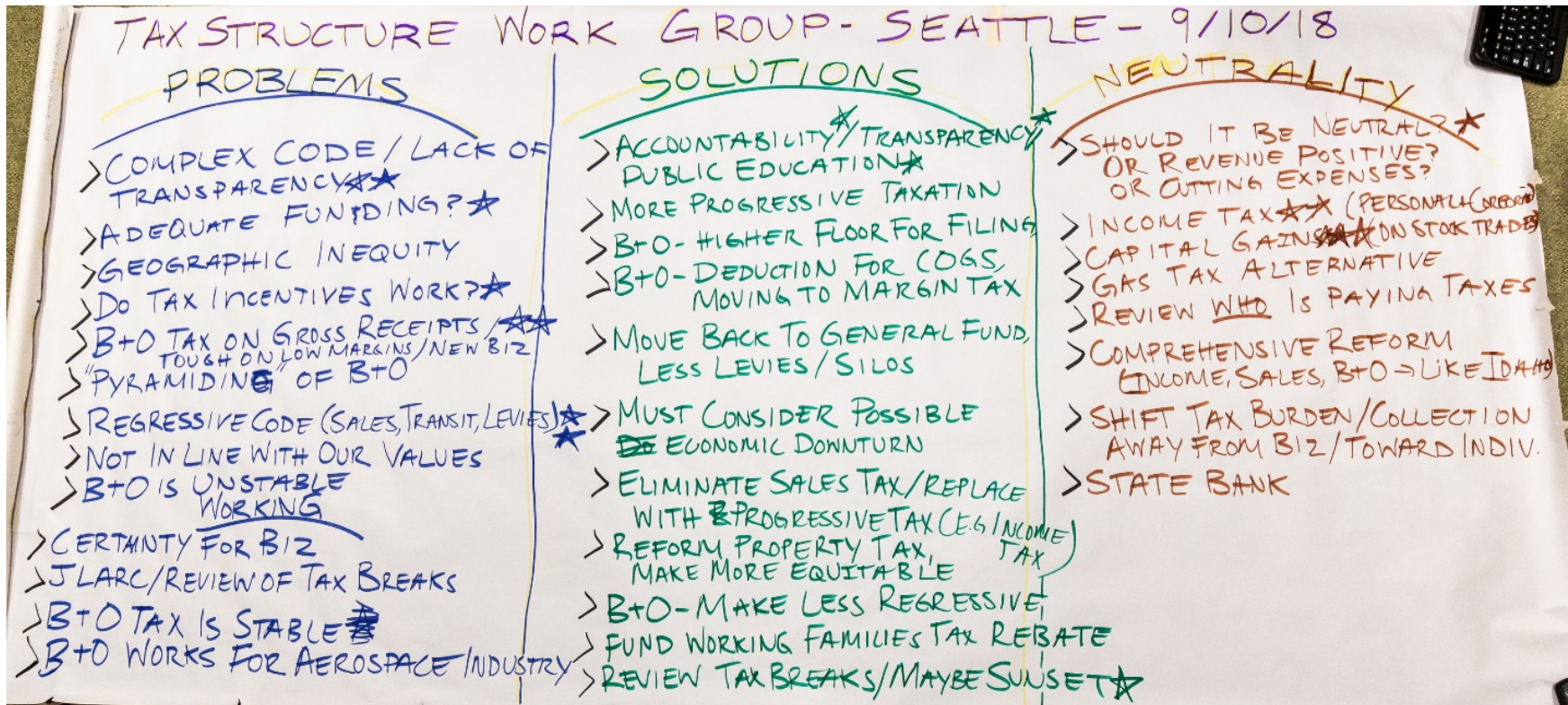
Group 3  
Seattle 9/10

QUESTION 3

- SEPARATE TAX STRUCTURE FROM MORE REVENUE
- DISAGREEMENT ON WHETHER IT NEEDS TO BE REVENUE NEUTRAL
- B&D LESS REGRESSIVE (SPRINT BRINGS IN MORE)
- NOT CLEAR OUR SOLUTIONS WOULD NOT BE REVENUE NEUTRAL
- RAINY DAY FUND

- GENERALLY NOT HAPPY W/ CURRENT TAX CODE
- BIG CONCERNS ON FAIRNESS & OUR VALUES
- NEED ONGOING CONVERSATION SO WE CAN FIX THIS
- DIFFERENT OPINIONS BUT LOTS OF IDEAS





① What is Working/What is not

- Most Regressive tax Code in US
  - 17% on the bottom
  - 3% at the top
  - Sales
  - Property
  - B&O
- A disproportionate Amount of tax on gross revenue
  - ? Do we have a state Capital Gains Tax?
  - We need to pay a tax on Stock when Bought & Sold Also!
- Look at tax in the margins
  - Start ups
  - Business with thin Margins
  - Different Jurisdictions
  - ? A graduated B&O Tax -

② Solution

Need Something 'Different'

Revise Different Tax Structure (Adjust to Fed Structure)

- ✓ Out Idaho Tax Code
- ✓ Oregon Tax Code - may ↑ Revenues

Consider \*

- Businesses - Move to Idaho because of lower taxes!
- Compare & Contrast - diff States. Factor in!
- (Also how doing Business affect the Bus Bottom line! In Border Communities (Id. Or. Wa.)
- Making B&O on Margins not gross Receipts

③ Outcome

- Focus on Return on investment
- Budget Neutral
- Capital Gains Tax - more "fair"  
short term - long term - pay it.
- B&O Tax BIGGEST ISSUE
- Need Long term Solutions
- Get Money Out of Politics
- Look at More Outcome Based Solution
- Look at Fed Tax & then Revisit WASH Tax Code. & Respond & Integrate accordingly

Sumation

- 1 hour is not enough to generate Solution
- Income Tax vs B&O Taxes  
→ Not enough info! <sup>sales tax</sup>
- Other Solutions can more broadly Represent All the People



Spokane – Group 2

1) What about tax structure is/is not working for people?

- sales tax is regressive & disproportionately impacts middle & low-income people
- B + O tax on Gross revenue is unfair

2) What are proposed solutions?

- re-evaluation of B+O exemptions case-by-case to increase benefits to small businesses & local economies
- B + O tax shouldn't be levied on GROSS revenue, but should allow for deductions → tax NET not Gross revenue

3) Do solutions impact State tax revenue?

- implement capital gains tax to off-set losses from change to B+O structure

Spokane 2

Spokane – Group 3

Not Working

- sales tax, low-income folks pay greater portion of their income
- Administration of tax structure: complex, vague, requires clarification
- Small businesses don't have flexibility w/ B+O tax to be competitive
- unintended consequences of property tax changes
- Incentive to move to Idaho in E.WA.

Solutions

- Simplify classifications into 'few... buckets'
- Base B+O off net income (not gross receipts)
- Set threshold for small business exemptions
- lower sales tax
- manufacturing tax credit/departure
- slowly raise income tax, lower sale proportionately
- Tax shift: raise rates on higher gross receipts

Equalize

Caution: if we impose ~~new~~ tax, truly lower another, ~~be~~ be aware of unintended consequences

- Guard against unintended cons.

Spokane group #3

Spokane – Group 4

- Spokane  
Group #4
- ① - high volume / low margin  
- vertical integration to avoid pyramiding  
*everytime - govt st  
govt shouldn't double tax.*  
- overall economic message problem of taxing gross receipts
  - ② - Add standard deduction to B+O  
- Income tax? - needs study of what corporate rate would be  
*TOTAL SWAP - no B+O!*  
- Low margin biz credit  
- Allow deductions from gross revenues  
*(eg: Labor costs  
Input costs)*  
- ~~add a per~~ *personal income tax* ~~to~~ *tax*  
*+ relief in other areas (sales/prop)*
  - ③ - No such thing as fair tax  
- Cut spending in budget  
- Adding in personal income tax *(Broadens overall base)*  
- Legalize drugs + tax  
- DRINK MORE BOOZE  
SMOKE MORE POT

Spokane – Group 5

- Spokane  
Group 5
- ① - REGRESSIVE NATURE OF SALES TAX AND RISK OF REVENUE LOSS FOR THE STATE IN THE EVENT OF A RECESSION.
  - ② - INCOME TAX AND/OR CAPITAL GAINS TAX.  
- BUT STILL OFFER SOME EXEMPTIONS, ESPECIALLY FOR TAXES TARGETING EMPLOYERS (I.E. B+O).  
- STREAMLINE B+O AND ADDRESS 'NET VS. GROSS'!
  - ③ - A MORE LEVEL B+O TAX  
- REDUCE SALES TAX AND CREATE AN INCOME OR CAPITAL GAINS TAX.  
- B+O REDUCTION COMBO BE PROVIDED FOR BUSINESSES WITH LOWER PROFIT MARGINS SO THEY WILL STAY IN WASHINGTON STATE.

"upside-down" taxes  
- rebalancing taxes to affect lower-income demographics less

Unacceptable that ↓ 25% pay MORE than the ↑ 1% of income earners

Comprehensive conversation to account for changes to tax structure

Fund working families Tax rebate

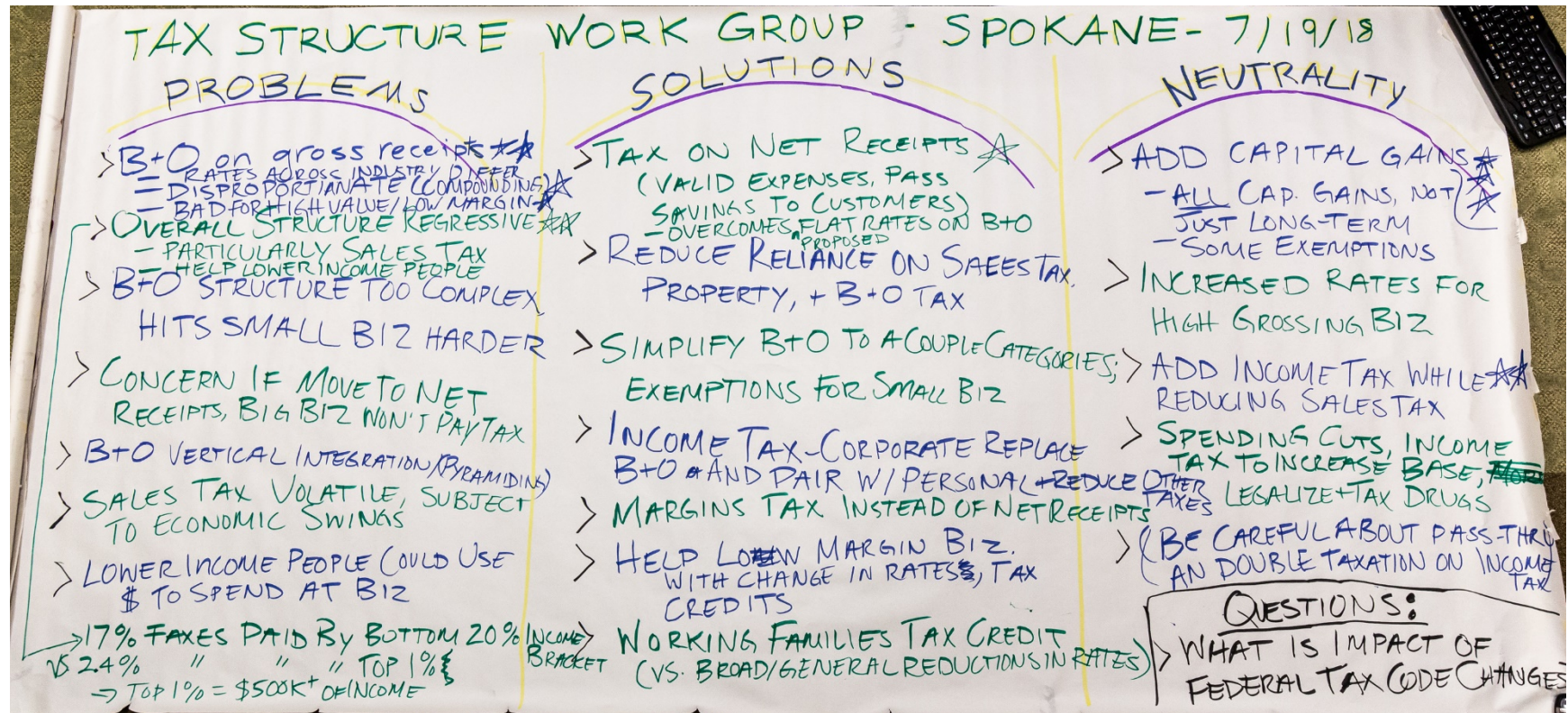
Capital Gains Tax to fund ↗

Progressive income Tax to get us out of most regressive position/ranking in the country!

Simplifying Business Tax Code  
- small bus. owners can navigate

Tax changes on Fed. level taken in to account

Spokane Group 6



1. Not working well.
1. 1% cap - on gov. growth
  2. Oregon - exempt. on sales tax res.  
- possible "floor"
  3. Construction - sales tax  
- not in Oregon
  4. W/L - outside "targets"  
for B+O. (M.B.)  
- Low margin business  
at a disadvantage.  
(e.g. startups)
  5. Less gas tax revenue

- Proposed solutions
1. For 1%<sup>cap</sup> ⇒ inflation rate
  2. For exemption ⇒ "floor"  
 $< \frac{\$10}{\text{tax}} \Rightarrow$  no exemption
  3. Some relief - border cities  
TIF ⇒ redirects revenue
  4. Simplify B+O code  
reduce for manuf.  
incentivize certain business
  5. miles driven  
or  
car components (e.g. batteries)  
for electric vehicles

- If loss of revenue, make up?
4. Attracting more manuf.  
to pay new rate to make  
up difference.
- If win ....
2. Then lower B+O for that  
business / industry.

Q1: What parts of tax structure are not working well for you, AND why?

- #1
  - B&O - gross vs. net
  - REET - flat tax/rate
  - Regressive aspect of sales tax
- #2
  - B&O gross vs. net
  - discourages collaboration
  - Double taxation
- #3 start up costs of biz
- #4 1% cap on property tax (city perspective)
- #5 sales tax on grocery items
- #6 Property tax not working - fixed income
- #7 Current way of funding schools - property tax - not working.
  - ↳ Make the tax structure more fair and for who
  - B&O - gross vis-avis net
  - ~~low tax used to~~ system may be unfair

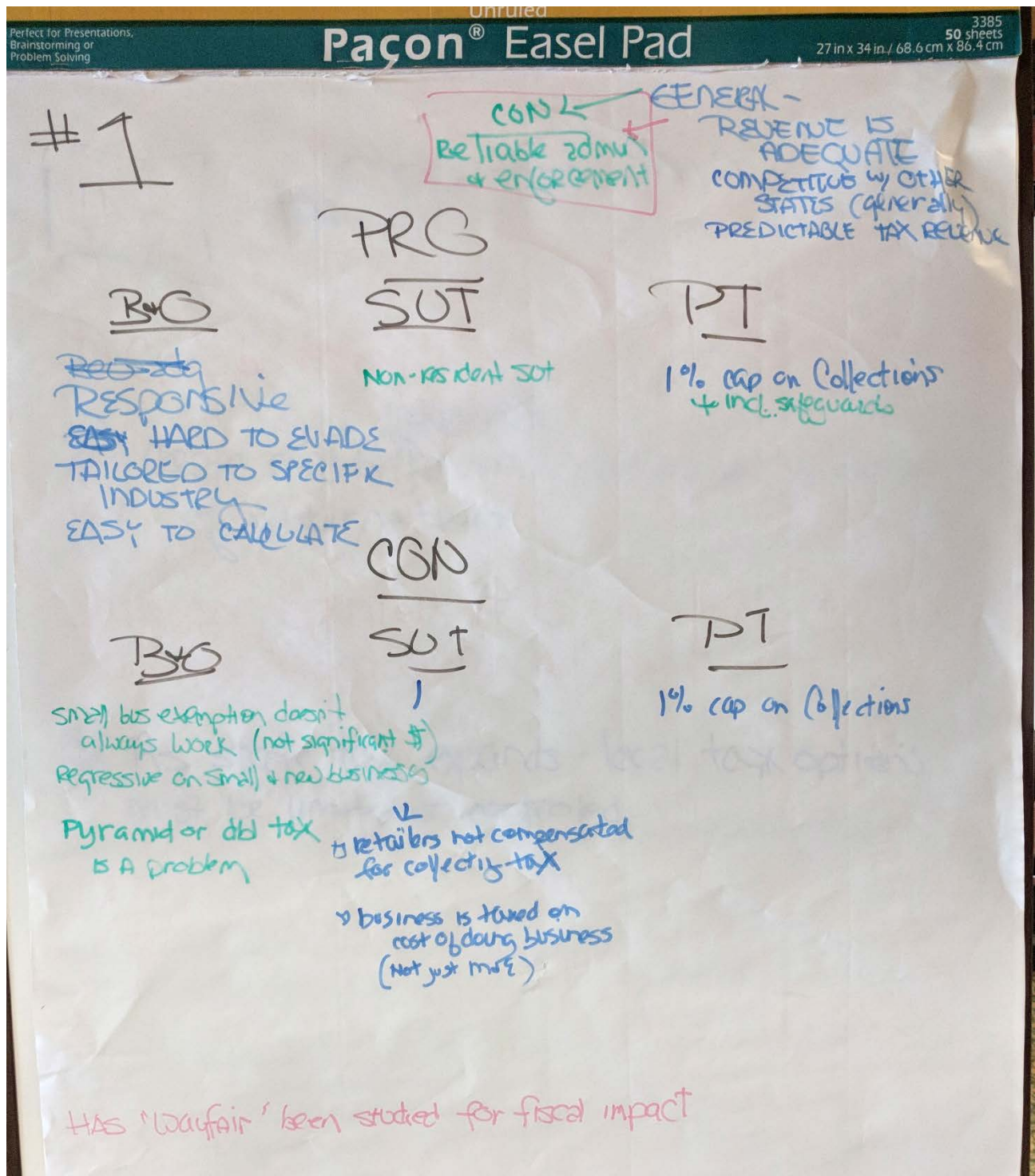
Vancouver

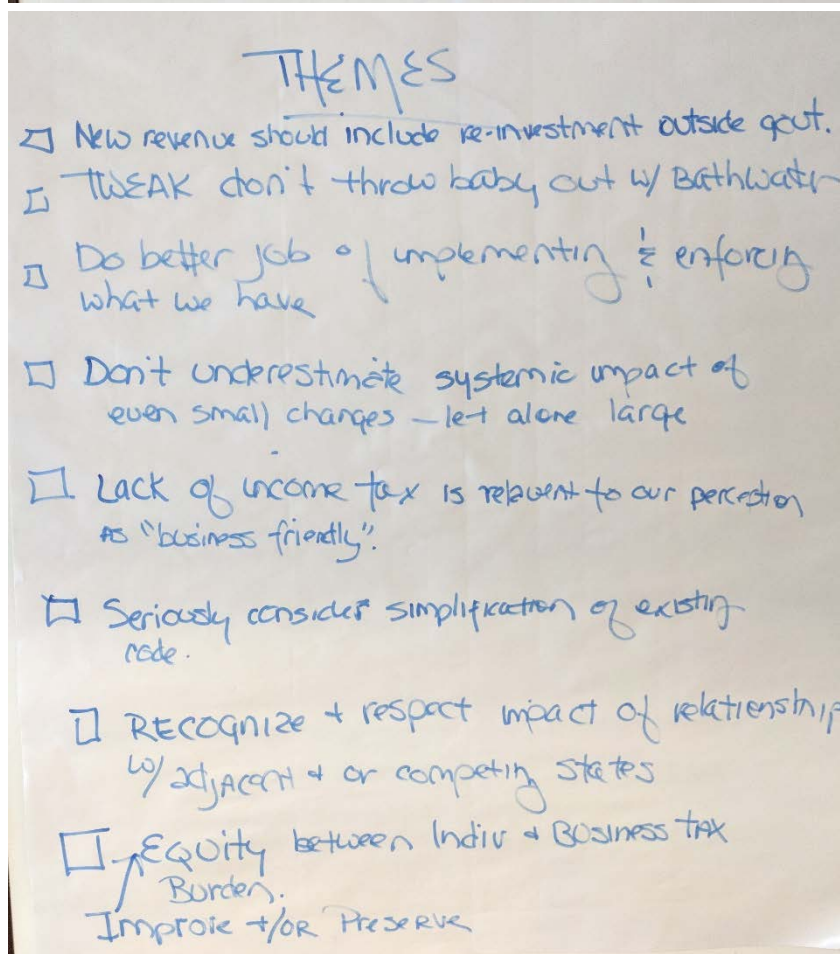
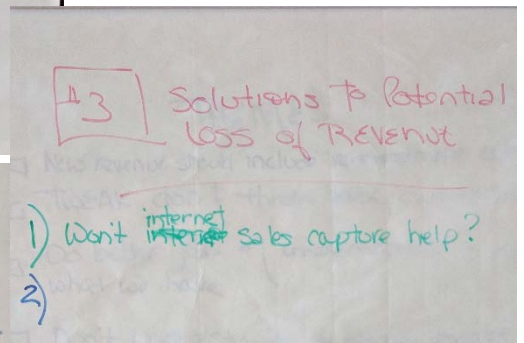
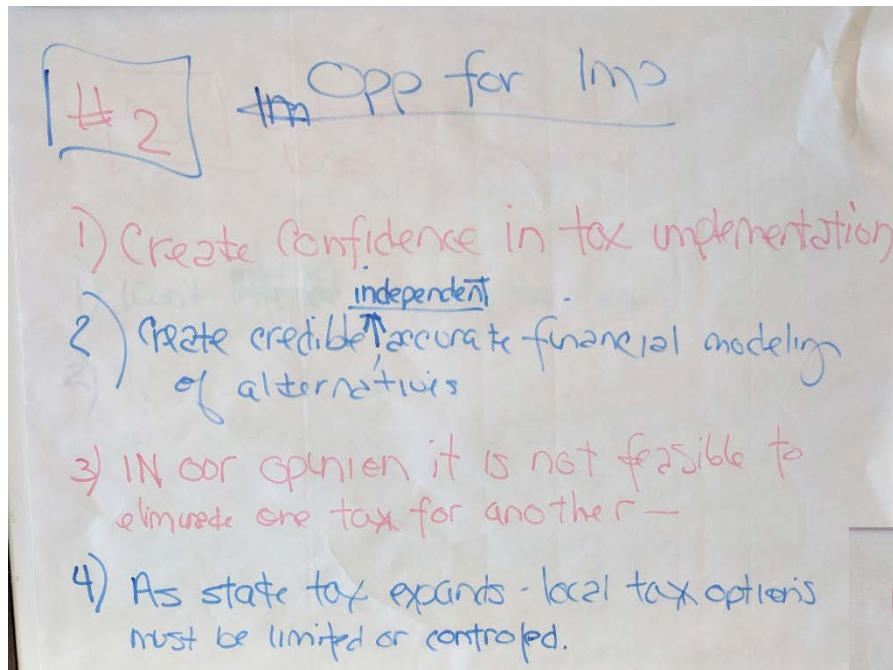
Q2: What would you propose as a solution or alternative to this?

- #1
  - B&O - convert to net vs. gross (corporate <sup>progressive</sup> income tax)
  - REET - change tax rate or value of home (Regionalize based on zip)
- #2 B&O - convert to net vis-avis gross
- #3 B&O - convert to net " "
- #4 Property tax - Consumer Price Index
  - tie it to above
- #5 Sales tax exemption on school construction
  - corporate income tax
  - ~~fixed~~ income tax

Q3: How to make up loss of Revenue?

- #1 Property tax would increase revenue. (schools only)
- #2 ~~Employer~~ Capital Gains







Vancouver – Group 4

**#1 NOT WORKING:**

- \* **REGRESSIVE TAX STRUCTURE:** places the burden on working families
- \* **SALES TAXES:** loss of revenue for us as a border community
- \* **BUSINESS PERSONAL PROPERTY TAX** ~ HARD TO ADMINISTER, SELF-REPORTED...
- \* **CONCERNS ABOUT COUNCIL/MAYOR B & O** (opinions mixed)
- \* **EDUCATION BUDGET** SHOULDN'T BE RELIANT ON PROPERTY TAXES HEAVILY

**#2 SOLUTIONS**

- \* REPLACE WITH STATE-LEVEL HEAD TAX INCREASE, OR WRAP INTO LICENSING...
- \* INSTITUTE AN INCOME TAX, REDUCE SALES TAX
- \* CAPITAL GAINS TAX

**#3 MAKING UP THE DIFFERENCE**

**FAIRNESS INCREASE / ADD: VICE/SIN TAXES**

- REBALANCING SHOULD ADDRESS REGRESSIVE TAX CODE, BUT RESULT IN NET REVENUE INCREASE
- WHAT EXEMPTIONS COULD BE ELIMINATED? SUNSET PROVISION ON ALL EXEMPTIONS?
- MORE DIVERSIFIED TAX PORTFOLIO
- MORE ESQUITABLE

**THEMES**

Vancouver

Vancouver – Group 5

WHAT WORKS	WHAT DOESN'T WORK
APPORTIONMENT	COMPLEXITY
INCOME TAX	
SUMMARY	
<b>SOLUTIONS</b>	
* FAIR - EXEMPTIONS CAUSE COMPLEX + LESS FAIR	
* RECOGNIZE GEOGRAPHICAL DIFF'S AND IMPACTS TO BUSN.	
* LESS COMPLEX	FOCUS ON GROWTH OF SMALL BUSINESS
* INCREASE CAP?	
* RE-TAX KEPT LOCAL	
* FINANCIAL TRANSACTION TAX	

Vancouver

**TAX STRUCTURE WORK GROUP - VANCOUVER - 7/23/18**

### PROBLEMS

- > 1% REVENUE GROWTH <sup>LOW</sup> CAP
- > ADMIN/ENFORCEMENT NOT FAIR/QUALITY
- > SALES TAX EXEMPTION FOR OR
- > SALES TAX ON CONSTRUCTION
- > BTO COMPLEXITY / WINNERS / LOSERS
- > BORDER CITY CHALLENGES
- > TAX STRUCTURE UNFAIR, PARTICULARLY BTO, PROPERTY TAX
- > BTO CHALLENGE FOR SMALL / NEW BIZ
- > OVER RELIANCE ON SALES TAX, VOLATILE, CAN BE REGRESSIVE

---

### WHAT'S WORKING

- > ADEQUATE REVENUE
- > COMPETITIVE ECONOMY
- > BTO EASY TO CALCULATE / HARD TO EVADE / TAILORED TO CERTAIN INDUSTRIES
- > NON RESIDENT SALES / USE TAX EXEMPTION
- > LACK OF INCOME TAX = BIZ FRIENDLY
- > APPORTIONMENT

### SOLUTIONS

- > CAP CHANGE TO INFLATION / GROWTH ECONOMIC MODELING ON REVENUE OPTIONS
- > FLOOR ON EXEMPTION (\$10+ TAX VALUE)
- > BORDER CITY / TAX INCREMENT FINANCING / OTHER OFFSET
- > ~~LOWERING~~ EQUALIZING BTO FOR MANUFACTURERS (LOWERING FOR ALL / ~~ENDING EXEMPTIONS~~)
- > MOVING TO TIERED INCOME TAX
- > SALES TAX EXEMPTION TO SCHOOL CONSTRUCTION
- > SMALL BIZ TAX CREDITS, EXEMPTIONS ON INPUTS (E.G. SALES TAX EXEMPT.)
- > TWEAK, DON'T OVERHAUL TAX STRUCTURE
- > DIVERSIFY TAX PORTFOLIO TO MAKE MORE FAIR (E.G. HEAD TAX, INCOME, CAPITAL GAINS TAX, SIN TAXES)

### NEUTRALITY

- > GENERATES MORE REVENUE LOWER BTO
- > INCREASED ACTIVITY RAISES REVENUE
- > ADJUST RATES (HELP SMALL BIZ)
- > CAPITAL GAINS
- > CONSIDER EQUITY BETWEEN BIZ + INDIVIDUAL TAXPAYERS
- > INTERNET SALES TAX = MORE REV.
- > DIVERSIFY TAX PORTFOLIO

- MARGINS TAX  
 - FINANCIAL TRANSACTION TAX  
 - INCOME TAX

Yakima

Yakima – Group 1

Not working well

- 1) Pyramiding of B+O for business
- 2) Uncertainty  
- tax laws
- 3) Property administration  
Property Tax

Solution

- 1) Margin taxation / MATC
- 2) Not cap gains tax  
Better laws - fairer administration
- 3) Replace 1% rev cap w/ growth of inflation

Neutrality

- 1) Sales tax
- 2) Less state expense
- 3) More revenue

Yakima 1

Mfg-  
B+O burden too high

Timber

- State has plenty of \$ now
- tax on business inputs
- Old tax is a fair tax (1933)  
Δ-winners & losers - Political fight

Spending reform

- tax structure principles =  
strong economy
- new rev sources locked in  
Constitution

Yakima 1

Business  
times good - WA  
bad - OR  
devil in details

WHAT'S WORKING?  
- STABLE  
- "DEVIL WE KNOW"

WHAT'S NOT WORKING?  
- ADMINISTRATION - ESP. DQR  
\* - TAX STRUCTURE CONFUSING  
- B+O BASED ON GROSS RECEIPTS - NOT PROFIT  
- PROPERTY TAX - AS CANDIDATE - 1ST THING PEOPLE ASK ME - "CAN U LOWER MY PROPERTY TAX"?

\* PROPERTY TAX IS ON WEALTH NOT ABILITY TO PAY

\* EXEMPTIONS NOT MEETING ORIGINAL INTENT  
- NOT BASED ON ABILITY TO PAY  
- GAME THE SYSTEM  
- TOO MANY OF THEM

Yakima Group 2

2- SOLUTIONS?  
\* BROAD - BASED TAX STRUCTURE  
\* PROGRESSIVE  
→ REFLECT ABILITY TO PAY

\* REDUCE, SIMPLIFY EXEMPTIONS  
• SB 6114 - <sup>LEG ONLY REVIEWS ONCE / DECADE?</sup> SHIFT BURDEN AWAY FROM LOW-INCOME

• BUDGET-BASED NOT RATE-BASED -  
- RATE-BASED UNSTABLE

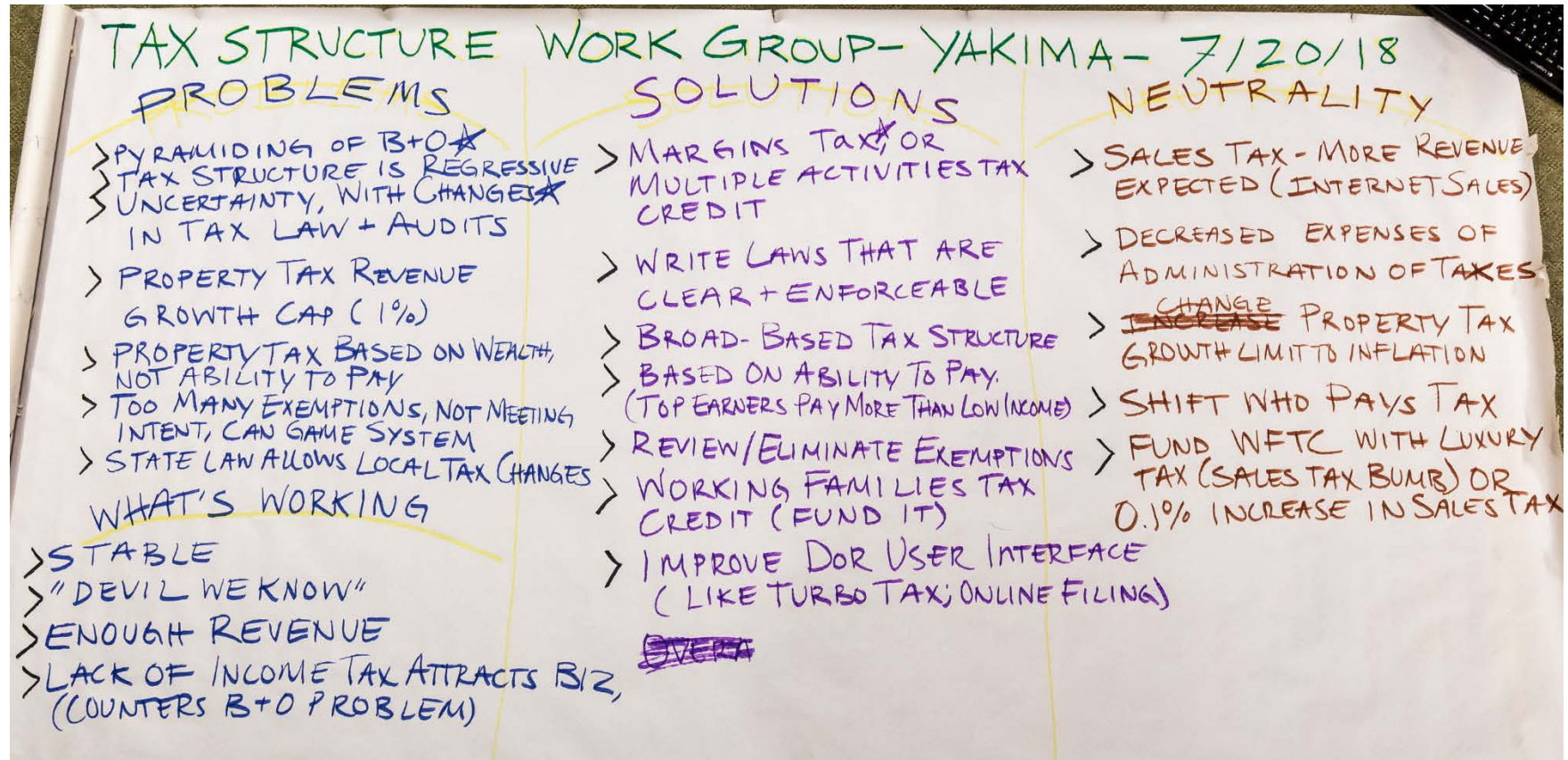
3- LOSS OF REVENUE?  
- NO - ITS A SHIFT / WOULD BE A SHIFT IN WHO PAYS

Yakima Group 2

- Yakima Group 3
1. No state tax filing is great, please keep that
  2. State has plenty of revenue
  3. State income tax (lack of) is a recruiting thing to our state - good press
  4. Employer recruitment
  5. Overall competitiveness 4.4% GDP in Wash state #1  
#1 6% growth in personal income
  6. complexity/unclear areas - where are the lines?
  7. impact on low margin businesses is dangerous ground
  8. Certainty of the existing code
  9. unintended consequences of change
  10. Use tax - exemptions - confusing/gray area
  11. Sales tax regressive/<sup>low</sup> income impact
  12. local tax must be approved by legislature
  13. double payments on B+O based on subcontractors from original contract
  14. Litter tax - to general fund
  15. Personal property / inventory of stuff is a burden  
 ↓  
 inventory of goods for sale vs. equipment/supplies

1. Complexities in the current code are a burden but changes create uncertainty and unintended consequences AND the legislature is raising enough revenue now - lock of income tax attracts people to our state
2. remove double tax collection of B+O on contractors/subcontractors - prove/solutions
3. Revisit "Working Families Tax Rebate" Fund with "luxury tax"
4. Correct the <sup>DOE</sup> site to work like turbo tax and offer help with gray areas like use, deductions
5. ~~the~~ B+O deduction for low-margin businesses or special tax rates for specific industries
6. State legislature should set tax policy & restrict local governments from creating burdensome and confusing ~~taxes~~ taxes

1. Raise sales tax rate and add a rebate (unfunded) "Working Families Tax Rebate" (EITC based)
2. luxury tax
3. Exempt primary contractor from paying B+O when subcontractors will be billed + pay B+O on it also
4. complicated / gray areas need (popup) instructions on the DOE site
5. B+O deduction for goods / labor - high cost or different rate for low margin businesses - create a list of low margin business



## Appendix D: Survey Results

Meeting attendees were sent a link to a follow up survey to provide an additional opportunity to communicate feedback to the House Tax Structure Work Group members. The survey link was mailed to attendants who provided their email addresses on November 8, 2018 and closed on November 23, 2018. Sixty-seven individuals responded to the survey. All responses provided in the "Other" field are provided as entered into the survey, unedited.

1) Please indicate which tax structure work group meeting(s) you attended. Click all that apply.

Answer Choices	Responses	
Spokane (July 19, 2018)	25.37%	17
Yakima (July 20, 2018)	19.40%	13
Vancouver (July 23, 2018)	26.87%	18
Seattle (September 10, 2018)	32.84%	22
	<b>Answered</b>	<b>67</b>
	<b>Skipped</b>	<b>0</b>

2) In what capacity were you primarily attending the tax structure work group meeting(s)?

Answer Choices	Responses	
Lobbyist	8.96%	6
Business owner/manager	13.43%	9
Accountant/tax attorney	8.96%	6
Individual tax payer	22.39%	15
Local government representative	13.43%	9
Industry representative (not lobbyist)	14.93%	10
Tax policy expert/economist	1.49%	1
Other (please specify)	16.42%	11
	<b>Answered</b>	<b>67</b>
	<b>Skipped</b>	<b>0</b>

### Other Responses

- Representing the League of Women Voters
- tax policy group
- Community member
- Faith Action Network
- Non profit organization concerned about fair taxes
- Candidate for a 6th Dist House seat.
- Business Development Non Profit

- Non-profit organization
- Staff
- Representative of the Greater Vancouver Chamber of Commerce
- Advocate

3) What is the most important issue with the Washington state tax code for which the tax structure work group should recommend policy solutions in the future? Please select a maximum of three.

Answer Choices	Responses	
There is no problem with the tax code. It's working. Leave it alone.	6.90%	4
Regressive nature of tax code (lower income people paying a larger share of their income in taxes vs. wealthier individuals paying a smaller share of their income in taxes)	46.55%	27
"Pyramiding" of business & occupation (B&O), particularly on service industry (i.e. B&O tax paid by prime contractors as well as their sub-contractors, etc.)	31.03%	18
Lack of transparency in the tax code (i.e. difficult for individual tax payers to understand their total tax burden)	13.79%	8
Negative impact of business & occupation (B&O) tax on small, low-margin and/or start-up businesses (due to taxing on gross revenue rather than profit or margins)	43.10%	25
Excessive tax preferences and exemptions (loss of revenue, complexity of tax administration, lack of fairness)	29.31%	17
Insufficient tax preferences and exemptions (more needed to provide additional relief to industry)	3.45%	2
Administration and enforcement of tax collection by Department of Revenue	13.79%	8
Filing threshold for business & occupation tax	6.90%	4
Impact on local governments of changes to tax policy made at the state-level	6.90%	4
Over-reliance on local taxing jurisdictions (rather than state general fund) to meet community needs	12.07%	7
Changing economy and the need to modernize the tax code to keep up (i.e. economy moving from a manufacturing/retailing based-economy to service-based economy; increasing automation and the impact on the workforce and state revenues, etc.)	29.31%	17
State tax structure is collecting sufficient/excessive revenue to meet community needs	5.17%	3



State tax structure is collecting too little revenue to meet community needs	10.34%	6
Other (please specify)	10.34%	6
	<b>Answered</b>	<b>58</b>
	<b>Skipped</b>	<b>9</b>

Other Responses

- Need manufacturing and R&D tax credits
- Need to look at the whole of taxes from federal to state on assessing the fairness and appropriateness of overall taxation.
- End out of state tax exemption for goods purchased in WA and not delivered or registered for use in another state.
- Change brings unintended consequences so any policy changes need to be done carefully
- There should be more effort to cut the size and cost of government.
- Over reliance on the business community to pay for the homeless issues in King County. Especially when money continues to flow to this issue and we do not see significant change.

4) What types of economic modeling should be conducted to inform recommendations of the tax structure work group for policy changes in the future? Please select a maximum of three.

Answer Choices	Responses	
Replacing the business & occupation (B&O) tax with a corporate income tax (where businesses are allowed to deduct all expenses before paying tax)	41.38%	24
Replacing the business & occupation (B&O) tax with a margins tax (where businesses claim the most beneficial deduction of either cost of goods sold, compensation or set amount based on flat fee or share of revenue, before paying tax)	36.21%	21
Replacing a portion of the sales tax with a personal income tax	24.14%	14
Targeted reduction of the sales tax through use of the Working Families Tax Credit	20.69%	12
Targeted reduction of the property tax through expansion of the low-income senior citizen, disabled persons and qualifying veterans property tax exemption	20.69%	12
Replacing the 1% revenue growth limit with a limit based on population growth & inflation	27.59%	16
Expanding retail sales tax to more service-based businesses	6.90%	4
Impact on state revenue collection with the use or expansion of tax preferences and exemptions	17.24%	10
No modeling necessary due to urgency (changes to tax policy needed immediately)	3.45%	2

No modeling necessary due to the tax code working (no changes to tax policy needed)	6.90%	4
Replacing a portion of the property tax with a capital gains tax.	27.59%	16
Shifting a greater portion of overall tax liability from business to individuals (current split is 47% individuals, 49% business and 4% governments).	6.90%	4
Other (please specify)	13.79%	8
	<b>Answered</b>	<b>58</b>
	<b>Skipped</b>	<b>9</b>

### Other Responses

- Get rid of ALL the exemptions from B&O and Sales tax. The system would work better without the legislature gifting their pets through the tax code.
- I think a complete overhaul is needed to simplify taxation. I feel 'nickle and dimed' at an individual level. Layers on layers of small taxes (for example duplicative taxes at the local, county and state level for cell service) and assessments are frustrating. If you eliminated all that (including sales taxes) and did a small income tax on ALL income (with no deductions for individuals or businesses) with the tax kicking in at a progressive taxation level (i.e. no tax for an individual or proprietor below a certain income level), what % would be needed to fund government services? I believe if it is low enough, broad enough and easy to understand, you would get buy in for a state income tax.
- Any such economic model should consider cutting the size and cost of government.
- Replacing traditional property tax with Land Value Tax
- "Reduction of regressive taxes for progressive taxes.
- Reducing reliance on regressive taxes such gas taxes, tolls, entrance fees to public spaces. Replacing these with progressive taxes such as capital gains and sales taxes on high end items such as legal services, financial services."
- Unsure
- I don't like any of these options.
- Capital gains tax, don't replace property tax

5) If the tax structure work group were to be expanded to include stakeholders (in addition to legislators), please tell us how valuable it would be to include each of the stakeholder groups listed below.

	Extremely valuable		Very valuable		Somewhat valuable		Not so valuable		Not at all valuable		Total
Certified Public Accountants and/or tax attorneys	33.93%	19	28.57%	16	28.57%	16	7.14%	4	1.79%	1	56

Non-profit organizations conducting tax policy analysis	28.30 %	15	30.19 %	16	32.08 %	17	3.77%	2	5.66 %	3	53
Representatives of local governments, particularly assessors and treasurers	25.45 %	14	40.00 %	22	29.09 %	16	1.82%	1	3.64 %	2	55
Representatives of large Washington state industries (high-tech, aerospace, etc.)	20.00 %	11	34.55 %	19	30.91 %	17	12.73 %	7	1.82 %	1	55
Representatives of traditionally low-margin businesses (grocers, car dealers, hospitality, etc.)	48.15 %	26	37.04 %	20	12.96 %	7	1.85%	1	0.00 %	0	54
Representatives of businesses paying standard B&O service rate	41.07 %	23	33.93 %	19	23.21 %	13	1.79%	1	0.00 %	0	56
Representatives of businesses collecting & remitting sales tax	27.27 %	15	29.09 %	16	32.73 %	18	10.91 %	6	0.00 %	0	55
Individual tax payers with demonstrated knowledge of state tax code	32.14 %	18	23.21 %	13	30.36 %	17	12.50 %	7	1.79 %	1	56
Economists or professors from Washington Universities	24.53 %	13	28.30 %	15	32.08 %	17	13.21 %	7	1.89 %	1	53
Non-profit organizations representing businesses that operate in multiple states.	14.81 %	8	20.37 %	11	48.15 %	26	11.11 %	6	5.56 %	3	54

Other (please specify)											7
										Answered	57
										Skipped	10

### Other Responses

- I felt the group I attended was most interested in protecting their interests (local govt officials) rather than looking at the big picture. Everyone should pay a fair amount of tax and each of the groups listed above will want to protect themselves.
- Individual tax payers without a narrow agenda.
- Representatives of economic development profession, ports etc. who are working to recruit employers to Washington
- Tax preparers that are non-CPAs.
- A wide variety of opinions are needed to fully understand the impact on different groups.
- Representatives from low, middle, high middle tax payers
- low-income communities of color who bear the brunt of the current tax code

6) Please provide feedback on the following aspects of the tax structure work group meetings.

	Strongly agree		Agree		Neither agree nor disagree		Disagree		Strongly disagree		Total
Sufficient information about the state’s tax code was provided in the staff presentation	0.00%	0	64.91%	37	19.30%	11	14.04%	8	1.75%	1	57
Sufficient time was provided for public input (including small groups and testimony)	7.02%	4	63.16%	36	24.56%	14	5.26%	3	0.00%	0	57
Holding meetings across the state (not just in Olympia) was meaningful to me.	68.42%	39	26.32%	15	5.26%	3	0.00%	0	0.00%	0	57
Four meetings to receive input from the public was a sufficient number of meetings	1.75%	1	42.11%	24	36.84%	21	17.54%	10	1.75%	1	57
Small group conversations were a substantive way for the public to provide input to legislators	17.54%	10	49.12%	28	15.79%	9	8.77%	5	8.77%	5	57

Holding the meeting during regular business hours was appropriate	19.30%	11	35.09 %	20	28.07 %	16	12.28 %	7	5.26 %	3	57
Other (please specify)											12
										Answered	57
										Skipped	10

Other Responses

- More information should have been disseminated in advance. Furthermore, the group meetings tended to be heavily favored toward government representation compared to private industry representation.
- The meeting overall was "in a hurry to finish up". Not enough time to do it. We could have spent 6 or 7 hours and gotten more accomplished.
- People who admitted knowing nothing about Washington's taxes were very vocal in their opinions of what is needed. These comments should not be given as much weight as those who thoroughly understand the tax structure and work with it daily.
- Insufficient notice was provided to various industry groups.
- Small group conversations were a waste of time...there were too many people there primarily interested in hearing themselves talk rather than addressing the questions asked. Get 'think tank' individuals to come up with something, not politicians.
- Having trained facilitators in each of the small groups would have been helpful
- The round table discussions were interesting but with such varied groups in the discussion, we did not have much in common to find common understanding. It would be more helpful to have a group of all business people, with an accountant, together. Government/assessors etc should be together. Non profits together. Etc
- The staff presentations provided good information but were a little stale and wonky. I would try to simplify the content or reduce the amount of language on each slide and not read through all the copy on each slide.
- It was unclear if the meetings were designed to collect input just from businesses or if the general public was also part of the planned target audience
- It would seem a follow up meeting would be helpful taking some of the best ideas & further refining them. In my group we had some blowhards who wouldn't let others speak much, but some other groups had some great ideas that I would love to help formulate into something that could be used.
- Provide a mix of meetings: during business hours and on evenings/weekends
- For those unable to attend due to business hours... Please provide a recap analysis and a way for the community to provide additional input. Accessibility is important.

7) What would strengthen public meetings of the tax structure work group moving forward?  
Check all that apply.

Answer Choices	Responses	
Offering meetings times in the evening.	54.55%	30
Providing food at the meetings.	14.55%	8
Additional outreach to invite a broader set of taxpayers.	65.45%	36
Increased number of meetings for public to provide input (four meetings held in 2018 prior to report recommendations being adopted).	47.27%	26
No changes necessary	7.27%	4
Other (please specify)	16.36%	9
	<b>Answered</b>	<b>55</b>
	<b>Skipped</b>	<b>12</b>

#### Other Responses

- Encourage more private industry participation vs public participation.
- The method used to provide comments from a table did not work very well since there were people with very different opinions at the same table. Only the loudest voice got heard by the legislators.
- Child care and maybe even stipend for low income participants.
- I think the idea is good but I'm not sure the mix of people that come to these meetings is conducive to formulating a better tax structure.
- This should be experts. Sufficient input from general public has been received, absent further developed proposals to respond to.
- The round table discussions were too short and we needed more common ground for the discussion. I had to present ideas that I did not agree with, and most of the people did not understand business issues because our group was too diverse with taxpayers, lobbyists, lawmakers etc.
- I know the Seattle meeting was added to the calendar later than the other three meetings. There should always be a Seattle meeting given that it's the largest city in the state and so much economic activity happens here.
- Please assess outreach to targeted demographics that are usually not in attendance. Equity is vital.
- It wasn't clear to me what types of outcomes were being targeted/anticipated. Because the goal wasn't clear, it was difficult to provide specific input, other than just to complain about the current tax system.

8) Do you believe the Tax Structure Work Group should continue, and include stakeholders in addition to members of the State House and Senate?

<b>Answer Choices</b>	<b>Responses</b>	
Yes	94.83%	55
No	5.17%	3
	<b>Answered</b>	<b>58</b>
	<b>Skipped</b>	<b>9</b>

## Appendix E: Sample Agenda - House Tax Structure Work Group Meeting

*The following agenda was used at all four House Tax Structure Work Group meetings.*

1. Welcome and Introductions.  
*Representative Frame and Representative Nealey*
2. Staff briefing on Washington's current tax structure.  
*Finance Committee Staff*
3. Small Group Discussion.
4. Small Group Report Out.
5. Public Testimony.
6. Wrap Up/Next Steps.



Appendix F: Budget Proviso - 2017-19 Operating Budget  
Substitute Senate Bill 5883 (2017) Section 101

PART I

GENERAL GOVERNMENT

NEW SECTION. Sec. 101. FOR THE HOUSE OF REPRESENTATIVES

General Fund–State Appropriation (FY 2018). . . . .	\$37,642,000
General Fund–State Appropriation (FY 2019). . . . .	\$39,205,000
Motor Vehicle Account–State Appropriation. . . . .	\$2,011,000
TOTAL APPROPRIATION. . . . .	\$78,858,000

The appropriations in this section are subject to the following conditions and limitations: The speaker shall designate one member from each of the major caucuses in the house of representatives as a work group to facilitate public discussions throughout the state regarding Washington's tax structure. As part of this effort, the work group may hold up to seven public meetings in geographically dispersed areas of the state throughout the 2017-2019 fiscal biennium. These discussions may include but are not limited to the advantages and disadvantages of the state's current tax structure and potential options to improve the current structure for the benefit of individuals, families, and businesses in Washington state. The work group is staffed by the office of program research. The work group may report to the house of representatives finance committee and other house of representatives committees upon request of the committee chair.