RESULTS OF COMMITTEE QUESTIONNAIRE

Package 1: Subtraction Method VAT replaces B&O

Purpose: Eliminates pyramidining that exists in the B&O Tax.

Tax incidence: All businesses operating in Washington State

Rate: 2.15%

Yield: $2,302.3 million in CY 05 would replace $2,304.3 million lost by eliminating the B&O

Details: This is an origin-based tax. Imports are exempt from the tax. Exports are taxed.

Vote on Package 1

__2__ No, I do not support this package
__5__ Yes, with no changes
__4__ Yes with changes (indicate changes below)

Changes:

____1____Do not exempt imports

_____Exempt exports

____3___Other change_ Apportionment for exporters to maintain competitiveness. Lower export rate and raise overall rate to balance

Comments: I support this package if there are no other changes to the tax system.
Package 2: GST replaces B&O and Retail Sales Tax


Tax incidence: All businesses operating in the state of Washington

Rate: 9%

Yield: $9,093.8 million to replace $6,693.8 million in Retail Sales Tax and $2,304.3 million in B&O Tax

Details: Food, medical services, and prescription drugs are exempted to ameliorate regressivity.

Vote on Package 2

__8__ No, I do not support this package
__3__ Yes, with no changes
_____ Yes with changes (indicate changes below)

Changes:

_____ Do not exempt food

_____ Do not exempt medical services

_____ Do not exempt prescription drugs

_____ Replace only Retail Sales Tax, not B&O

Comments: Rate is too high
Package 3: Progressive VAT replaces B&O and includes a tax on wages as a mechanism for giving low-income relief

Purpose: Eliminates pyramiding that exists in the B&O Tax. Provides low income relief

Tax incidence: All businesses operating in Washington State, all wage earners

Rate: To be determined

Yield: To be determined

Details: To be determined

Vote on Package 3

Please vote on whether the Committee should continue to explore this option.

_3_ Yes  _8_ No
Package 4: Flat Personal Income Tax buys down Retail Sales Tax and eliminates state Property Tax

Purpose: Flat Personal Income Tax is a proportional tax, which would buy down a regressive tax. Less reliance on the RST ameliorates the tax base erosion problem. Individuals can export a portion of income tax to the federal government. $20,000 deduction provides relief for low-income households.

Tax incidence: Resident households in Washington State, and individuals earning income in Washington State

Rate: Personal Income Tax--3.0%
      Retail Sales tax--4.5%

Yield: $3,530 million to replace $1,957.8 million in Retail Sales Tax and $1,573.1 million in Property Tax

Details: $20,000 deduction per return

Vote on Package 4

_1___No, I do not support this package
_3___Yes, with no changes
_7___Yes with changes (indicate changes below)

Changes:

_____Change deduction to $0
_1___Change deduction to $50,000
_____Change deduction to $75,000
_4___Have a deduction based on family size
_1___Include an earned income tax credit (EITC)
_____Do not buy down RST, eliminate state Property Tax only.
_3___Do not eliminate state property Tax, buy down RST only.
_3___Buy down RST to another rate (specify rate)___3.5% (2), 1%_____
_3___Eliminate RST
_____Other change
Corporate income tax creditable against B&O

Deduction based on family size should have joint/single

Have both family size and EITC with lower deduction

Allow married to file separately or increase the exemption for married. With only one exemption amount of $20,000 there is a marriage penalty ($20,000 for two people vs. $20,000 for single) unless married may file separately. Filing separately can create a marriage bonus. Therefore, married could have a higher exemption or some other method of reducing the marriage penalty and not increasing the marriage bonus.

Adopt flat tax proposals that Debbe and Lily will present tomorrow
Present both buy-down and elimination of RST as two separate options

Comments:
This package is not revenue neutral and needs a higher rate.
If the deduction is $50,000 that should take care of the low income/family size concern.
Package 5: Graduated Personal Income Tax buys down RST and eliminates state Property Tax levy

Purpose: Graduated personal income tax is a progressive tax, which would buy down a regressive tax. Less reliance on the RST ameliorates the tax base erosion problem. Individuals can export a portion of income tax to the federal government.

Tax incidence: All resident households in Washington and individuals who earn income in Washington State.

Rate: Graduated personal income tax:

<table>
<thead>
<tr>
<th>Single/Married Filing</th>
<th>$0 - $24,950</th>
<th>1.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $24,950 - $60,325</td>
<td>2.5%</td>
<td></td>
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<tr>
<td>Over $60,325</td>
<td>4.5%</td>
<td></td>
</tr>
<tr>
<td>Joint/Head of Household</td>
<td>$0 - $49,900</td>
<td>1.5%</td>
</tr>
<tr>
<td>Over $49,900 - $120,650</td>
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<td></td>
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<tr>
<td>Over $120,650</td>
<td>4.5%</td>
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</tr>
</tbody>
</table>

Retail Sales Tax: 4.5%

Yield: $3,530 million to replace $1,957.8 million in Retail Sales Tax and $1,573.1 million in Property Tax

Details: Includes an earned income tax credit equal to 5% of federal EITC

Vote on Package 5

2__ No, I do not support this package
2__ Yes, with no changes
7__ Yes with changes (indicate changes below)

Changes:

1__ Do not have an EITC credit

3__ Have a deduction based on family size

1__ Eliminate the marriage penalty

_____ Do not buy down RST, eliminate state Property tax only.

4__ Do not eliminate state property tax, buy down RST only.

2__ Buy down RST to another rate (specify rate) 3.5%
____2____Eliminate RST

_____Other change:

Corporate income tax creditable against B&O

Index bracket thresholds for inflation.

Take into consideration the marriage penalty or marriage bonus.

Adopt flat tax proposals that Debbe and Lily will present tomorrow

Present both buy-down and elimination of RST as two separate options

Comments: There is no marriage penalty; only a “single penalty” and there’s no way to have marriage neutrality with a graduated rate structure under community property.
Package 6: Flat Personal Income Tax buys down RST and eliminates state Property Tax levy. Corporate Income Tax replaces B&O

Purpose: Graduated personal income tax is a progressive tax, which would buy down a regressive tax. Less reliance on the RST ameliorates the tax base erosion problem. Individuals can export a portion of income tax to the federal government. Corporate income tax would eliminate pyramiding.

Tax incidence: All resident households in Washington and individuals who earn income in Washington State

Rate:
- Flat Personal Income Tax: 4.53%
- Corporate Income Tax: 4.53%
- Retail Sales Tax: 4.5%

Yield: $5,835 million to replace $1,957.8 million in Retail Sales Tax, $1,573.1 million in Property Tax and $2,304.3 million in B&O tax.

Details: $20,000 deduction per return
Vote on Package 6

5 ___ No, I do not support this package
3 ___ Yes, with no changes
3 ___ Yes with changes (indicate changes below)

Changes:

_____ Change deduction to $0

1 ___ Change deduction to $50,000

_____ Change deduction to $75,000

1 ___ Have a deduction based on family size

1 ___ Include an EITC credit

1 ___ Do not buy down RST, eliminate state Property Tax only

1 ___ Do not eliminate state Property Tax, buy down RST only

1 ___ Buy down RST to another rate (specify rate) __ 3.5%__

1 ___ Eliminate RST

1 ___ Do not eliminate B&O, have a combination B&O, Corp. income tax

_____ Other change

I would explore not buying down the property tax and increasing the deduction.

Have deduction based on family size (joint/ single)

Replace B&O with business VAT

2.3% flat tax to replace property tax.

Flat deduction problem discussed before.

Reduce income tax rates to 4%.

It doesn’t matter if it is a flat tax or graduated tax as long as the yield is the same.
Washington Tax Structure Study
Sample Packages

Package 7: Adjustments

Purpose:
- Homestead exemption and/or extending senior exemption to other low-income households addresses regressivity
- Sales tax on consumer services and streamlined sales tax address erosion of the tax base
- B&O apportionment addresses neutrality
- Rainy day fund addresses adequacy/volatility
- Sending a resolution to Congress regarding deductibility of Sales Tax addresses exportability of the Sales Tax.

Yield:
- Homestead exemption $0 (shift to other taxpayers)
- Extending senior exemption $0 (shift to other taxpayers)
- Extend Sales Tax to consumer services $229.6 million
- Streamlined sales tax N/A
- B&O apportionment impact yet to be determined
- Rainy day fund N/A
- Sending a resolution to Congress N/A

Vote on which elements of Package 7 to include:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
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<tbody>
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<td>Homestead exemption</td>
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<td>Extending senior exemption</td>
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<td>Extend Sales Tax to consumer services</td>
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<td>1</td>
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<tr>
<td>Streamlined sales tax</td>
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<tr>
<td>B&amp;O apportionment</td>
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<td>Rainy day fund</td>
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<tr>
<td>Sending a resolution to Congress</td>
<td>7</td>
<td>3</td>
</tr>
</tbody>
</table>

Other adjustments (specify: Extend property tax to automobiles. Increase reliance on user fees including pollution fees.

Comment: I don’t know what the “resolution to Congress” means.
### Washington Tax Structure Study
**Sample Packages**

#### Package 8: Sustainability of the Current Tax System
(Note: this is the package Russ Brubaker presented at the meeting on Friday, Sept. 6th.)

**Purpose:**
- Remove Sales Tax from construction services
- Reform state B&O apportionment methods
- Reduce number of B&O rates and classifications
- Eliminate the Public Utility Tax
- Extend Sales Tax to personal services
- Streamline sales tax, enact uniform legislation
- Rainy day fund

**Tax incidence:** All businesses operating in Washington State.

**Rate:**
- B&O rates (for the reducing rates and classifications proposal)
  - 0.484% selling, manufacturing, and some services
  - 1.5% other services
  - 3.8% utilities

**Yield:** $194 million net gain for the entire package.

**Details:** See Tax Adjustment package presented 9/6/02. Additional details regarding apportionment and other questions posed on 9/6/02 will follow in a subsequent email.

<table>
<thead>
<tr>
<th>Vote on which elements of Package 8 to include:</th>
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<td>B&amp;O consolidation</td>
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<tr>
<td>Eliminate Public Utility Tax</td>
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<tr>
<td>Sales Tax on personal services</td>
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<tr>
<td>Streamline sales tax</td>
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<tr>
<td>Rainy day fund</td>
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