TAX ADJUSTMENT ALTERNATIVES
Administrative and Policy Adjustments

These alternatives were developed by the Department of Revenue at the request of the Tax Structure Study.
These alternatives describe adjustments to the existing tax system to align the tax system with administrative and policy simplification goals

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<td><strong>1 Eliminate dedicated product-based taxes</strong></td>
<td>Remove certain taxes based on products (HST, Oil Spill, litter) except &quot;sin taxes,&quot; replace with mainstream surtax</td>
<td>• Improved compliance • Fewer legal challenges • Less complex, reduces administrative burden on taxpayers and DOR • Broad-based tax</td>
<td>• Taxes would no longer adhere to &quot;polluter pays&quot; principle.</td>
<td>• Stability • L-T Adequacy • Simplicity</td>
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<td><strong>2 Reduce number of B&amp;O rates and classifications</strong></td>
<td>Create one selling class and rate, one manufacturing rate, and one service rate</td>
<td>• Fewer disagreements about classifications • More flexible, keeps pace with new technology</td>
<td>• There may be competitive reasons for lower tax rates, different classes.</td>
<td>• Simplicity</td>
<td>• Competitiveness • Start-up education of newly reclassified taxpayers</td>
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<td><strong>3 Reform B&amp;O apportionment</strong></td>
<td>Develop formulary apportionment for all B&amp;O categories</td>
<td>• Fair to all businesses with activity in WA • Less litigation re: apportionment • Most other states apportion business taxes</td>
<td>• May be a fiscal loss</td>
<td>• Competitiveness • Harmony with other states • Neutrality</td>
<td>• L-T Adequacy • Start-up education of new apportionment method</td>
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### Business Taxes and Incentives (continued)

|-------------------------------|-------------------------|------------|---------------|-------------------------------------|----------------------------------|-----------------------|
| 4 Eliminate the PUT Shift all PUT taxpayers into appropriate B&O classifications | • Removes 2 different privilege systems of taxation  
• The reason for the PUT is no longer viable - most utilities are no longer regulated | • May be complex to assign B&O classifications  
• Initially complex for taxpayers to comply  
• May result in fiscal loss. | • Long-run simplicity of administration | | • Start-up education of newly reclassified taxpayers |

### Sales/Use Tax

| 5 Remove sales tax from construction contracts Contractors pay sales tax on materials purchased. Sales tax is not paid on construction labor. | • $400 million loss | • Encourages business investment  
• Encourages homeownership (lower home costs)  
• Most states do not tax construction labor  
• Increased compliance with RST | • Increases up-front costs for contractors  
• May risk federal contracting revenue | • Competitiveness  
• Harmony with other states  
• Simplicity | • L-T Adequacy | • Requires choice of B&O classification for contractors  
• Substantial taxpayer education necessary |

| 6 Simplify exemptions and credits Qualifying requirements for both RST and B&O credits would be simplified. Switch to exemptions and deductions where possible. | • Reduce confusion for taxpayers  
• Simpler to administer for both DOR and taxpayers  
• Retains incentives and business competitiveness  
• Could be revenue neutral | • Harder to target a particular business activity | • Competitiveness  
• Simplicity | | | • Taxpayer education necessary |

*Tax alternatives are evaluated on the basis of the following principles: Simplicity, Economic Neutrality, Equity/Fairness, Stability, Transparency, Interstate Competitiveness, Long-Term Adequacy*