



# Washington State Tax Structure Work Group

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## Listening Sessions

Fall 2020



**ECO**  
**NW**

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## Executive Summary

### Background

A proviso in the Washington State Legislature's 2017-19 Operating Budget reauthorized the Tax Structure Work Group (TSWG or Work Group) to facilitate statewide public discussion about Washington State's tax structure and produce recommendations for the legislature to consider. The Work Group Co-Chairs are Senator Keith Wagoner (R-39, Sedro-Woolley) and Representative Noel Frame (D-36, Seattle). The Work Group, then House only and co-chaired by Representative Frame and now retired Representative Terry Nealey (R-16, Dayton) held four public meetings in 2018 to gather feedback on the state's tax structure.

In 2020, the Work Group Co-Chairs recommended holding a series of listening sessions with targeted stakeholders to gather content to inform the development of alternative tax structure scenarios, planned to be presented to the public for feedback following the 2021 legislative session. Targeted stakeholders included individuals and organizations that had previously testified on related areas of tax policy, advocacy organizations, lobbyists, and individuals who are part of the Tax Structure Work Group's list-serv. For these sessions, members of the TSWG, as well as other state legislators who are not members of the work group, participated in a listening capacity as targeted stakeholders shared their perspectives on various existing tax policies.

### Policy Focus Areas

In 2020, five listening sessions were held to engage targeted stakeholders. The listening sessions focused on the following areas of tax policy:

- 1. Retail Sales & Use Taxes:** The sales tax is paid on each retail sale of most articles of tangible personal property and certain services, whereas the use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax.
- 2. Real Property and Personal Property Taxes:** This policy area covers real property tax on land and buildings, structures, or improvements that are affixed to the land, as well as personal property taxes on other items used in business.
- 3. Selective Sales Taxes:** This policy area includes targeted sales taxes on certain products. This listening session covered taxes on cigarettes, tobacco, syrup, alcoholic beverages (including spirits), motor fuels, cannabis real estate transactions, insurance premiums, car rentals, and aircraft.
- 4. Business & Occupation (B&O) Tax and Public Utility Tax:** The B&O tax is levied on the gross receipts of all business activities conducted within the state, with the exception of public utilities, which are subject to a public utility tax.
- 5. Estate Taxes:** The estate tax applies to transfers of property located in Washington upon the death of the owner.

### Format

Due to the public health risks of COVID-19, the stakeholder listening sessions were conducted virtually. Each of the listening sessions included a similar approach:

- Short presentations from ECONorthwest (contractors) to provide background information and basic details regarding the area of tax policy and recent legislation associated with the tax policy.
- Short presentations from Triangle Associates (contractors) to describe the approach to the session including the “Principles for a Well-Designed Tax System” (see below) that the Co-Chairs requested as a reference.
- Facilitated dialogues in small virtual breakout groups regarding the area of tax policy. The dialogues centered on the following questions:
  - What changes to the [area of tax policy] would you suggest the TSWG consider?
    - What would be the pros/cons of those changes?
  - What elements of the current [area of tax policy] should be kept as is?
    - What would be the pros/cons of the status quo?
- Report-outs from each breakout group to the full virtual session.

### Tax System Principles

To encourage a nuanced conversation, the TSWG co-chairs encouraged participants to reflect upon the “Principles for a Well-Designed Tax System” that were described in the 2002 Tax Structure Study Report (sometimes referred to as the “Gates Report”) and asked them, when possible, to contextualize any feedback with these principles in mind.

- **Economic Vitality:** The state tax system should support a stable economic infrastructure conducive to a vital and growing economy. The state tax system should not unduly burden enterprises located or considering locating within the state of Washington relative to the business tax systems of other states.
- **Transparency and Administrative Simplicity:** Taxpayers should know when they pay taxes and how much they pay. The rules, record-keeping, and computation requirements should be simple enough that the tax system can be administered at a low cost by the tax collection agency without imposing an undue compliance burden on the taxpayer.
- **Vertical Equity:** The amount of tax paid by taxpayers with different income levels should reflect their respective abilities to pay the tax.
- **Horizontal Equity:** Taxpayers with similar abilities to pay a tax should pay comparable amounts of the tax. The government should not levy taxes that have arbitrary and peculiar distributions of tax burdens across taxpayers (including businesses).
- **Adequacy, Stability, and Elasticity:** A good tax system is expected to generate sufficient revenue to pay for established public services without the need for continuous or drastic changes in tax rates or the tax base. Adequacy is the ability of the tax system to provide for growth in revenue adequate to fund normal growth in public services as the state’s population and economy expand (measured in “long-run elasticity”). Stability is the ability of the tax system to provide the revenue necessary to maintain public services

notwithstanding fluctuations in economic activity over the business cycle (measured in “short-run elasticity”).

### Guide to this Summary Report

This report provides a summary and compiles the feedback participants shared during the five listening sessions. The feedback is arranged in order by each tax listening session and then sub-organized by theme. This summary is intended to capture the range of ideas, opinions, and comments shared at each listening session by participants. Since this summary captures opinions, it is *not* intended to be an impartial white paper on the various tax policies. These comments were provided to support the TSWG in developing alternative scenarios to share with the broader community in subsequent years.

### Retail Sales and Use Tax

*November 9, 2020 | Total number of participants: 80*

### Retail Sales and Use Tax Overview

The retail sales tax is applied to the selling price of tangible personal property and certain services that consumers purchase at retail. For example, the retail sales tax applies to goods, construction (including labor services), repair of tangible personal property, lodging for less than 30 days, certain recreational activities, and some professional services.

The use tax is applied to items that are used in the state, for which retail sales tax has not already been collected. Use tax also applies to tangible and digital property where retail sales tax was not charged at the time of purchase. For example, the use tax applies to purchases by private individuals from out-of-state sellers or other sellers not required to collect Washington sales tax, manufacturers who use the products they produce, and gifts and prizes won.

Below is a summary of the feedback received from 80 participants in the 11/9/2020 listening session focused on the retail sales and use tax. See Attachment B for the notes taken during the session.

### Strengths of the Retail Sales and Use Tax

#### *Adequacy and Stability*

- The retail sales tax is a major source of revenue for the state and local governments.

#### *Vertical Equity*

- Retail sales taxes do not apply to groceries and medicines, which is important for reducing the cost of essential goods for low-income people – including Supplemental Nutrition Assistance Program (SNAP) and Women, Infants, and Children (WIC) recipients.
- The state should continue evaluating and updating sales and use tax exemptions regularly.

### *Transparency and Simplicity*

- The public typically understands the retail sales tax since it is applied at the point of sale and appears on receipts.
- The retail sales tax is easy to collect.

### *Economic Vitality*

- There are important business tax exemptions such as the manufacturing and reseller permit that prevents double taxation and maintains competitiveness.
- The use of tax exemption on machinery used in manufacturing helps businesses be competitive.
- There is a benefit to not taxing professional services such as legal services, medical services, etc.
- Remove sales tax on border communities due to impacts on Washington state businesses.

## **Weaknesses of the Retail Sales and Use Tax**

### *Vertical Equity*

- The sales tax is regressive since lower-income people pay a higher percentage of their income on sales tax than upper-income people.

### Suggestions:

- Apply a higher retail sales tax to luxury goods (e.g. boats, new cars) and lower the sales tax on common and/or essential goods.
- Consider a tiered sales tax system that is tied to income.
- Consider a personal income tax as an alternative to the sales tax.
- Consider a use or sales tax on stock and bond sales.
- Create a capital gains tax as an alternative to the sales tax.
- Implement a year's end tax credit for people with disabilities and other low-income people to offset the cost of paying sales tax throughout the year.
- Tax services including digital services.
- The use of tax should be applied differently to businesses with low-profit margins.
- Sales and use taxes associated with the cost of constructing affordable developments, transit, and other public goods should be exempted.

### *Stability/Adequacy*

- Many "dedicated" public services rely on the retail sales tax as their only source of funding (like transit, certain types of public safety, human services, etc.). As such, areas that generate more retail sales taxes can have better-funded public services than areas without a strong retail sales tax base.
- Retroactively claiming tax exemptions can lead to instability of transportation funding.
- There needs to be better public education and outreach about how sales tax revenue is used.

### *Administrative Simplicity*

- Local jurisdictions can owe back-taxes to the Washington State Department of Revenue, which is administratively challenging to manage.
- It is difficult for businesses to comply with sales tax on certain forms of labor that is performed across state borders.

### *Revenue Neutrality*

- If new taxes are introduced (e.g. a margins tax, a personal income tax), then the retail sales tax should be reduced.

### *Exemptions*

- Exemptions and their local administration can have unintended consequences. In particular, the timing of tax collections and exemption status for the biofuels exemption and data center exemptions can lead to small local jurisdictions having to credit back sales tax revenues that they have already received.

### *Other*

- Retailers act as unpaid tax collectors by being required to levy sales taxes.
- It is very difficult to consider changes to the sales tax without recognizing how inter-related our tax system is.

### Real and Personal Property Tax

October 29, 2020 | Total number of participants: 114

#### Real Property and Personal Property Tax Overview

The Real Property Tax is based on the assessed value of all real property located in Washington, including land, buildings, improvements, and structures. There are exemptions including those based on the current use of the land, as well as for senior citizens, individuals with disabilities, and veterans.

The Personal Property Tax is based on the assessed value of all personal property located in Washington, including machinery, equipment, supplies of businesses, business furniture and fixtures, state-assessed commercial vessels, and other movable items.

Below is a summary of the feedback received from 114 participants in the 10/29/2020 listening session focused on real property and personal property taxes. See Appendix B for the notes taken during the session.

#### Strengths of the Real Property and Personal Property Tax

##### *Adequacy and Stability*

- The real property tax is a highly stable revenue source. This helps local jurisdictions plan their budgets.

##### *Vertical Equity*

- There are a few important exemptions that should be maintained, including the multi-family tax exemption program, exemptions for nonprofit organizations, and exemption for senior citizens and people with disabilities.

##### *Horizontal Equity*

- Maintain the “Uniformity Clause,” meaning that taxes must be the same on real property of the same market value.

##### *Other*

- It is beneficial that new construction is incorporated into the property tax base.
- To some, the budget-based system of property taxation is a strength.

#### Weaknesses of the Real Property and Personal Property Tax

##### *Adequacy and Stability*

- Consider moving some types of levies outside the 1% cap (e.g. Veterans, Seniors & Human Services Levy). The 1% cap on real property taxes may not keep up with growth and inflation. Therefore, the real property tax may not always be an adequate source of revenue.



This might encourage jurisdictions to tax other sources, which may not be desirable. However, overturning the 1% cap is challenging due to the need for voter approval.

- Counties can be overly reliant on property taxes for their revenue. It would be good if there were more revenue options for counties so that counties could have more diversified revenue streams.
- RCW 84.55.050 speaks to property tax multi-year levy lid lifts, allowing for taxing districts to put to voters a levy increase beyond the 101% cap. Currently, this is applied only in King County and limits King County government's ability to respond flexibly to structural revenue gaps. Revising the existing law to remove the supplantation restriction would allow voters to approve dedicated funding for existing services.

### *Transparency and Simplicity*

- The personal property tax is difficult for governments to assess, difficult for businesses to report, and could have disparate effects due to differing levels of sophistication with regards to small or large businesses.
- Eliminate or replace the personal property tax with something simpler, revenue-neutral, perhaps not even on personal property. For example, a sales tax on equipment leases, rather than personal property tax.
  - For personal property taxes, small business owners must identify assets through a tedious and complex process. For example, businesses need to fill out separate forms for each location even if located within the same county. Assets are not assessed on market value and can be assessed on items that are not in use or have been fully depreciated. Many small business owners say that this process is cumbersome, especially compared to the relatively small amount of revenue it raises.
  - Personal property taxes tend to have higher delinquency rates than other forms of taxes. The delinquency/collection process can take a toll on county treasurer offices. It can also impede businesses from renewing their licenses and may have additional impacts like foreclosure or eviction.

### *School Funding*

- The rate-based system for the state education levy was enacted as a result of HB 2242, connected to the McCleary lawsuit. It is important to have the rate-based system expire on schedule and return to a budget-based system.
- Rural school districts are harmed by the maximum enrichment levy of \$2,500 per pupil.

### *Exemptions*

- The administration of real property tax exemptions should ensure that the intended recipients are the ones who receive the exemption. There also needs to be the recognition that exemptions increase the tax burden on those who are not exempted (this is a tax "shift").
- More education around exemptions is needed so that those who qualify for the programs can receive the benefits. Education and outreach should be provided in multiple languages.
- Real property exemption programs are not sufficiently staffed in many counties.

### *Vertical Equity*

- Expand multi-family tax exemption; expand property tax exemptions (e.g. low-income property owners); implement a Homestead Exemption on the exemption on the payment of real property taxes; consider renters' tax credit; consider property tax "circuit breakers," which is a program that reduces property taxes in excess of a certain percentage of a taxpayer's income. Real property taxes can be a financial burden on low-income households.
- Real property taxes entrench better services within wealthier communities while disadvantaging lower-income communities.
- Property tax assessments based on the "highest and best use" of land can create development pressures, leading to gentrification and displacement.
- Larger and more profitable businesses may be better equipped to report personal property value and reduce taxes owed, as compared to smaller and less profitable businesses.

### *Horizontal Equity*

- Avoid "split roll" taxation, in particular taxing commercial property differently than residential property.
- Personal property taxes should be better tailored to different types of businesses.

### *Other*

- *RCW 52.16.170* needs to be reviewed since it creates a burden and is not practical for appraisers/fire districts.
- Fire districts should be able to collect levies against unimproved land.
- It is concerning that Washington does not tax intangible property (i.e. stocks and bonds).

## **Business & Occupation Tax and Public Utility Tax**

*October 29, 2020 | Total number of participants: 113*

### **Business & Occupation Tax and Public Utility Tax Overview**

The Business and Occupation (B&O) tax is based on gross receipts. It is measured on the value of products, gross proceeds of the sale, or gross income of the business. This means there are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business. The Public Utility Tax (PUT) is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of energy, natural gas, and water.

Below is a summary of the feedback received from 113 participants in the 10/29/2020 listening session focused on B&O and PUT taxes. See Attachment B for the notes taken during the session.

### **Strengths of the Business and Occupation and Public Utility Taxes**

#### *Administrative Simplicity and Transparency*

- It is relatively easy for the state to administer the B&O tax. (There were differing opinions on the administrative simplicity of the B&O tax. This is noted here and below).

#### *Adequacy and Stability*

- The B&O funding stream is an important source of funding for local government.
- The B&O tax on business receipts is an important component of the state's diversified tax portfolio.
- The recently increased B&O tax supports higher education funding.

#### *Suggestions*

- More tax revenue and tools are needed for cities and counties, therefore do not remove any existing tax tools without creating new tools.

### **Weaknesses of the Business and Occupation and Public Utility Taxes**

#### *Administration*

- Consider streamlining the systems used by businesses to pay the tax. Multiple systems for paying the tax create complications for businesses.

#### *Horizontal Equity*

- B&O tax rates are too high for some industries, and for some, it should be waived. Hospitals and non-profit hospitals have one of the highest rates.
- The Public Utilities tax is regressive. This has a greater impact on lower-income households.
- There are concerns about the Public Utility tax and potential under-investment in servicing for infrastructure investment.

- Advocate for a tax on profits or net revenue rather than on gross revenue. The tax on gross revenue violates horizontal/vertical equity principles.

### *Vertical Equity*

- B&O's taxes on gross receipts is perceived as not fair for many businesses.
- High revenue/low margin businesses pay a much higher percentage of taxes as a portion of total revenue than do higher-margin businesses. If the entire B&O structure cannot be changed, at least consider deductions for the cost of goods sold.
- Review the numerous tax preferences so large businesses and small businesses both have access to preferences.

### *Economic Vitality*

- B&O tax for some businesses is much higher in Washington than the business tax burden for other states.
- While simplifying the list of exemptions, continue to consider ways to keep WA competitive with other states.

### *Administrative Simplicity and Transparency*

- Many businesses understand the rate. However, in general, consumers do not understand B&O or how it is incorporated into the price of goods.
- The B&O tax can be tough for small businesses. The way to classify revenue is not always clear cut based on Revised Codes of Washington (RCWs). This needs to be simplified and easier for companies to understand assessment and reporting.
- To support transparency, improve communication about the B&O and PUT taxes across employment sectors. Also, consider ways to explain to the public how the tax is paid and what the revenue is used for.

### *TSWG Work*

- Suggestion to merge the work of 'Citizen Commission on Performance Measurement of Tax Preferences' (currently part of Joint Legislative Audit and Review Committee) into the work of the TSWG.

### *Tax Impacts*

- Any changes to the Washington State system can have a downstream impact on local tax systems.
- A portion of the Public Utility tax was intended to fund public works asset accounts. Many of these funds have been diverted into legacy education accounts which impacts infrastructure funding.
- Consider using an equity lens to think about how businesses and communities are impacted by the B&O tax.
- The tax authority for the PUT tax could become contentions between Counties and large electrical and water consumers (industrial users). Consider ways to improve coordination.

### Selective Sales Tax

October 13, 2020 | Total number of participants: 148

#### Selective Sales Tax Overview

All states levy selective sales taxes on certain goods and services, and this is a different rate than the general sales tax. This listening session covered taxes on cigarettes, tobacco, syrup, cannabis, alcoholic beverages (including spirits), motor fuels, real estate transactions, insurance premiums, car rentals, and aircraft.

Below is a summary of the feedback received from 148 participants during the 10/13/2020 listening session focused on selective sales taxes. See Appendix B for the notes taken during the session.

#### Strengths of the Selective Sales Tax

##### *Administration*

- Selective sales taxes are easier to implement administratively than other taxes.
- Sin taxes<sup>1</sup> are simple to apply and for the state to audit.

##### *Other Suggestions*

- Lawmakers need to find a balance between high rates that can be out of step with out-of-state markets and low rates that may not serve the purpose of inhibiting use.
- Washington State needs to remain competitive relative to other states in terms of the selective sales tax rates to make sure businesses are able to continue functioning.
- Some selective taxes fund specific, desired programs. Lawmakers should consider how to keep funding these programs.

#### Weaknesses of the Selective Sales Tax

##### *Adequacy and Stability*

- If a selective sale tax solely funds a program, it can be detrimental to rely on the tax base to fund the program.
- Selective sales taxes that fund specific programs can lead to complications when programs are abolished.

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<sup>1</sup> Certain Selective Sales Taxes are referred to as “sin taxes” when intended to discourage consumption (e.g. cigarettes, alcohol, etc.)

### *Transparency and Administrative Simplicity*

- There is a need for more information and outreach about selective sales taxes and what programs are funded by these taxes.
- It would be good to have one flat rate for all selective sales taxes.
- There is not a lot of transparency around the concept of the selective sales tax.

### *Vertical Equity*

- Other states typically utilize an offsetting credit to balance the issue of vertical equity.
- People who can afford to pay for these products and services should be paying more.
- Selective sales taxes disproportionately affect low-income individuals as compared to high-income individuals.
- Selective sales taxes may penalize people who use certain substances (e.g. cigarettes, alcohol, etc.) as coping mechanisms in the face of mental health struggles.
- It is difficult or not relevant to apply a lens of vertical equity with some of these selective sales taxes that are intended to discourage use by increasing costs ("sin taxes").

### *Economic Vitality*

- Selective sales taxes can force some of the activities to other markets rather than discouraging actual use.

### Estate Tax

October 27, 2020 | Total number of participants: 103

### Estate Tax Overview

The estate tax is a tax on the right to transfer property at the time of death. An estate may include: all land and real estate, possessions, financial securities, cash, other assets the individual owns or has a controlling interest in, or intangible assets.

Below is a summary of the feedback received from 103 participants in the 10/27/2020 listening session focused on estate taxes. See Appendix B for the notes taken during the session.

### Strengths of the Estate Tax

#### *Adequacy and Stability*

- Consider putting some revenue from the estate tax back into General Fund (it is currently dedicated to the Education Legacy Trust Account). This could be helpful to create a flexible source of revenue and address other issues as needed.
- Keep some exemptions for small farms and family businesses as this helps these businesses thrive. However, do not exempt them entirely.

#### *Vertical Equity*

- The estate tax does have vertical equity since it has a graduated rate schedule depending on the taxable estate.

### Weaknesses of the Estate Tax

#### *Adequacy and Stability*

- Increase the review by the state of which deductions taxpayers can use.
- Uphold collection to provide adequate funds (including funding for community members with disabilities).
- There is a lack of stability with this tax since it is not claimed unless there is a death of a person with a large estate.

#### *Vertical Equity*

- Consider how those without liquid assets can pay this tax without taking loans out.
- To help fund public services, very large estates should be subject to a higher tax rate than the current rate.
- Consider if estate tax revenue could be used to support those without generational wealth (i.e. certain immigrant groups, programs that mitigate the racial wealth gap, etc.).

- People with more resources and financial education are better equipped to potentially avoid the full extent of the estate tax. Lawmakers should consider ways of structuring the tax in a manner to curtail tax avoidance.
- Currently, Washington's estate tax does not apply to estates under \$1,000,000. The TSWG should consider reducing this \$1,000,000 threshold to a lower amount and then use the revenues from adjusting the threshold to fund a Working Families Tax Credit.
- Dedicating estate tax revenue to the Education Legacy Trust Fund is too narrow; dedicate a portion of the estate tax to other things to mitigate the wealth gap.

### *Transparency and Administrative Simplicity*

- Estate tax deductions should be tightened up (particularly for large estates) to help make the administration of this tax simpler.
- Consider ways to improve transparency and simplicity, ensure elasticity/adequateness of funds.

### *Other*

- Dedicate a portion of the estate tax revenue for Early Learning Programs and efforts to mitigate the racial wealth gap.
- A high amount of estate tax revenue is dedicated to education; consider splitting between other initiatives.
- Passing along an estate creates unique challenges for individuals and families with disabilities.



## Appendix A: Listening Session Agendas

This appendix includes the final meeting agendas from each of the listening sessions.

**Washington State Tax Structure Workgroup  
Selective Sales Taxes Listening Session Agenda  
October 13, 2020 | 3:00 p.m. – 5:00 p.m.**

**Participation Information**

- **Zoom Link:** <https://zoom.us/j/97968972376?tk=ovJxVaLT-zVB6w5s5al4ua0J5j28WdqKD21ZPciX8y4.DQIAAAWz2fiWBYxNmptVlhMbFJQaW1uTHZ6QlpTUIINBAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA#success>
- **One Tap Mobile:** US: +12532158782,,97968972376# or +13462487799,,97968972376#
- **Phone:** US: +1 253 215 8782 and enter the meeting ID: 979 6897 2376

Time	What
5 min	<b>A. Welcome and Introductions from Tax Structure Work Group Members</b>
5 min	<b>B. Listening Session Ground Rules*</b>
10 min	<b>C. Background on Tax Structure Work Group and Context of Listening Session*</b>
15 min	<b>D. Brief Overview of Selective Sales Taxes*</b> <ul style="list-style-type: none"> <li>• See Attachment A for a handout re: Selective Sales Taxes</li> </ul>
55 min	<b>E. Breakout Group Dialogues: Strengths and Weaknesses of Selective Sales Taxes</b> <ul style="list-style-type: none"> <li>• What are the strengths and weaknesses of selective sales taxes re:                             <ul style="list-style-type: none"> <li>○ Economic vitality</li> <li>○ Transparency and administrative simplicity</li> <li>○ Fairness based on people’s ability to pay (vertical equity)</li> <li>○ Fairness based on similar taxpayers paying similar taxes (horizontal equity)</li> <li>○ Other</li> </ul> </li> </ul>
25 min	<b>F. Report Out from Breakout Groups</b>
5 min	<b>G. Next Steps and Adjourn</b>

## Washington State Tax Structure Work Group: Estate Tax Listening Session October 27, 2020 from 12:30 to 2:30 PM

Virtual participation information

- <https://zoom.us/j/96277948558>
- Phone: 253-215-8782
- Meeting ID: 962 7794 8558
- One tap mobile: +12532158782,,96277948558# US (Tacoma)

Time	What	Who
5 min	<b>A. Welcome and Introductions</b> 1. Introductions of TSWG members and other legislators in attendance.	Rep. Frame and/or Sen. Wagoner
5 min	<b>B. Ground Rules</b> 1. Technical ground rules 2. Participation ground rules	Sophie Glass, Facilitator
5 min	<b>C. TSWG Overview</b> 1. Members 2. Historical Context. 3. TSWG Duties 4. Purpose of Listening Session	Sophie Glass, Facilitator
15 min	<b>D. Brief Overview of the Estate Tax</b> 1. Overview of the estate tax and sideboards for discussion. 2. Examples of recent bills that address the estate tax. 3. Note: DOR liaison available	Morgan Shook, ECONorthwest
10 min	<b>E. Discussion Overview</b> 1. Review tax principles. 2. Review discussion questions <ul style="list-style-type: none"> <li>• What changes to the estate tax would you suggest the TSWG consider?               <ul style="list-style-type: none"> <li>- What would be the pros/cons of those changes?</li> </ul> </li> <li>• What elements of the current estate tax statute should be kept as is?               <ul style="list-style-type: none"> <li>- What would be the pros/cons of the status quo?</li> </ul> </li> <li>• Consider using “principles for a well-designed tax system” as part of your explanation.</li> </ul>	Sophie Glass, Facilitator
45 min	<b>F. Estate Tax Discussion</b> 2. 4 breakout groups. 3. Use of a <a href="#">shared Mural board</a>	Sophie Glass, Facilitator
25 min	<b>G. Full Group Report Outs</b> 1. Report outs from each breakout group	Sophie Glass, Facilitator
10 min	<b>H. Next Steps</b> 1. Recap of how feedback will be captured and used. 2. Satisfaction poll	Sophie Glass, Facilitator

**Washington State Tax Structure Work Group: Real Property and Personal Property Tax  
Listening Session  
October 29, 2020 from 12:00 to 2:00 PM**

Virtual participation information

- <https://zoom.us/j/95520545744>
- Phone: 253 215 8782
- Meeting ID: 955 2054 5744
- One tap mobile +12532158782,,95520545744# US (Tacoma)

*Note: Presentation slides will be sent out after the Listening Session*

Time	What	Who
5 min	<b>A. Welcome and Introductions</b> 2. Introductions of TSWG members and other legislators in attendance.	Rep. Frame and/or Sen. Wagoner
5 min	<b>B. Ground Rules</b> 3. Technical ground rules 4. Participation ground rules	Sophie Glass, Facilitator
5 min	<b>C. TSWG Overview</b> 5. Members 6. Historical Context. 7. TSWG Duties 8. Purpose of Listening Session	Sophie Glass, Facilitator
15 min	<b>I. Brief Overview of the Real Property and Personal Property Tax</b> 4. Overview of the property tax. <b>See Attachment A for informational resources.</b> 5. Examples of recent bills that address the property tax. 6. Note: DOR liaison available to answer questions	Morgan Shook, ECONorthwest
10 min	<b>J. Discussion Overview</b> 3. Review tax principles. 4. Review discussion questions <ul style="list-style-type: none"> <li>• What changes to the property tax would you suggest the TSWG consider?               <ul style="list-style-type: none"> <li>- What would be the pros/cons of those changes?</li> </ul> </li> <li>• What elements of the current property tax statute should be kept as is?               <ul style="list-style-type: none"> <li>- What would be the pros/cons of the status quo?</li> </ul> </li> <li>• Consider using “principles for a well-designed tax system” as part of your explanation.</li> </ul>	Sophie Glass, Facilitator
45 min	<b>K. Estate Tax Discussion</b> 4. 4 breakout groups. 5. Use of a <a href="#">shared Mural board</a>	Sophie Glass, Facilitator
25 min	<b>L. Full Group Report Outs</b> 2. Report outs from each breakout group	Sophie Glass, Facilitator
10 min	<b>M. Next Steps</b> 3. Recap of how feedback will be captured and used 4. Satisfaction poll	Sophie Glass, Facilitator

**Washington State Tax Structure Work Group  
Business & Occupation (B&O) and Public Utility Tax Listening Session  
October 29, 2020 from 3:00 to 5:00 PM**

Virtual participation information

- <https://zoom.us/j/96593825251>
- Phone: 253 215 8782
- Meeting ID: 965 9382 5251
- One tap mobile: +12532158782,,96593825251#

*Note: Presentation slides will be sent out after the Listening Session*

Time	What	Who
5 min	<b>A. Welcome and Introductions</b> 3. Introductions of TSWG members and other legislators in attendance.	Rep. Frame and/or Sen. Wagoner
5 min	<b>B. Ground Rules</b> 5. Technical ground rules 6. Participation ground rules	Sophie Glass, Facilitator
5 min	<b>C. TSWG Overview</b> 9. Members 10. Historical Context. 11. TSWG Duties 12. Purpose of Listening Session	Sophie Glass, Facilitator
15 min	<b>N. Brief Overview of the Business &amp; Occupation Tax and Public Utility Tax</b> 7. Overview of the B&O Tax and Public Utility Tax. <ul style="list-style-type: none"> <li>○ See the Department of Revenue’s website for some background information about the <a href="#">B&amp;O tax</a> and <a href="#">Public Utility Tax</a>.</li> </ul> 8. Examples of recent bills that address the B&O Tax and Public Utility Tax. 9. Note: DOR liaison available to answer questions	Morgan Shook, ECONorthwest
10 min	<b>O. Discussion Overview</b> 5. Review tax principles. 6. Review discussion questions <ul style="list-style-type: none"> <li>• What changes to the B&amp;O and Public Utility Tax would you suggest the TSWG consider? What would be the pros/cons of those changes?</li> <li>• What elements of the B&amp;O and Public Utility Tax should be kept as is? What would be the pros/cons of the status quo?</li> <li>• Consider using “principles for a well-designed tax system” as part of your explanation.</li> </ul>	Sophie Glass, Facilitator
45 min	<b>P. Tax Discussion</b> 6. 5 breakout groups. 7. Use of a <a href="#">shared Mural board</a>	Sophie Glass, Facilitator
25 min	<b>Q. Full Group Report Outs</b> 3. Report outs from each breakout group	Sophie Glass, Facilitator
10 min	<b>R. Next Steps</b> 5. Recap of how feedback will be captured and used 6. Satisfaction poll	Sophie Glass, Facilitator

**Washington State Tax Structure Work Group  
Retail Sales and Use Tax Listening Session  
November 9, 2020 from 11:00 AM to 1:00 PM**

Virtual participation information

- <https://zoom.us/j/95618312186>
- Meeting ID: 956 1831 2186
- Landline: 253 215 8782
- One tap mobile: +12532158782,,95618312186#

***If you have trouble accessing the virtual meeting, please call Thomas Christian at 360-775-8486.***

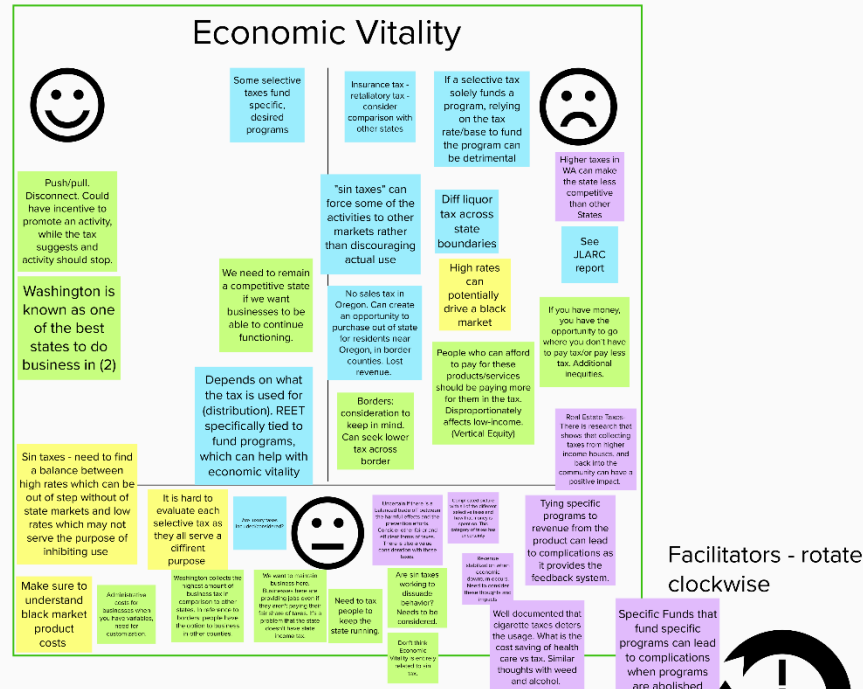
Time	What	Who
5 min	<b>A. Welcome and Introductions</b> 4. Introductions of TSWG members and other legislators in attendance.	Rep. Frame and Sen. Wagoner
5 min	<b>B. Ground Rules</b> 7. Technical ground rules 8. Participation ground rules	Sophie Glass, Facilitator
5 min	<b>C. TSWG Overview</b> 13. Members 14. TSWG duties 15. Purpose of the listening session	Sophie Glass, Facilitator
15 min	<b>S. Brief Overview of Retail Sales and Use Tax</b> 10. Overview of Retail Sales and Use Tax <ul style="list-style-type: none"> <li>• See the Department of Revenue's website for some background information about <a href="#">Sales Tax and Use Tax</a>.</li> </ul> 11. Examples of recent bills that address the Sales and Use Tax.	Morgan Shook, ECONorthwest
10 min	<b>T. Discussion Overview</b> 7. Review tax principles 8. Review discussion questions <ul style="list-style-type: none"> <li>• What changes to the Sales and Use Tax would you suggest the TSWG consider? What would be the pros/cons of those changes?</li> <li>• What elements of the Sales and Use Tax should be kept as is? What would be the pros/cons of the status quo?</li> </ul>	Sophie Glass, Facilitator
45 min	<b>U. Tax Discussion</b> 8. 5 breakout groups. 9. Use of a shared Mural board	Sophie Glass, Facilitator
25 min	<b>V. Full Group Report Outs</b> 4. Report outs from each breakout group	Sophie Glass, Facilitator
10 min	<b>W. Next Steps</b> 7. Recap of how feedback will be captured and used 8. Satisfaction poll	Sophie Glass, Facilitator

### Appendix B: Listening Session Summary Boards

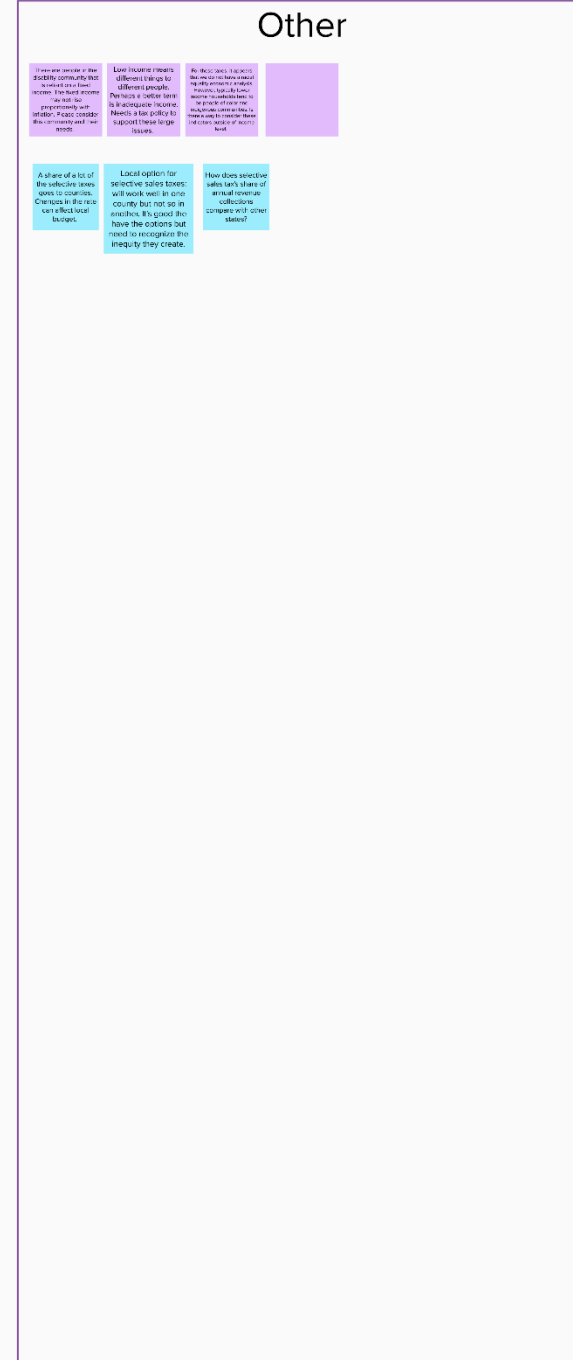
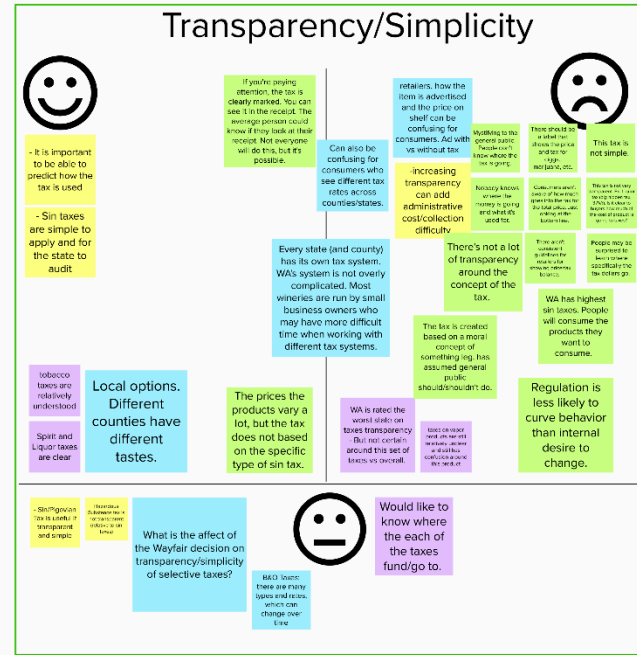
This appendix includes screenshots of the feedback provided by participants from each of the listening sessions.

## Selective Sales Taxes - October 13, 2020

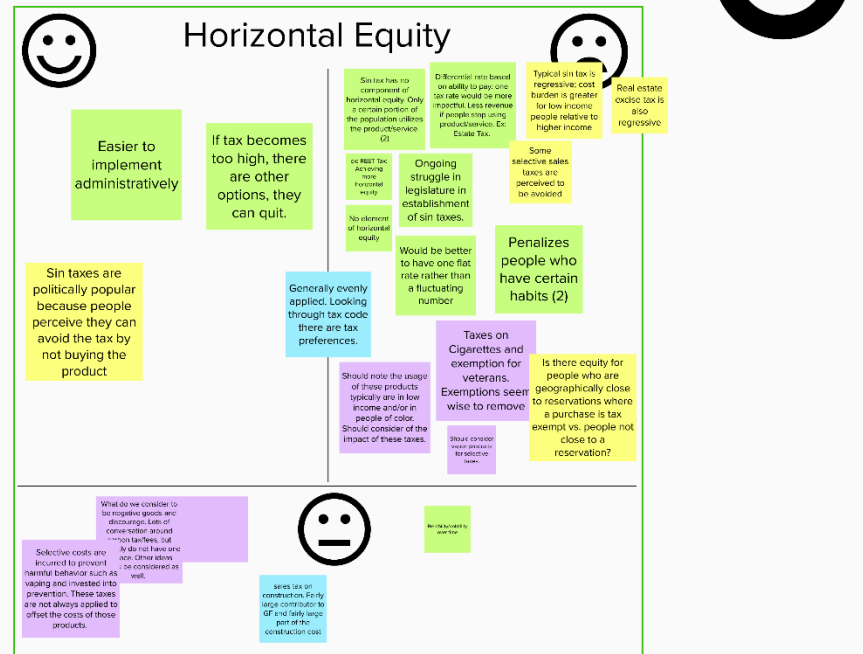
What are the strengths and weaknesses of selective sales taxes as they relate to economic vitality?



What are the strengths and weaknesses of selective sales taxes as they relate to transparency/simplicity?



What are the strengths and weaknesses of selective sales taxes as they relate to horizontal equity?



What are the strengths and weaknesses of selective sales taxes as they relate to vertical equity?

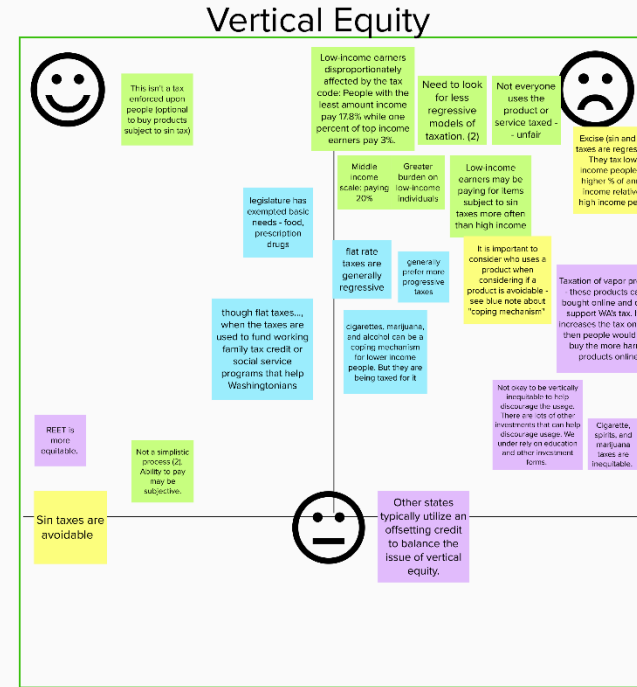


Figure 1 Selective Sales Tax Mural Board



- What changes to the estate tax should the TSWG consider?
- What elements of the current estate tax statute should be kept as is?
- Discuss pros and cons.

Consider using "principles for a well-designed tax system" as part of your explanation.

Reminder: choose a presenter for your group

Sophie and Taylor

### Change

- Covid-19:** Consider raising the rate on extremely high-valued estates. (Upward of \$6.5 million.)
- Make sure exemptions allow businesses to carry forward after one spouse passes.**
- Estate tax is on the estate of the individual.** For businesses owned through shares, the business is not affected, but the owner of the shares is affected. For sole proprietor, this is not the case. What is the solution for this?
- Very large estates should be subject to a larger tax rate (should be higher than now).** This way, we can fund our public needs.
- Illiquid assets (ex: building). Passing to children, etc. -> business needs to be sold in order to pay taxes.** Breaking up small business.
- Vertical equity concerns with illiquid assets.**
- Trust to avoid estate tax.** Could add a layer of complexity to understanding what/when estate tax is due.
- People with more resources may spend more time developing a plan to deal w/estate taxes. Others may not be able to do this.**
- Contributions to private family foundation, framed as giving to a non-profit.** How can we make sure that \$ is actually going to communities/orgs serving WA state?
- It's hard to make a statement about what each tax bracket should pay without knowing what the distribution is among each bracket.**
- Is there a limit to family-owned business exemptions? If spouse were to pass, are there tax implications to worry about? Need to know more information.**
- Would like to see more information about the federal + state portions of estate tax.**
- Hope to learn more before recommending changes.**
- Hope to learn more about the impact of the changes from 2005.**
- Type of asset and trust will affect estate taxes paid.**

### Keep

- Consider the federal estate tax as well. What may seem like a small tax from state perspective can be large when adding federal estate tax.**
- There should be an exemption for inheritance under a certain tax bracket.**
- What behavior is incentivized due to structure of the tax (will people try to avoid paying the tax through x, y, z measures)?**
- Contributions through wills to nonprofits.**
- Exemptions add complexity, but a simple tax may get in the way of fairness.**
- Creative solutions to avoid estate tax are complicated by rules/regulations that make it more difficult than it sounds. Not every trust avoids an estate tax.**
- No reforms. 2005: Exemptions related to small farms and small forest land owners.**
- If you're able to pay the estate tax w/out destroying your business, you pay the tax. If not, you don't pay the tax or pay a portion of the tax.**

Annie and Joy

### Change

- Adjust the threshold**
  - Look at adjusting the threshold downward
  - Use revenues from adjusting the threshold and...to fund a working to raise class tax credit
- Lots of support for progressive tax policy**
  - Endorse keeping the tax progressive and keeping the rate
- Mitigate for racial wealth gap, education and intergenerational poverty**
  - Expand distribution of estate tax to programs that mitigate the racial wealth gap (5)
  - Dedicate funding for early learners and minorities
  - Support more progressive tax changes to meet low income needs
  - amplify the impacts of intergenerational poverty.
  - Dedicate to education legacy tax funds to not have estate tax to other things to improve wealth gap
  - High amount dedicated to education consider talking between other industries, gathering perspectives (3)
- Reduce the WA exemption to \$1 million per individual or lower.**
  - What voters would support or the number to date is unclear. They be a team from when they originally proposed the estate tax and the decision
- Reinstate the inheritance tax and adjust over time per inflation % (2)**
- Consider how marital taxes and community property can lower estate taxes**
- Adjust state inheritance so inheritors pay tax**

Provide more information to tax subject prior to the sessions

### Keep

- Tax increases dependant on the value of the estate**
- Questions to follow up on: 1) How does the estate tax collection rate compare to other states?**

From a follow-up email: Secondly, whatever proposal is put forward, the group should look at a threshold that is reasonable. For instance, if someone has accumulated \$1m in investments (which would provide \$40,000 annual income) and has a family that was purchased 30 years ago for \$60,000 but is now worth about \$1m, leaving that to heirs seems right on the bubble for being able to pass along intact. That's going to look different in Spokane or Dayton or Forks, but needs to be looked at in any analysis.

### Change

- "Death bed gifts" that avoid estate tax - unfair - though Fed Gov has limit to \$ gfts per year**
- for the purpose of collection, lighten tax - unfair - though Fed Gov has limit to \$ gfts per year**
- make tax more progressive by adjusting the tax rate - would discourage the pressure to shuffle assets**
- outline deductions and credits/consider to meet equitable needs (including funding for disabled community), limit work/words**
- improve transparency and simplify estate planning/avoidance of funds**
- Question - how can the estate tax be just if assets are not being passed? (The tax is still due before there is months to pay)**
- Consider how to make without "call credit" or "pay the tax without using assets"**
- Philosophical question of whether to tax assets people earned arguably by merit or to address equity by taxing by generational wealth**
- Consider if collection could happen without government wealth tax, certain investment groups**
- Consider ways to collect revenues and share benefits with those in need**
- Understand tax avoidance including layers of taxes before and after death that would influence flow of assets**
- Reassess belief system from General Fund to Education Fund (could be more direct benefits)**
- Need to send a clear message of where tax collected is going/benefits to society**

### Keep

- keep and enhance progression and rates**
- core function: tax generational wealth (and education of purpose)**
- keep some exemptions for small farms and family businesses but don't exempt entirely**
- Consider cutting revenue back to General Fund**
- Protect flexible uses of revenue (to address other issues as needed)**
- Can legacy tax be used to fund a safe view for any conditions/reasons when it comes to using inheritance**

### Change

- Taking into account federal tax law (2017) which reduced taxable amount for estate tax.**
- how much effort do we put into keeping high net worth individuals in the state using the estate tax laws if they may be able to conduct estate planning?**
- WA has one of the highest estate tax rates. It could affect competitiveness - regarding how people choose to start/build businesses in WA**
- Windfalls. Unstable flow into the educational legacy fund. Look for places/ways the surplus money can be better spent. Ex. First \$x million amount to the legacy account and then the remaining portion to other needs**
- Put a portion to budget stabilization account.**
- movement of high net worth individuals in response to marginal tax rate is small/insignificant**
- Lack of stability / reliability / predictability. Tax isn't claimed unless there is a death of a person with a large estate.**
- Passing along estate can be tricky for people and families with disabilities. Eg. Medicare clawbacks.**
- Threshold for small business exemption is lower than in comparable states**
- Consider how much (portion) of the contribution to family foundations are exempted**
- Need to consider the exclusion of contributions to family foundations. Movement of money from public accounts to private ones.**
- Current rates. The basis for taxable estate amount is after the first \$2.19 million.**

### Keep

- Exemption for family (small) businesses that are passed along and stay open**
- Estate tax. Vertically equitable.**

Kizz and Mishu

Morgan and James

Figure 2 Estate Tax Mural Board

- What changes to the property tax should the TSWG consider?
- What elements of the property tax should be kept as is?
- Discuss pros and cons.

Consider using "principles for a well-designed tax system" as part of your explanation.

Reminder: choose a presenter for your group

Sophie and Taylor

**Change**

**Make more vertically progressive**  
Property owners' tax goes up as market value goes up. Defeats the equity principle. Those making money are not paying enough.

**State school levy (Rate based). If assessment goes up, taxes go up much more. Hoping for rate-based system to go away.**

**When assessment goes up, property owners are unsure of why. Need more timely accessible information/ transparency.**

**Change in the levy, back to a more reasonable annual increase. Ability to increase at a higher number, consider inflation.**

**Personal Property Business license contingent upon current status of payment of prop taxes.**

**More uniformity in exemptions, transparency.**

**Creates a disparity of services based on the wealth of the community that's being served.**

**Fire districts should be able to collect levy against unimproved land.**

**Property tax assessment: determinant of highest and best use of the land. Aggravates gentrification/dislocation. Can lead to wiping out old apartment buildings.**

**The property tax no longer functions the way it should. Leads to predatory practices, development pressure.**

**Be careful to ensure exemptions are reaching the targeted people. Some people are getting exemptions they're unqualified for, while others who are qualified aren't.**

**Seniors/low-income people often not getting the exemptions they should have. Don't know about the exemption until it's too late (foreclosure).**

**Many exemptions, some good some bad. Though reviewed, none go away. When some pay less, others pay more to subsidize. Consider reviewing exemptions and getting rid of some. Would pay less per person if fewer.**

**Rural school districts hurt by the \$2500 per pupil. Should be lifted.**

**Dependence on the property tax system is too high (primarily counties). There needs to be other avenues to distribute tax.**

**Risk of seeing downward trend in overall property values. Run risk of taxing small businesses out of business.**

**Uniformity should be horizontal rather than vertical and optimized to particular business classes.**

**Keep**

**Graduated rate**

**Uniformity clause: all property w/in a taxing district must be valued uniformly (2)**

**Keep current use taxation in place**

**Keep the statutory penalty and interest rates in place. Important for preserving tax collections.**

**The property tax system is very old, and very misunderstood. Highest and best use meant to encourage development.**

**If we step away from highest/best use, need to consider the consequence. The property tax is designed to be stable, and is likely the most stable tax.**

**Fire districts need protection from too many property tax reductions.**

**Both advantages and disadv. of use tax**

Joy and Katrina

**Change**

**21st Century Taxes**

**Consider substituting the personal property tax into a newer 21st Century form of taxes.**

**Ensure we are providing the appropriate exemption and deferrals and what real and personal properties are are saving in the 21st Century.**

**Reexamine the definition of the nonprofit because the nonprofits are not aware of their options and the impact on equity.**

**Keep the support for seniors**

**Keep the Nonprofit tax exemptions.**

**The current process as a small business owner and the assessment from the counties/cities is high/difficult. Is it possible to simplify this process?**

**Agreement - There is significant amount of work to be done to submit taxes.**

**Intangible Property Taxes**

**If considering any changes, to consider simplicity. We already have a complex process and assessment process. Simplicity would help.**

**Concerned about leaving out taxing intangible property (stocks and bonds). Can we capture the value these property.**

**Additionally, consider taxing intangible property in order to help reduce real property taxes for equity consideration.**

**Consider expanding the definition to intangible property (e.g. allow pay for the a planes vs amazon not taxing for AWS). Need to update intangible property definition into 21st century.**

**Concerned about disproportionality of impacts of making tax payments. How can we offset or cancel debt or delinquency especially during a difficult economic time?**

**Concerns about misinformation regarding options and resources for property owners. How can we provide education (at county, city, and state level) about taxes to the public?**

**Misinformation & Education**

**Provide education and outreach material in multiple languages/ equity consideration**

**Simplicity!**

**Consider exemptions for evaluation processes.**

**Revisit the administration personal property tax with the intent of streamlining**

**Suggestion to move local school districts back towards a budget based system vs the mill system (local level).**

**Keep**

**Keep the support for seniors**

**Keep the Nonprofit tax exemptions.**

**Provide education and outreach material in multiple languages/ equity consideration**

**Change**

**1% Cap**

**Address 1% cap may not keep up with growth/inflation (depends on jurisdiction)**

**1% cap restricting on counties losing revenue from city annexation**

**Can 1% cap pushes cities (and others) to other tax sources, which can be regressive**

**challenge of raising cap: must be voter approved**

**consider adjustment to base to address shortfall**

**Transparency**

**seek to improve transparency of property tax**

**improve transparency. Community Land Trust (CLT) property taxed differently**

**equity considerations**

**consider expanding multifamily tax benefit**

**consider how tax may threaten financial stability of communities**

**expand where property tax exemptions can be applied (would shift tax burden)**

**implement homestead exemption consistently no differentiator between commercial vs residential property**

**RCW 52.15.170 (i) needs to be reviewed: requires inventory of properties not being developed, creates burden and not practical in reality by appraisers/line districts. Not allowed to assess taxes on these properties**

**adopt tax increment financing**

**consider moving some levies outside the cap (ie. Veteran's levy)**

**Keep**

**stability and consistency in which it is collected, predictability is beneficial for jurisdiction financial planning**

**multifamily property tax credit (adds to complexity but important to keep)**

**new construction incorporated into property tax base**

**preference for budget-based and single rate over value-based**

**consider no expansion of districts or services that can gain revenue from property taxes - should not lean more heavily on property tax**

Thomas and Mishu

**Change**

**[COMPLEXITY]**  
Personal property taxes apply to only businesses. Small business owners must identify assets on Jan 1. Tedious and complex process. Not assessed on market value. Can be assessed on items that are not in use, fully depreciated.

**[COMPLEXITY]**  
Need to file separate forms for each business location even if they are in the same county. More paperwork and hassle for both business owners and county staff.

**[COMPLEXITY]**  
Complexity of the system. Increase in Assessed Value does not mean increased in taxed owed.

**[SIZE]**  
In one county about 3% of total assessed value is personal property.

**[SIZE]**  
Personal property tax is a small number of tax roll but a non-significant portion of the revenue. If there is a replacement, the size of the current collections from personal property tax should be considered.

**[RESIDENTIAL VS COMMERCIAL]**  
Avoid split roll. TSWG should be aware of residential vs commercial. Alternative tax structure should avoid shifting tax burden to residential owners vs business owners.

**[RESIDENTIAL VS COMMERCIAL]**  
See county by county basis. If property taxes from commercial side is larger than those from residential side in Clark County, residential (single family mostly) pay more.

**[REPLACEMENT]**  
Eliminate or replace the personal property tax, with something that is simpler, revenue-neutral, perhaps not even on personal property.

**[REPLACEMENT]**  
Example of replacement: "Sales tax" on equipment lease or rent, rather than personal property tax on Jan 1.

**[REGRESSIVITY]**  
Is personal property tax regressive? Larger businesses may be better equipped and have better accounting personnel to report personal property value and reduce taxes owed.

**[REGRESSIVITY]**  
tax code is regressive. Eliminate the 1% growth limit. Elimination should be paired with exemptions for low income owners. Also consider renters' tax credit. Circuit breakers - tax credit or exemptions that are prioritized to lower income households to offset property taxes.

**[REGRESSIVITY]**  
Regressive for small businesses too.

**[COUNTY NEEDS]**  
Each county would have different rate and total collection amount.

**[COUNTY NEEDS]**  
Exemption programs (for seniors especially) are not sufficiently staffed in many counties. Consider county funding needed to implement changes.

**[COUNTY NEEDS]**  
Counties tend to see higher delinquency rate from the personal property tax. The delinquency/collection process can take a toll on county treasurer's office.

**Keep**

**Exemption and deferral programs**

Morgan and James

Figure 3 Personal Property Tax Mural Board



What changes to the B&O and Public Utility Tax would you suggest the TSWG consider?

What elements of the B&O and Public Utility Tax should be kept as is?

Consider using "principles for a well-designed tax system" as part of your explanation.

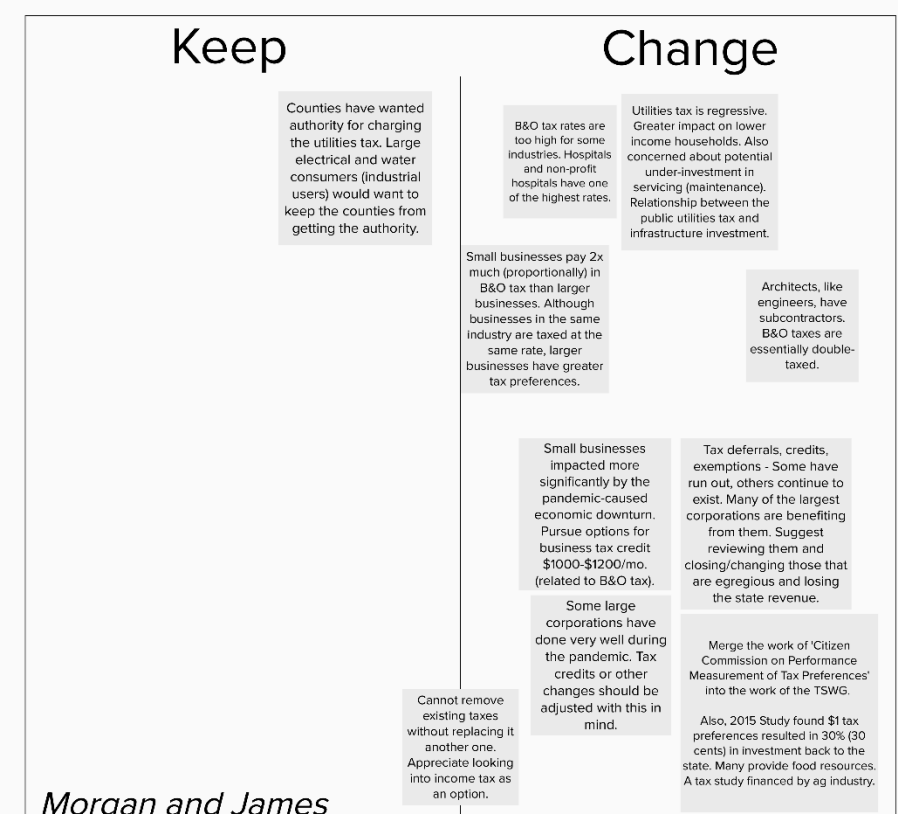
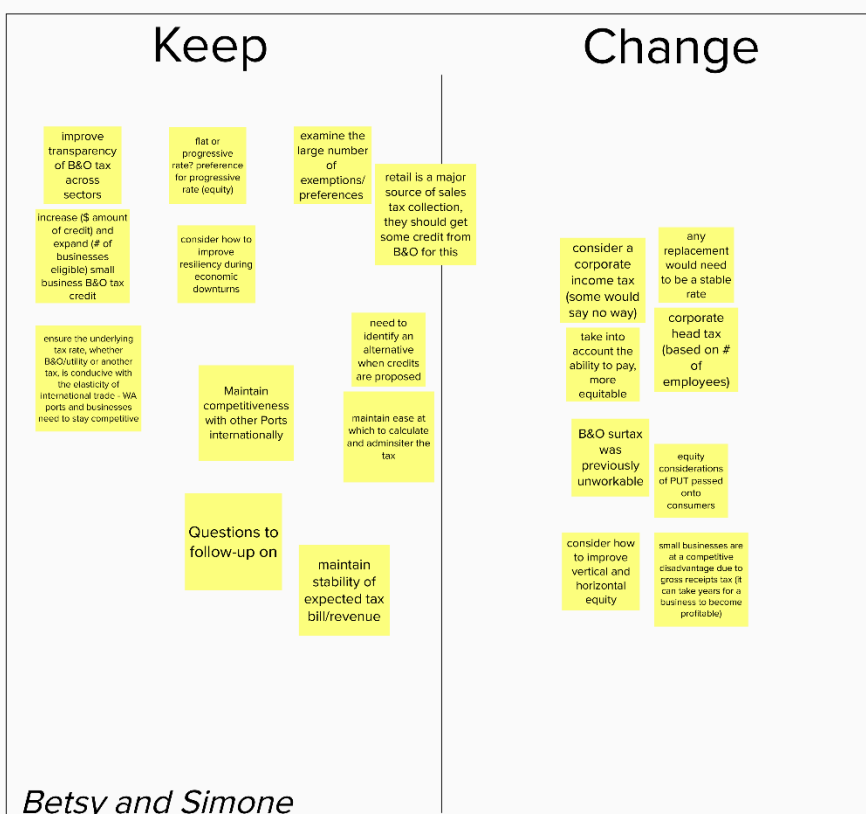
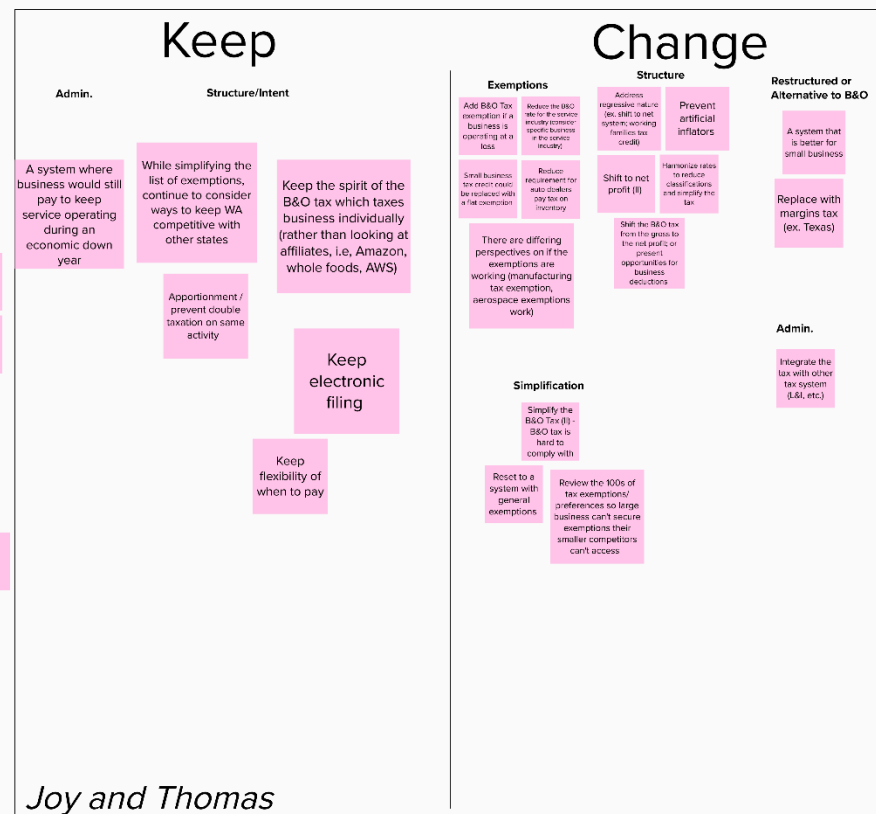
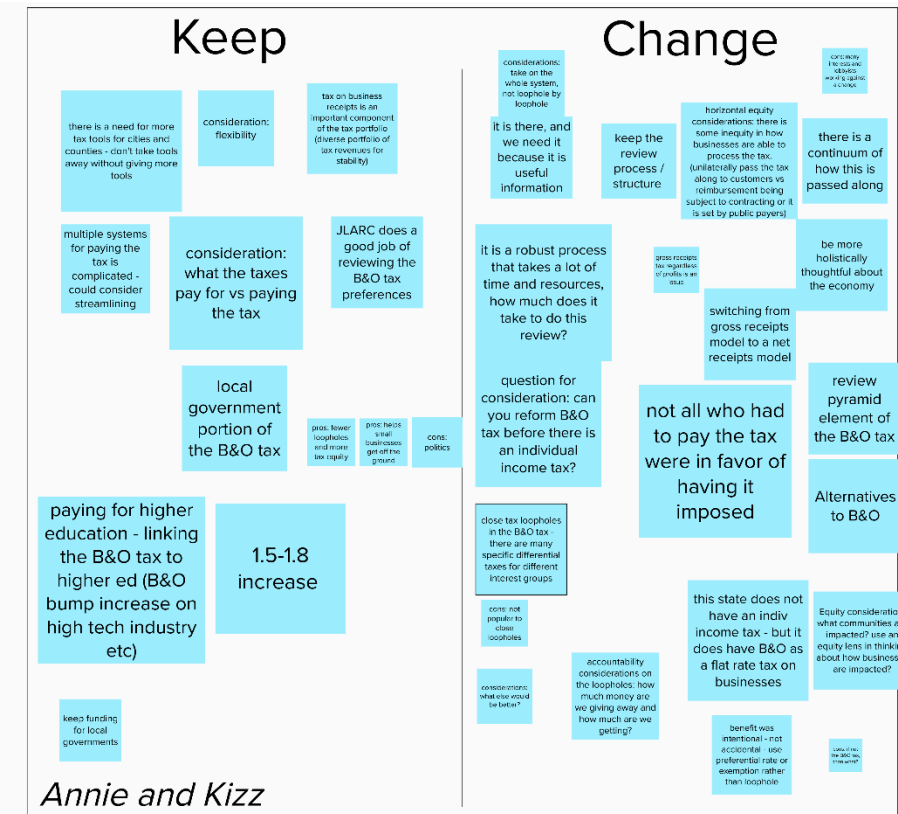
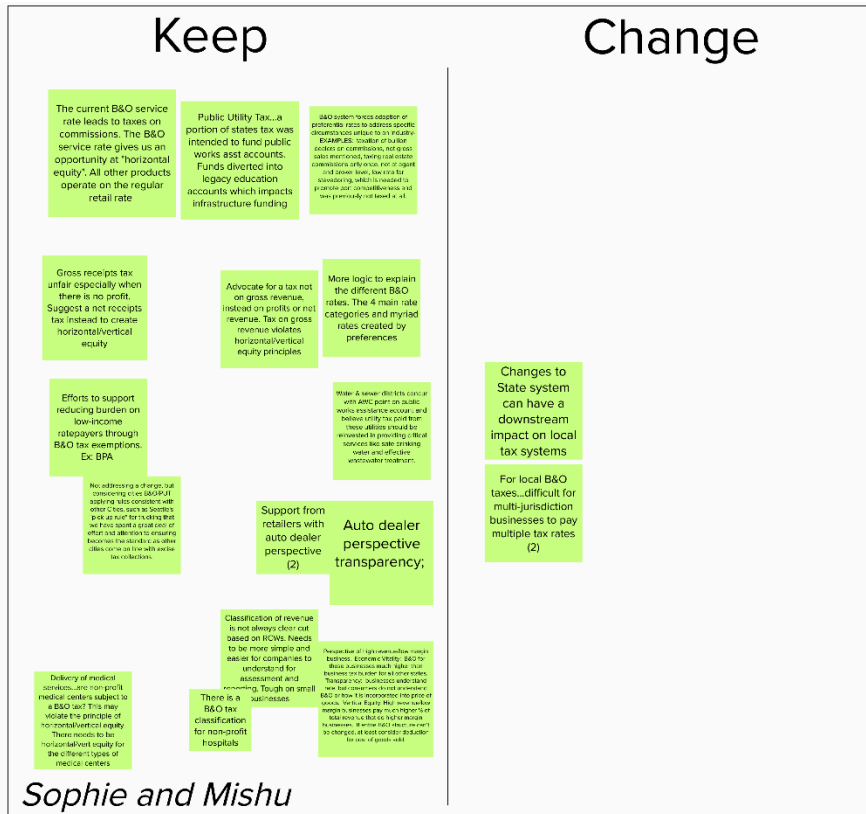


Figure 4 Business and Occupation and Public Utility Tax Mural Board

What changes to the Sales and Use Tax would you suggest the TSWG consider?

What elements of the Sales and Use Tax should be kept as is?

Consider using “principles for a well-designed tax system” as part of your explanation.

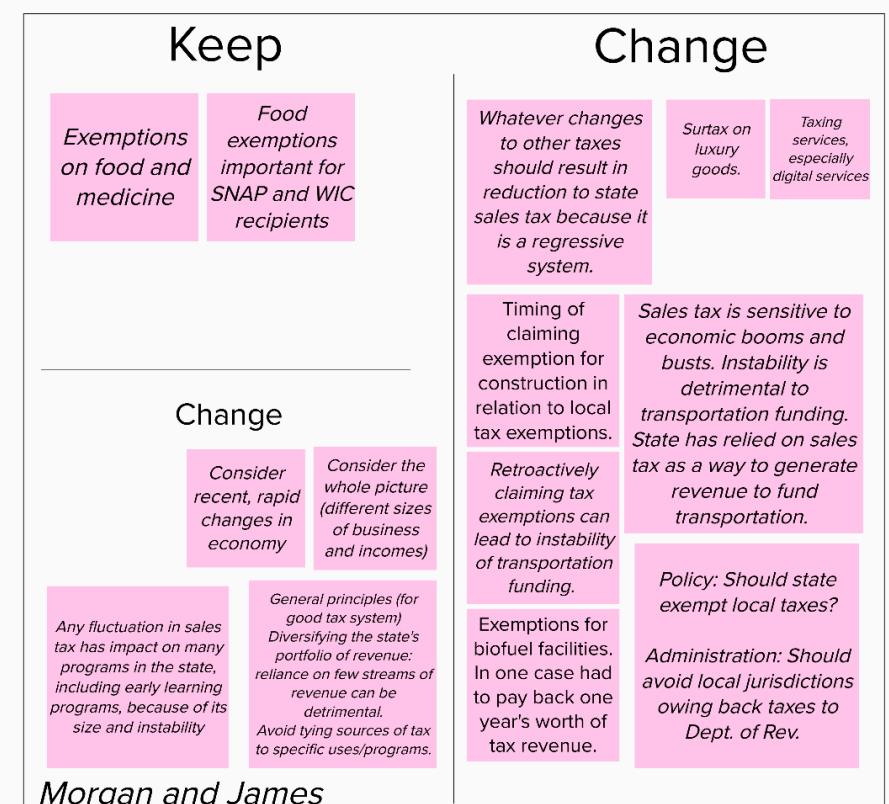
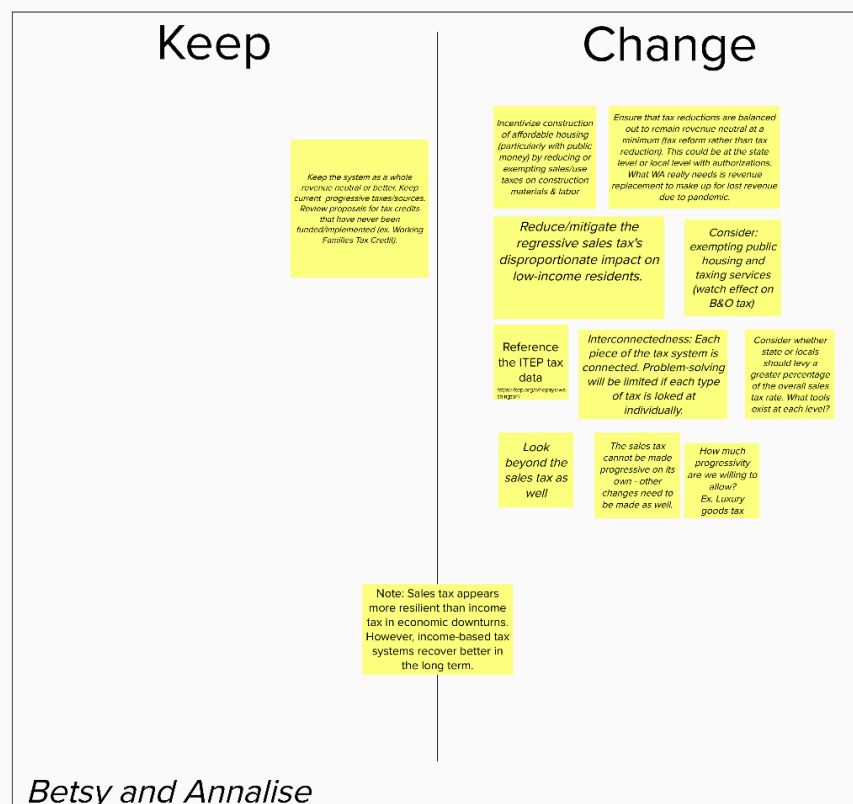
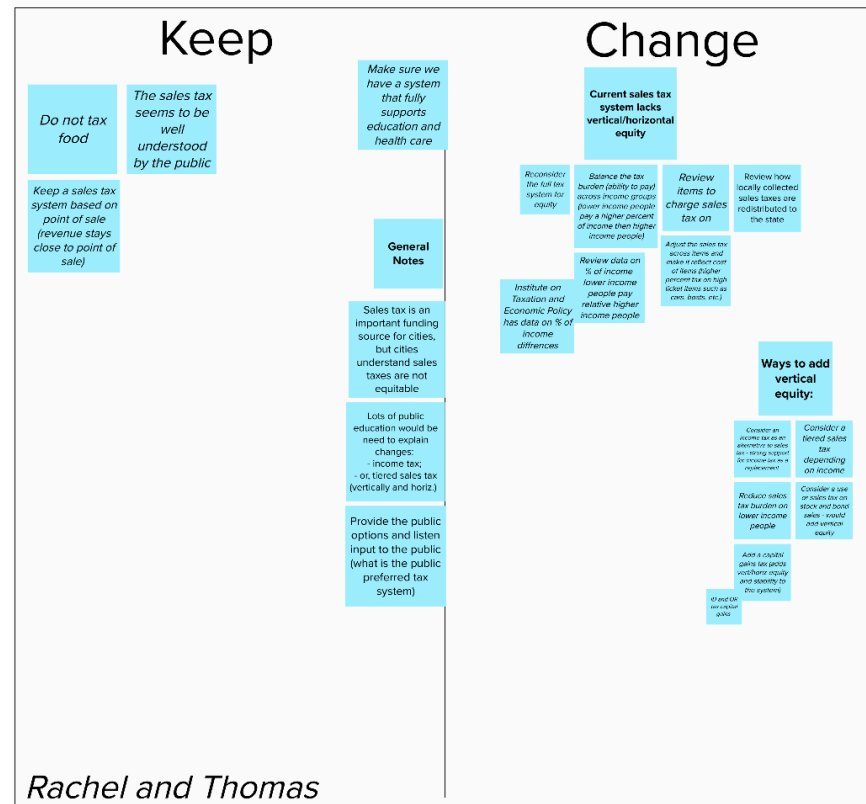
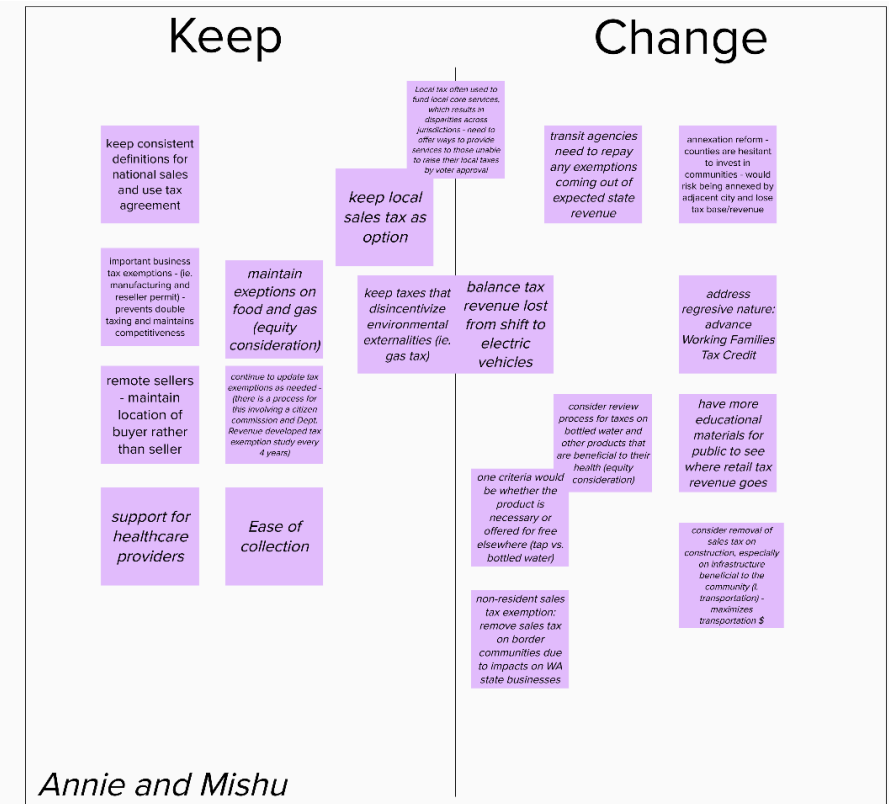
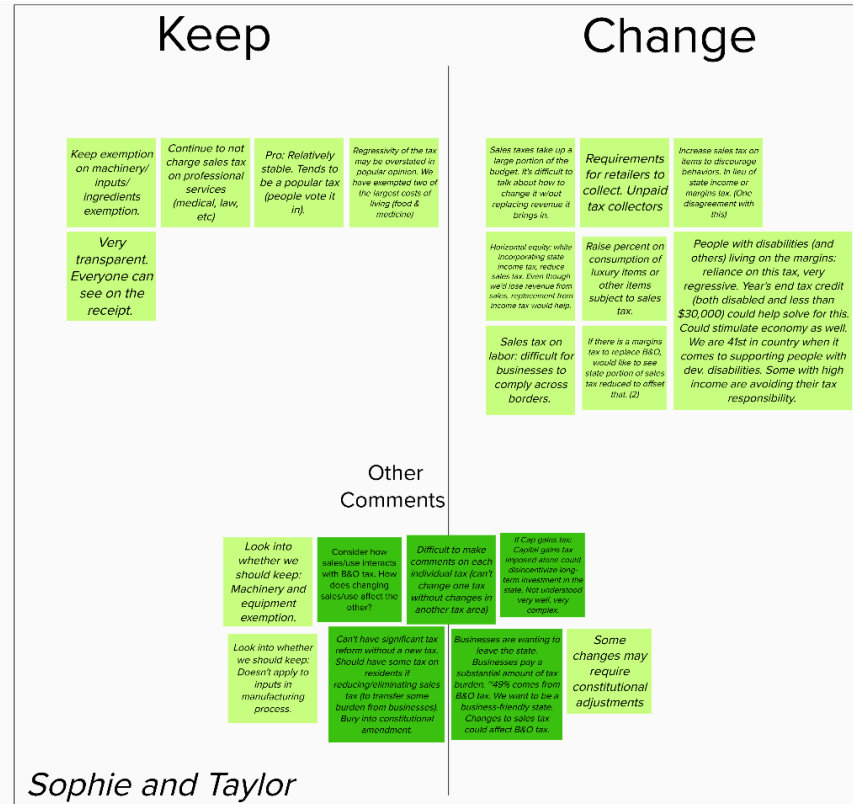


Figure 5 - Retail Sales and Use Tax Mural Board