

Major Milestones and Trends in Washington's Tax Structure 1935-2001

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1935 Revenue Act

Complete change in state government's tax system

First general use tax in the U. S.

Court rules sales and B&O taxes to be excise taxes

Legislature given wide authority as to rates, exemptions, classifications, etc.

1935 Revenue Act

New Taxes Still in Use

Retail Sales
Compensating (use)
Liquor
Cigarettes

New Taxes Not in Use Today

Admissions (T)
Stock Transfers (V)
Radio (U)
Fuel Oil (R)
Conveyance (R)
Medicines & toiletries (V)
Store License (V)
Gift (R)
Corporation Net Income (U)

Reimposed Prior Taxes

Business & Occupation
Public Utility
Inheritance (R)

(T = transferred, V = vetoed, U = unconstitutional, R = repealed)

Pre WW II

Raising Rates & Broadening Bases

1937 – Motor vehicles transferred to excise tax

1939 – Sales tax broadened (food and services to personal property)

1941 - Sales tax extended to services to real property

1941 – Sales tax from 2% to 3%

WW II Period

Expenditure growth limited by war

Surpluses accumulate during war

1944 -

- 40 mill limit written into Constitution
- Constitutional dedication of gas tax

Post WW II

1948 - Expenditures increase -- welfare initiative, baby boomers

1951 - General Fund deficit, excise taxes increased

1953 - Study shows property assessments low

1955 - Revaluation Act

Unconstitutional school levy (Ryder Act)

The 1957 Tax Advisory Council

Tied vote on recommending income tax

Recommended

- Sales tax rate increase
- Extend sales tax to services
- Rehabilitation of property tax

The 1957 Tax Advisory Council

Why more revenue from property taxes?

Washington tax lowest of western states

Assessment levels 18%

Constitution called for 50%

1959 Legislative Response

- Sales Tax - 3.33% to 4.0%
- B&O - 40% surtax to 76%
- Liquor - 10% to 15%
- Cigarettes - 5 cents to 6 cents
- MVET - 1.5% to 2.0%

Property Tax Concerns - 1960s

Special school levies increasing rapidly

Inflation and revaluation increase property taxes

The 50% assessment level threat

Property Tax - New Limits/reductions

1965 - Enacted property tax lid law

1966 - Passed retired person constitutional amendment

1970 - Approved current use constitutional amendment

Lower values for timber, agriculture and open space

A New Tax Advisory Council – 1965

Standoff in 1965 legislative session

- 25% versus 50% assessment level
- Governor appoints new tax council

1965 Tax Advisory Council Proposals

- Single rate income tax (individuals and corporation)
- Constitutional property tax limit from 2.0% to 1.25%
- Reduce sales tax rate and exempt food
- Reduce B&O tax
- Special school M&O levy relief
- Shift state 2 mill property to locals

Changes in 1968 Report

- Lower property tax limit to 1%
- Food tax credit rather than outright exemption
- Eliminate B&O
- Allow different single rate income taxes for individuals and corporations
- State fully fund basic education (special M&O levies for special programs only)
- Shift 10 mills from schools to other local governments

The Income Tax Proposal HJR 42 (1969 Election)

1% property tax limit

Single rate income tax with referendum for
graduated rates in 1975

Measure failed by a vote of 2 to 1

City and County 0.5% Sales Tax First Authorized in 1970

Basic city/county tax has doubled

Many new local taxes authorized since 1970

SJR 1 - The 1% Property Tax Limit Measure

1969 - Court orders 50% assessment

1970 - Legislature cuts millage rate

1971 -

- Legislature passes the 106% limit law
- Voters approve the 1% property tax limit

1973 Legislature Submits Tax Reform to Voters

- Graduated individual rates not to exceed 8%
- Corporate top rate of 12%
- Full funding of schools
- Special M&O school levies prohibited
- Exemption of business inventories
- A rate cap on state and local sales taxes of 5.3%
- Exemption of food from sales tax
- Eliminate B&O tax

HJR 37 Defeated 3 to 1

Possible Reasons

Taxpayers' aversion to new/additional tax

Incentive of lower property tax limit not available as with HJR 42

Prohibition against special M&O school levies

Poorly financed campaign

Supreme Court Orders Full Education Funding

1976 - Court says paramount duty of state to support education

1977 - Full funding of “basic education” law passes

1977 - Phase in 10% limit on special M&O school levies

The Best of Tax Times

1976 - Surplus, strong economy and reduced K-12 enrollments

Tax reductions and full funding of basic education

- 1977 - sales tax off food by initiative
- 1981 - inheritance and gift taxes eliminated by initiative

The Worst of Tax Times: 1981-1983

State's worst economic downturn since the
Depression

Budget cuts and tax increases abound

The Worst of Tax Times (Cont'd)

1981 - Increase sales tax rate 4.5% to 5.

1982 - Double round of surcharges

Food subject to sales tax for 14 months

1983 - Sales tax increase from 5.4% to 6.5% in 36 counties

The 1993 Tax Increases

Last major tax increases during 1993 economic downturn

B&O service category experienced very large increases

Rollbacks in most rates have occurred since that time

Recent Tax Policy Trends

Most recent tax increases earmarked

Promote economic growth through tax incentives

Increasing use of initiatives and referendums

Initiatives and Referendums

- I-601 - the 1993 tax and expenditure limit
- Ref. 49 – transfers MVET funds to transportation
- I-695 – eliminates the MVET
- I-747 - limits property tax increases to 1%
- I-753 - increases the cigarette tax 60 cents

The Future of Taxation In Washington?