

November 2021 Meeting

Date November 8, 2021

Attendees The following people attended the meeting via WebEx or on the phone:

Technical Advisory Group

Doug Conrad
Lucy Dadayan
Hart Hodges
Patrick Jones
Rachel Knutson
Steve Lerch
Jeff Mitchell
Mike Nelson
Andy Nicholas
Pete Parcells
Rick Peterson
Kris Sjoblom

Department of Revenue

Richard Dadzie
Melissa Howes
Sara del Moral
Braden Fraser
Steven Lee
Valerie Torres

EcoNorthwest

Sarah Emmans

**Welcome &
Technology**

Valerie introduced Sara del Moral and let everyone know of the changes coming to RFA. Sara will take over facilitation of the TAG meetings on December 1. Valerie will continue to attend as a background member.

**A Brief Essay on
Tax Incidence and
Questions &
Answers**

Presenter: Douglas Conrad

Question: You alluded to the fact that people vote with their feet. Not so much a general impact as an age/income impact. For Washington, when you are putting guidelines on taxes, for example capital gains, could have an impact on where people live or as the one paper pointed out that the impact.

Response: Good observation – for people for labor or individuals could impact how the tax impacts different populations or situated to move out of the state. Could lead to estimates that overestimate tax impacts and could be a fairness issue – if people can scoot out from under the tax.

Yes, you got it. Sometimes they talk about California. As the rates go up, then the people paying the tax at the top level leave, causing people to leave, causing possibly the rates to increase. Wondering where the break points are located.

Response: Capital gains tax has an exemption in Washington for gains coming from retirement. I find it helpful to think not only think of those that could move out of state, but also those that could reduce/change taxability depending on the deductions.

PIT and tax incidence, been really wondering with a PIT on business income (pass-throughs) if any research on this getting passed on to consumers.

Response: Net reduction to taxable – 2/3 reduction in taxable. Tax avoidance dominated in the personal income tax area – probably putting dead weight costs into the system. Because people can find legal ways to reduce their taxable.

Question: How responsive are people to moving because of tax impacts?

Response: There was very little – a study in decline in mobility. Part of the labor market work on Competitiveness in the preliminary report.

Question: On B&O tax, as recall – destination-based has impact, origin-based has neutral impact. There could be individual impacts to companies. For example, if Boeing delivers out of the state but creates in the state.

Response; Would expect that there would be impacts to different industries.

Response: Could be that one tax shifting to consumers and other tax shifting back to in-state. When going on to being taken out of wages, this could be causing a neutral shift.

Comment: Regarding Richard's paper, the lumping the personal income tax being distributed in the same way as the business income being taxed under personal income.

Response: Net effect of individuals with pass through income if taxed as business income would bring in more tax than at the higher personal income rates.

Observation: With regards to the business pay more in retail sales tax on their purchases than they pay in B&O tax. Need to think about how that retail sales tax gets distributed, but that could be like corporate income tax.

Yes, to your earlier comments. Business owners receive a substantial burden. The rise of passthroughs for income that gets passed through to high earners which is beneficial to the business since the pass-through income is taxed under the personal income tax. In 2011, total \$2.6 billion in income the difference in the 3 percentage points would raised <a lot> of tax revenue.

Comment: Can really speak more to the property tax – more in the prior presentation and outstanding issues. The big punchline is that nearly all of it is shifted to renters, how much is then shifted back to consumers. Englund paper, covers this tax base.

Response: Property tax – how tax could shift to others, within the personal income tax, rental income could be passing on the tax revenues.

Question to group:

Does existing high quality empirical evidence provide sufficient information to build a Washington state economic model? Particularly property, corporate income, the four addressed in this study, and

Most of the modeling for prior tax reform proposals was done with microsimulation models. The next step is to incorporate general equilibrium models. Such as the REMI model used by OFM for economic analysis of policy proposals.

Taxes are used to pull income away from private consumption in order to finance public consumption. The analysis moves from who had to pay the tax initially to how incomes have changed. Will people's economic well-being be better with the new tax system compared to the old tax system? General equilibrium models allow you to look at impacts to labor, etc. The general equilibrium models allow you to run the simulation and see how the alternative assumptions about elasticities change the impact.

Or perhaps exploring in the next few months, the partial equilibrium, we have a state or set of states – like ours and compare how the tax visits different sectors. (Difference in difference studies)

Response: When I think about Washington's tax structure, it's hard not to think about the Oregon's tax structure.

Oregon and Washington have such very different tax structures. If you look across time and can see how economic development in the two states differ. One can look at the differences in the taxes and development by sector.

Response: The question of incidence is going to have a fair amount of ... (Peckman book) if you go back to the incidence studies and different assumptions and reported results under the differences. At least helps to show the degree of uncertainty.

Response: That would be a great idea.

Distribution of incidence, case to be made.

Next Meeting

December 22, 9 – 10:45 am

Presentations on:
Employee Compensation Model
Wealth Tax Model
Model Forecasts (B&O, PIT, VAT, Margins, CINR)
