

## Washington State Tax Structure Study

**Significance:**    0 = No problem                    2 = Between 1 and 3                    4 = Between 3 and 5  
                           1 = Minor problem                    3 = Significant problem                5 = Major problem

Results of Committee Responses	Part I Average Rank	Part II, Number
<u>Volatility/Long Run Adequacy</u>		
1. Washington's mix of taxes causes revenues to increase more than personal income during good economic times and less than personal income in economic downturns.	2.9	2
2. In Washington State, excess revenues generated in good economic times have often resulted in permanent tax cuts. Whereas in some other states with volatile tax systems, excess revenues are distributed as temporary tax cuts.	2.5	0
3. It is politically difficult to build and maintain adequate reserve funds during good economic times.	3.5	2
4. The increasing share of services in consumer spending, along with increased opportunities for making purchases out of state, result in taxable retail sales growing more slowly than the economy as a whole over the long run.	3.6	2
5. Initiatives have impacted long run adequacy.	3.5	1
6. Initiatives and state-imposed reductions in tax bases have impacted local adequacy.	3.2	0
7. Counties have less taxing capacity than cities and their tax resources are diminishing further due to annexations and property tax limitations.	2.5	0

## Washington State Tax Structure Study

**Significance:**    0 = No problem                      2 = Between 1 and 3                      4 = Between 3 and 5  
                          1 = Minor problem                      3 = Significant problem                      5 = Major problem

	Part I Average Rank	Part II, Number
<u>Economic Vitality</u>		
8. B&O tax is a relatively high burden on businesses in their unprofitable years.	2.6	0
9. Low profit margin Washington firms tend to suffer a competitive disadvantage because of Washington's taxes compared to their competitors in other states.	2.4	1
10. Business taxes are generally lower in Oregon. Since Washington and Oregon are similar in many ways, lower business taxes could cause businesses to decide to locate in Oregon.	2.2	0
11. State and local taxes are more burdensome because the retail sales tax paid by households is not deductible from federal income taxes.	3.6	3
<u>Equity</u>		
12. Lower income households pay a higher percentage of their income in state and local taxes than do higher income households.	4.0	6
13. New and expanding businesses tend to have higher property tax burdens compared to otherwise similar businesses because they are acquiring property in anticipation of growth.	1.7	0
14. Similar taxpayers pay significantly different taxes because of differences in local taxes.	1.9	0
15. Property tax exemptions cause direct tax shifts to other taxpayers.	2.3	0

## Washington State Tax Structure Study

**Significance:**     **0 = No problem**                     **2 = Between 1 and 3**                     **4 = Between 3 and 5**  
                                  **1 = Minor problem**                     **3 = Significant problem**                     **5 = Major problem**

	Part I Average Rank	Part II, Number
16. There are significant activities that are not subject to taxation such as: <ul style="list-style-type: none"> <li>• Income of individuals</li> <li>• Business inventories</li> <li>• Intangible assets</li> <li>• Rental of real property</li> <li>• Agricultural production</li> <li>• Investment income of nonfinancial business</li> <li>• Food for home consumption</li> </ul>	2.7	1
<u>Neutrality</u>		
17. B&O tax pyramiding (at least 2:1) results in non-neutralities between different industries and between vertically integrated and non-integrated firms.	3.1	1
18. Non-neutralities are caused by the fact that a significant fraction of consumer spending is untaxed because certain types of spending, such as spending on food and many consumer services, are not subject to the retail sales tax.	2.2	0
19. For all major industry groups, effective B&O tax rates that include measures of taxation of value-added are much higher than the legal B&O rates.	2.0	0
20. There is a lot of variation across industries in the effective B&O rate on value-added.	2.6	0
<u>Transparency</u>		
21. Since households pay the retail sales tax on numerous purchases throughout the year, they may be unaware of their total annual tax burden.	2.4	1
22. To the extent that business taxes are passed on to consumers, business taxes are not transparent.	3.2	0
23. Households tend not to like lumpy taxes. Property taxes are lumpy for most households.	2.3	0

## Washington State Tax Structure Study

**Significance:**    0 = No problem                    2 = Between 1 and 3                    4 = Between 3 and 5  
                           1 = Minor problem                    3 = Significant problem                5 = Major problem

	Part I Average Rank	Part II, Number
<u>Simplicity</u>		
24. Certain dedicated taxes are relatively costly to administer for both the state and the businesses.	1.8	0
25. Retailers face significant costs of collecting state and local retail sales tax, for which they are not compensated.	1.6	0
26. There is a lack of uniformity of local B&O tax definitions and inconsistent rules of apportioning local B&O tax.	2.6	0
<u>Home Ownership</u>		
27. Property tax payments for about 11% of households are 6% or more of their personal income. Many of these households are low income working families that have suffered a change in circumstances.	2.8	0
<u>Tax Harmony Issues</u>		
28. Individuals can avoid sales tax by shopping in bordering states with lower sales tax rates or by making remote purchases.	3.6	1
29. Some Washington firms are able to avoid the B&O tax by shifting their income generating activities (such as manufacturing) to other states.	3.4	0
30. Washington's tax system is significantly different than that of "typical" states.	2.8	1

(Continued on next page)

## Washington State Tax Structure Study

<u>Other Problems</u>	Part I Average Rank	Part II, Number
31. Loss of estate tax adds to the regressive nature of Washington taxes.		
32. Change in the Federal Estate Taxes affect the state's revenues.		
33. Border Communities have particular difficulties with the state tax structure.		
34. Gradual erosion of the tax base puts pressure on rates.		
35. There is no systematic way to evaluate tax exemptions after they are put in place.		

# Washington State Tax Structure Study

## Problem Statements Chosen as Top Two Problems

Problem Number	Problem Statement	Number of Responses
1	Washington's mix of taxes causes revenues to increase more than personal income during good economic times and less than personal income in economic downturns	2
3	It is politically difficult to build and maintain adequate reserve funds during good economic times.	2
4	The increasing share of services in consumer spending, along with increased opportunities for making purchases out of state, result in taxable retail sales growing more slowly than the economy as a whole over the long run.	2
5	Initiatives have impacted long run adequacy.	1
9	Low profit margin Washington firms tend to suffer a competitive disadvantage because of Washington's taxes compared to their competitors in other states.	1
11	State and local taxes are more burdensome because the retail sales tax paid by households is not deductible from federal income taxes.	3
12	Lower income households pay a higher percentage of their income in state and local taxes than do higher income households.	6
16	There are significant activities that are not subject to taxation such as: <ul style="list-style-type: none"> <li>• Income of individuals</li> <li>• Business inventories</li> <li>• Intangible assets</li> <li>• Rental of real property</li> <li>• Agricultural production</li> <li>• Investment income of nonfinancial business</li> <li>• Food for home consumption</li> </ul>	1
17	B&O tax pyramiding (at least 2:1) results in non-neutralities between different industries and between vertically integrated and non-integrated firms.	1
21	Since households pay the retail sales tax on numerous purchases throughout the year, they may be unaware of their total annual tax burden.	1
28	Individuals can avoid sales tax by shopping in bordering states with lower sales tax rates or by making remote purchases.	1
30	Washington's tax system is significantly different than that of "typical" states.	1
20	There is a lot of variation across industries in the effective B&O rate on value-added. (One person chose Number 20 as a third choice).	

# Washington State Tax Structure Study