

# **Tax Structure Work Group (TSWG) Meeting Technology Practice Session**

**December 13, 2022**

**8:30 a.m. – 9 a.m.**


# Anonymous Polling Instructions

## Instructions for voting TSWG members only:

- Click the link in the chat  
or
- Go to [menti.com](https://menti.com) and enter the code (in the chat)

Please do **not** share the link or code with anyone

*menti.com*



# Mentimeter

Please enter the code

Submit

# Anonymous Polling Instructions



Practice Question:  
are you able to  
participate in this  
poll?

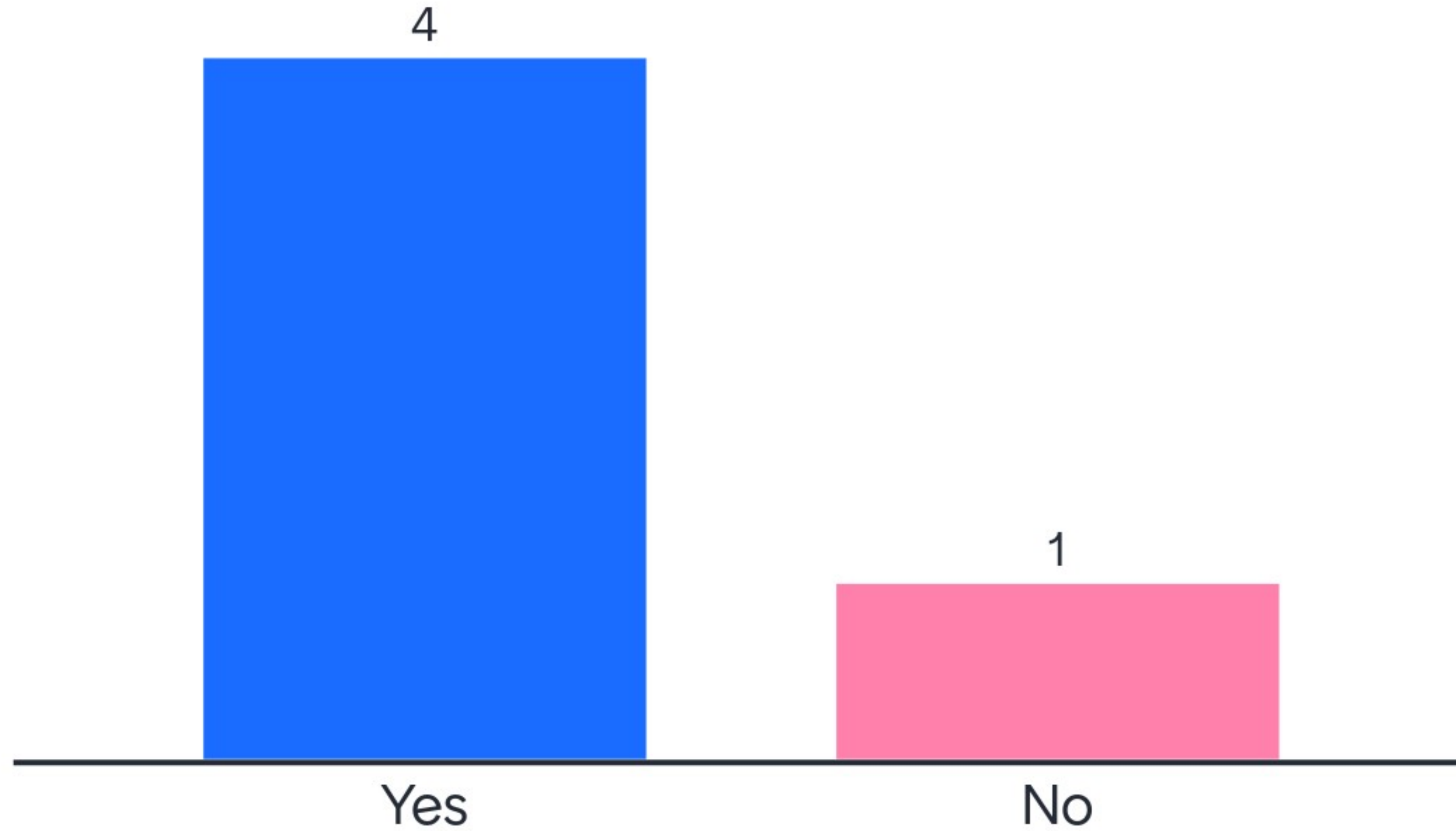
Yes

No

Submit

Once you have entered the  
poll, please participate in the  
practice question

# Practice Question: are you able to participate in this poll?



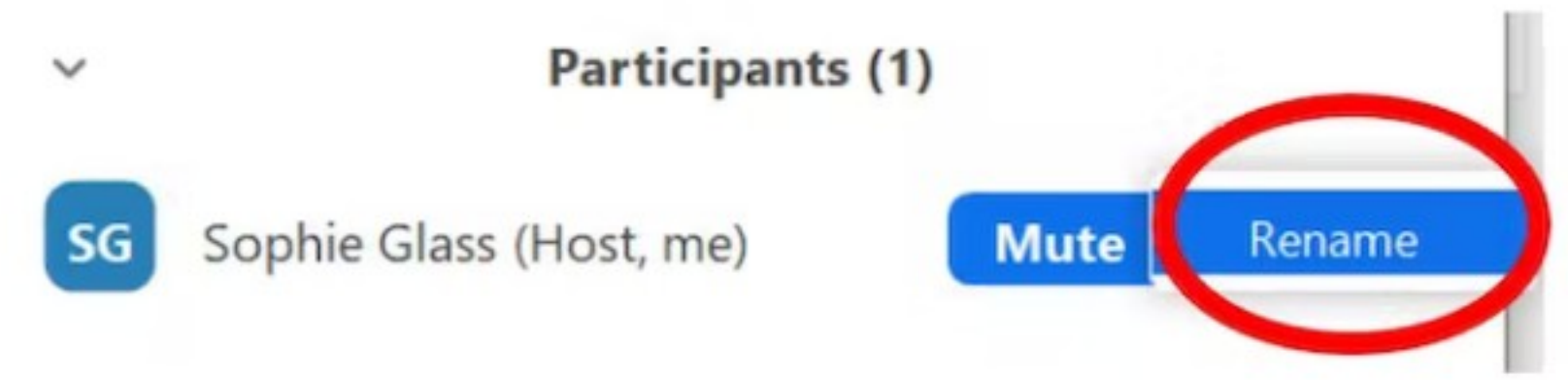
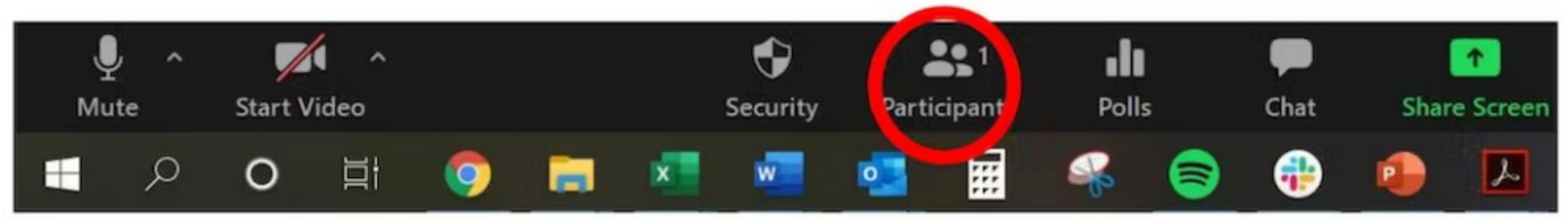
# Tax Structure Work Group (TSWGW) Meeting

December 13, 2022

9 a.m. – 12 p.m.

# Meeting Set-Up

- For **participants** - Change your "participant name" to your name and affiliation.
- For **legislators** – Change your "participant name" to "Sen. – Name" or "Rep. – Name".



# Welcome & Introductions

- Welcome from Tax Structure Work Group Co-Chairs
- Welcome to Tax Structure Work Group Members (roll call)
- Welcome to legislators
- Welcome to participants

# Technical Ground Rules

- Remain on mute unless speaking
- Message Pauline Mogilevsky through Zoom chat. Or call at (206) 981-2217 with any technical difficulties (don't text).
- TSWG members may submit questions for presenters via chat or out loud by raising their hands\*
- Want to provide public comment? Email [info@taxworkgroup.org](mailto:info@taxworkgroup.org) with your name and organization by 10:00 a.m.

\* All information entered into the chat box is part of the public record and will be shared as part of the public meeting summary.



# Agenda

- Introduction and meeting overview
- Margin tax
- Property tax limit factor
- Break
- Polling and voting
- 2023 TSWG efforts
- Public comment
- Wrap up and summary of action items

# Review of Progress so Far

2021

TSWG shared tax scenarios for public feedback

March 2022

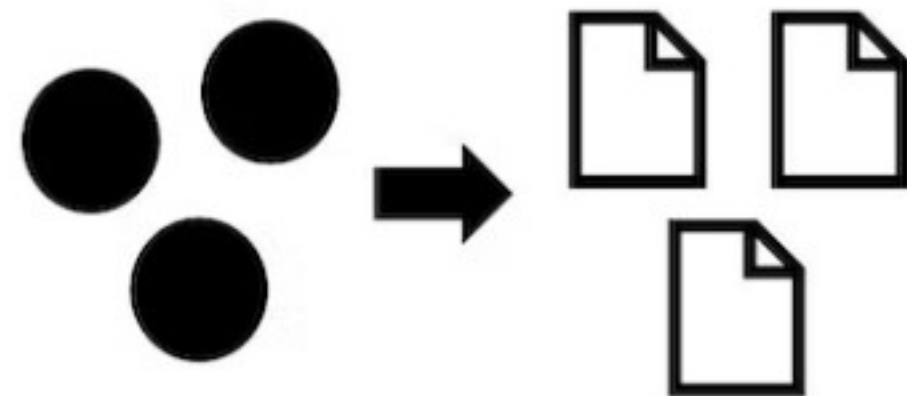
TSWG chose policy concepts to move forward for DOR modeling and drafting

May & Sept. 2022

TSWG provided guidance to DOR on details of tax policy proposals

Nov. 2022

TSWG reviewed policy proposals with estimated fiscal impacts and provided guidance on which tax types to move forward



# December Meeting Goals

Review policy proposals with **updated** fiscal impacts

Provide guidance to DOR on final rate setting and other fine tuning

**VOTE** on final policy recommendations to the full legislature



# Public Feedback

## Archive of Public Comments

Click the links below to view public comments that the Tax Structure Work Group received via email (info@taxworkgroup.org). Emails received before January 2022 were analyzed as part of the [Public Engagement Report](#) and are not included here.

- [WA State Auto Dealers Association, May 24, 2022](#)
- [Sno-Isle Libraries, May 24, 2022](#)
- [NCW Libraries, May 25, 2022](#)
- [Washington Retail Association, June 10, 2022](#)
- [Pearl Follett, July 14, 2022](#)
- [Bob Kenney, July 14, 2022](#)
- [Norm Conrad, July 14, 2022](#)
- [Bill Valela, September 20, 2022](#)
- [Norm Conrad, September 20, 2022](#)
- [Jim Hiller, September 21, 2022](#)
- [Glenn Lestz, November 11, 2022](#)
- [David Dittermore, November 14, 2022](#)
- [Michele Willms, November 14, 2022](#)
- [Sally Cowan, November 14, 2022](#)

# Background on Tax Types

# Margin Tax

# Description of Proposal

## Margin Tax

- This proposal would replace Washington's B&O tax with a margin tax modeled after Texas's franchise tax.
- Under this margin tax proposal, businesses would be taxed on their margin, which is calculated as gross income minus the greater of four deductions:
  - Cost of goods sold,
  - Compensation paid,
  - A fixed percentage of gross receipts (e.g., 30%), or
  - A flat amount (e.g., \$1 million).

# Description of Proposal

## Margin Tax

This margin tax proposal would also:

- Change the filing frequency for all entities to an annual return due April 15th.
- Require quarterly estimated payments.
- Require combined reporting for corporations required to file consolidated federal returns.
- Eliminate all preferential rates.
- Eliminate all deductions, exclusions, and exemptions except those that are necessary for legal compliance or practical administration.
- Allow businesses to carryover earned but unused B&O tax credits to be credited from margin tax due for a limited amount of time.
- Compensate retailers by creating a retail sales tax credit.



# Description of Proposal

## Margin Tax

The table below is based on a goal of revenue neutrality for the 2029-31 Biennium, with a rate of 2.9449%.

Fund - Source	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
<b>GF-State - NEW</b>	\$0	\$1,585,300,000	\$6,733,600,000	\$7,645,400,000	\$7,915,800,000	\$8,289,600,000
<b>GF-State - Retail Sales Tax</b>	\$0	(\$17,400,000)	(\$43,300,000)	(\$45,000,000)	(\$46,800,000)	(\$48,600,000)
<b>GF-State - B&amp;O Tax</b>	\$0	(\$2,853,000,000)	(\$7,181,200,000)	(\$7,514,500,000)	(\$7,869,700,000)	(\$8,240,000,000)
<b>Fiscal Year Total</b>	\$0	(\$1,285,100,000)	(\$490,900,000)	\$85,900,000	(\$700,000)	\$1,000,000
<b>Biennial Total</b>		(\$1,285,100,000)		(\$405,000,000)		\$300,000

# EZ Computation

## Margin Tax

Estimated Impact of EZ Rate vs One Flat Rate of 2.9449% - Margin Tax

EZ Rate	Threshold	Impacted Taxpayers	Percent of Taxpayers Impacted	Tax from EZ Rate	Tax Lost	Net Impact	Estimated Margin Rate
1.5%	\$2,500,000	14,762	14%	\$199,454,935	(\$235,164,796)	(\$35,709,862)	2.9514%
1.5%	\$5,000,000	19,830	19%	\$463,493,770	(\$556,491,013)	(\$92,997,243)	2.9624%
1.5%	\$10,000,000	22,254	22%	\$713,060,676	(\$865,456,451)	(\$152,395,774)	2.9741%
1.75%	\$2,500,000	7,500	7%	\$105,499,740	(\$117,834,045)	(\$12,334,305)	2.9471%
1.75%	\$5,000,000	10,621	10%	\$297,499,852	(\$331,297,742)	(\$33,797,890)	2.9511%
1.75%	\$10,000,000	12,207	12%	\$488,680,140	(\$547,302,187)	(\$58,622,046)	2.9559%
2.0%	\$2,500,000	3,524	3%	\$58,139,937	(\$59,765,318)	(\$1,625,381)	2.9452%
2.0%	\$5,000,000	4,844	5%	\$155,345,015	(\$159,649,568)	(\$4,304,553)	2.9456%
2.0%	\$10,000,000	5,751	6%	\$280,659,694	(\$288,538,202)	(\$7,878,508)	2.9463%

# Manufacturing/Extraction

## Margin Tax

- The Margin Tax preserves apportionment principles for manufacturing and extraction industries.
- In the Margin Tax:
  - Nexus applies to a combined group if one or more in the group have a substantial nexus in WA.
  - Taxpayers first determine worldwide income before deductions.
  - Apportionable income means gross income from engaging in apportionable activities.
  - The percentage of a business's worldwide taxable margin apportioned to Washington under the margin tax equals the percentage of the business's worldwide taxable gross receipts apportioned to Washington under the B&O tax.

# Retailer Compensation

## Margin Tax

- Retailers received an effective credit for collecting and remitting sales taxes on taxable retail sales by receiving a lower retailing B&O tax rate.
- In the Margin Tax, all preferential rates are eliminated but the TSWG seeks to retain this form compensation for retailers.
- In a move to a Margin Tax, retailers will be compensated by creating a retail sales tax credit.
- The credit will be administered via filing on the combined excise tax return that retailers will submit.

# Property Tax Limit Factor

# Background

## Property Tax Limit Factor

- Current law limits property tax levy increases with growth limits often referred to as the "101% levy limit" or the "1% growth limit" and allows an increase in levy capacity for certain add-ons.

# Description of Proposal

## Property Tax Limit Factor

- In DOR's current model, this proposal would amend the 101% levy limit for all local property taxes. The proposal would:
  - Revise the definition of "limit factor" to mean 100% plus population change and inflation, but not to exceed a ceiling limit.

# Fiscal Estimate

**Property Tax Limit Factor**

Option	Revenue Impact						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	6-Year Total
<b>0% Floor / 3% Ceiling</b>							
Local Fiscal Year Totals	\$60,800,000	\$181,300,000	\$309,800,000	\$444,300,000	\$584,900,000	\$734,800,000	
Biennial Totals		\$242,100,000		\$754,100,000		\$1,319,700,000	\$2,315,900,000
<b>0% Floor / 5% Ceiling</b>							
Local Fiscal Year Totals	\$121,600,000	\$364,700,000	\$586,500,000	\$769,600,000	\$945,900,000	\$1,134,700,000	
Biennial Totals		\$486,300,000		\$1,356,100,000		\$2,080,600,000	\$3,923,000,000

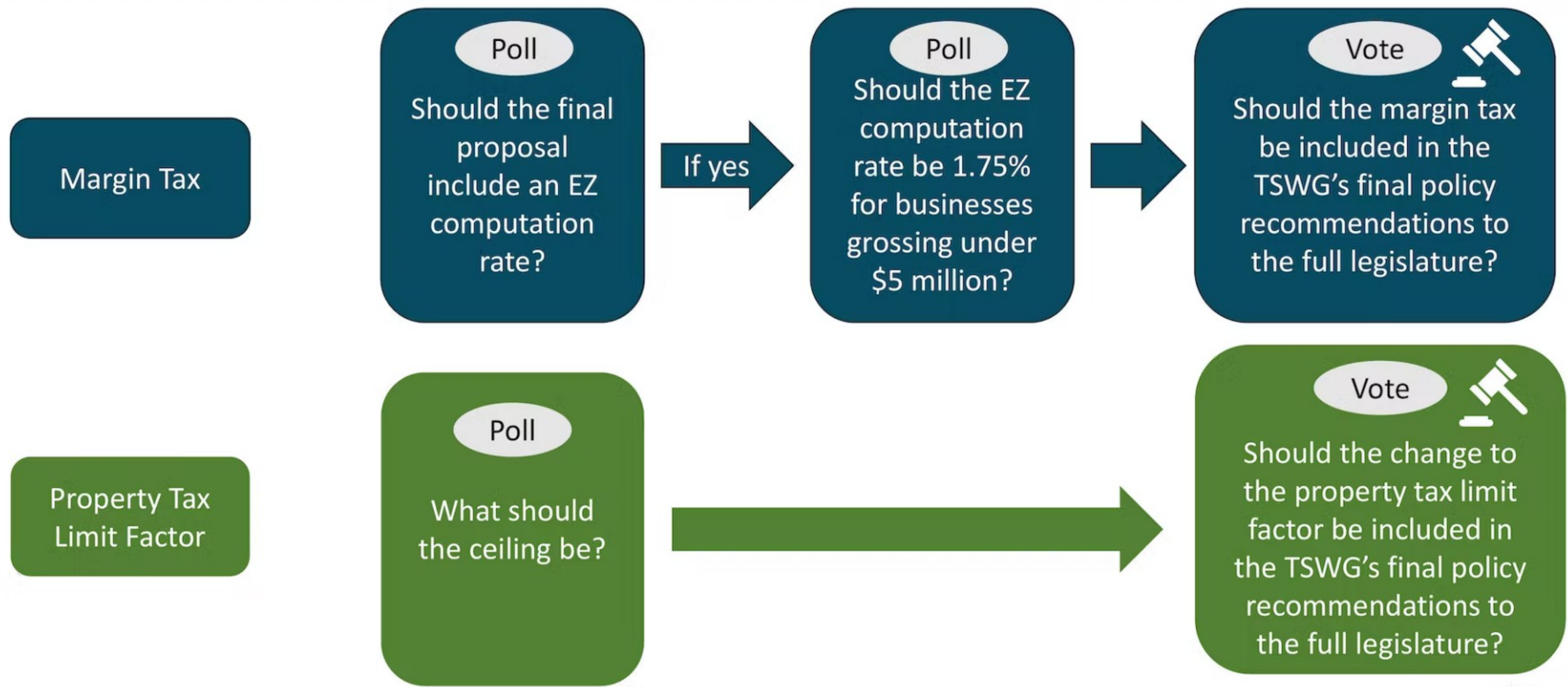


# Break (10 minutes)

If you would like to provide public comment, email [info@taxworkgroup.org](mailto:info@taxworkgroup.org) with your name and organization

# Polling and Voting on Policy Recommendation

# Overview of Polling & Voting Questions




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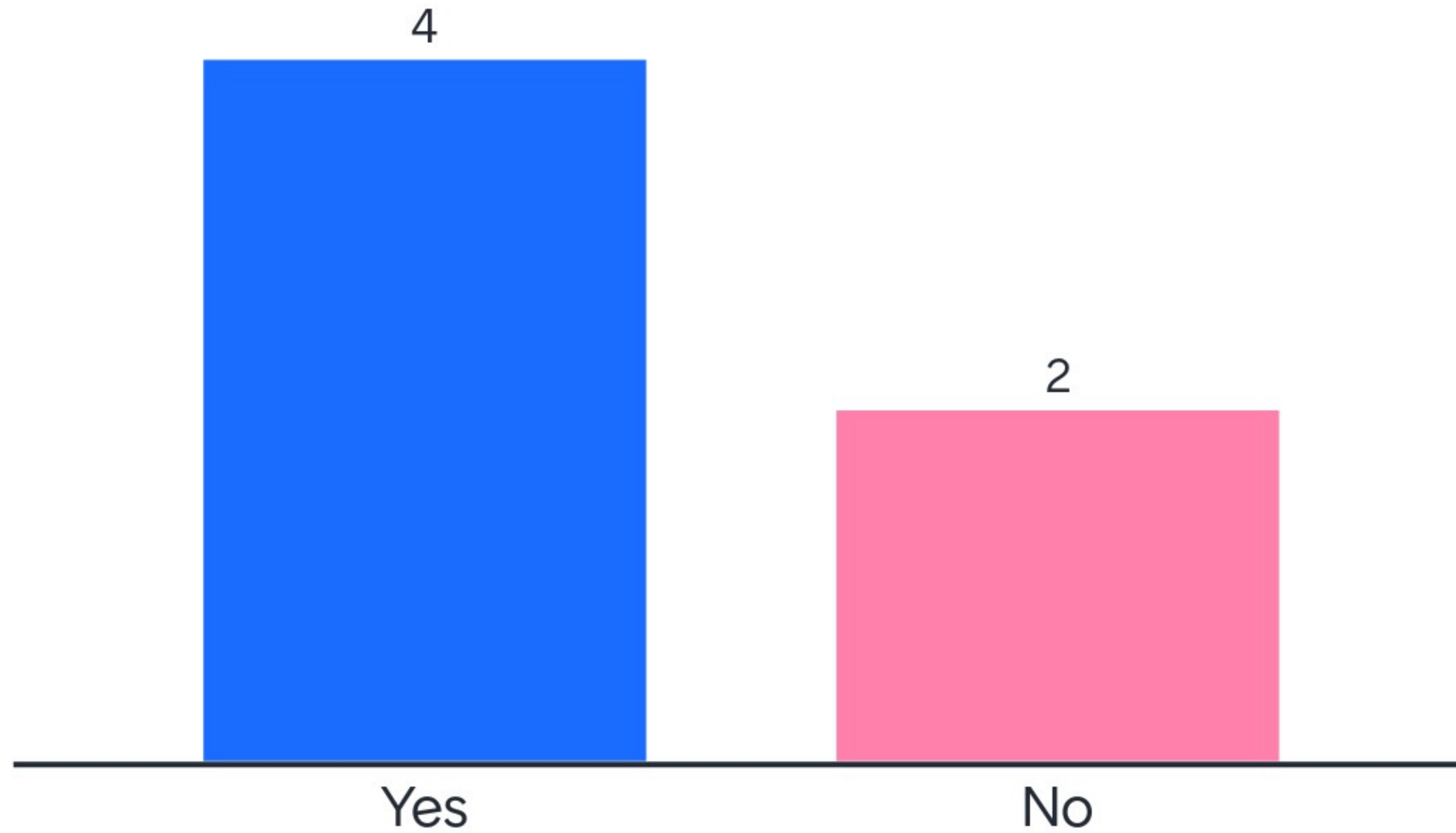
Yes

No

Submit

Once you have entered the  
poll, please participate in the  
practice question

# Practice Question: are you able to participate in this poll?



# Margin Tax

# Poll: EZ Computation

Margin Tax

Question: Should the final proposal include an EZ computation rate?

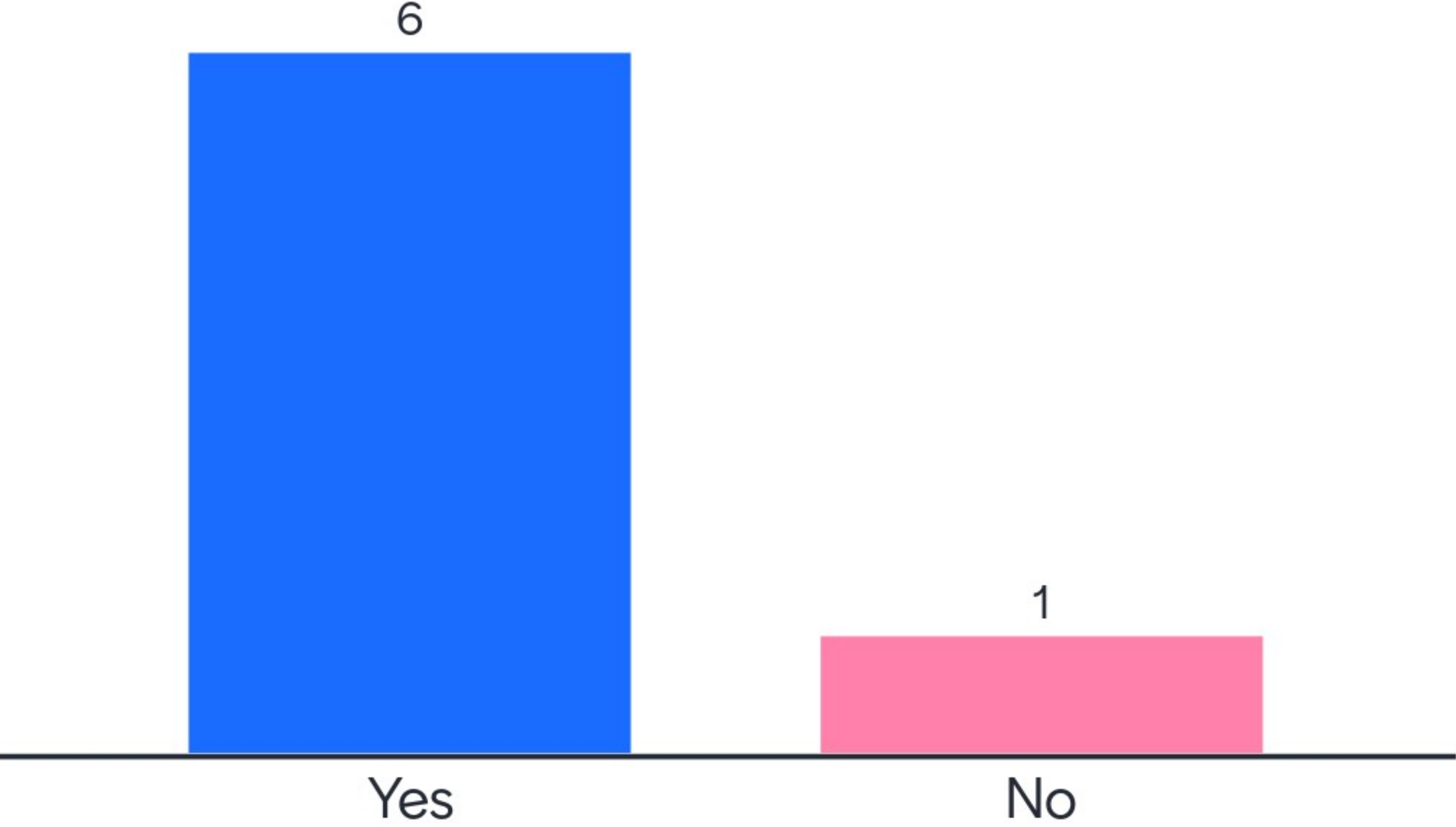
## Options:

- Yes
- No





# Should the final proposal include an EZ computation rate?



# Poll: EZ Computation

Margin Tax

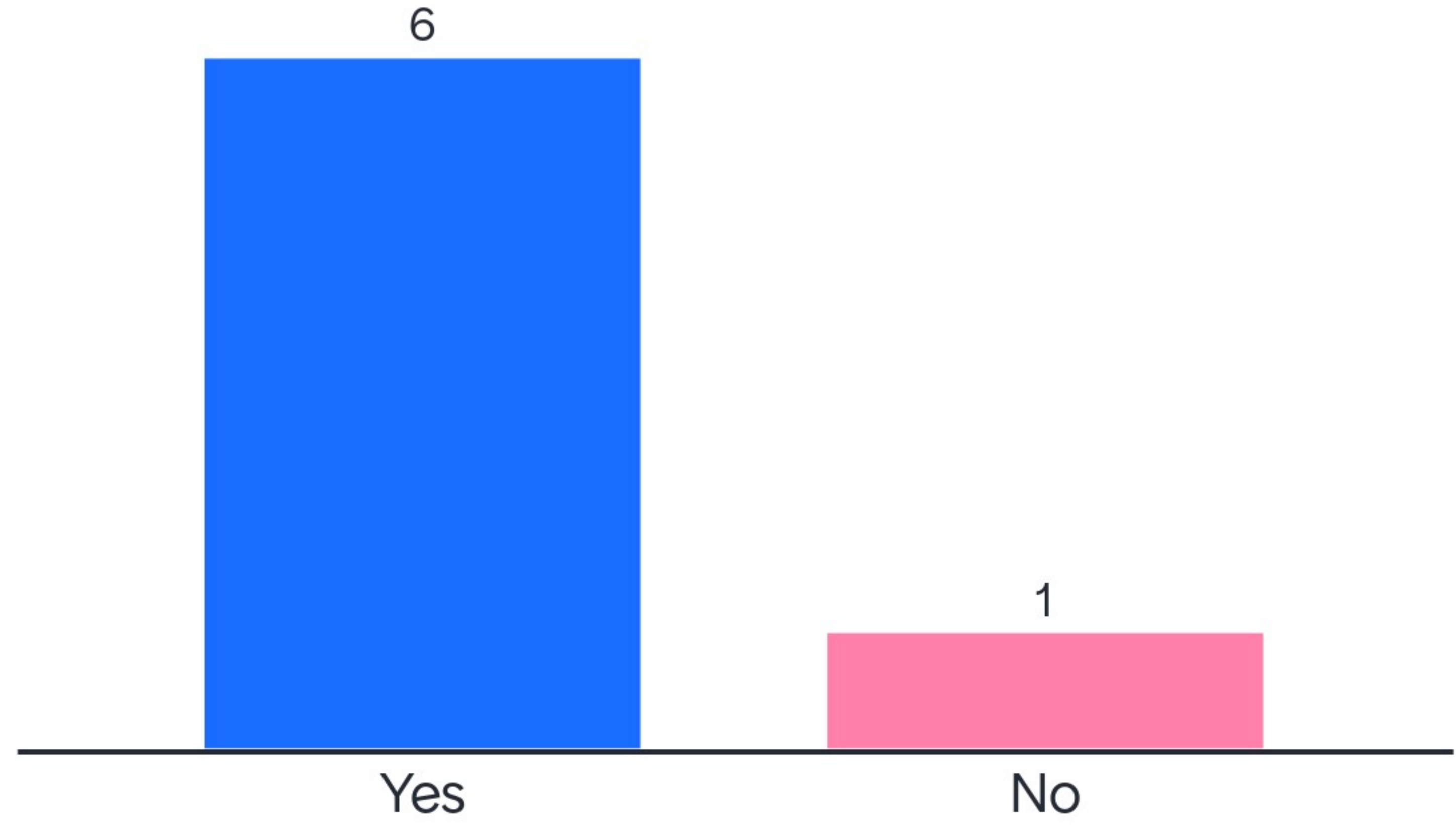
Question: Should the EZ computation rate be 1.75% for businesses grossing under \$5 million?

## Options:

- Yes
- No



# Should the EZ computation rate be 1.75% for businesses grossing under \$5 million?



# Vote

## Margin Tax

Question: Should the margin tax be included in the TSWG's final policy recommendations to the full legislature?

### Options:

- Yes
- No



# Property Tax Limit Factor

# Poll: Ceiling

Property Tax Limit  
Factor

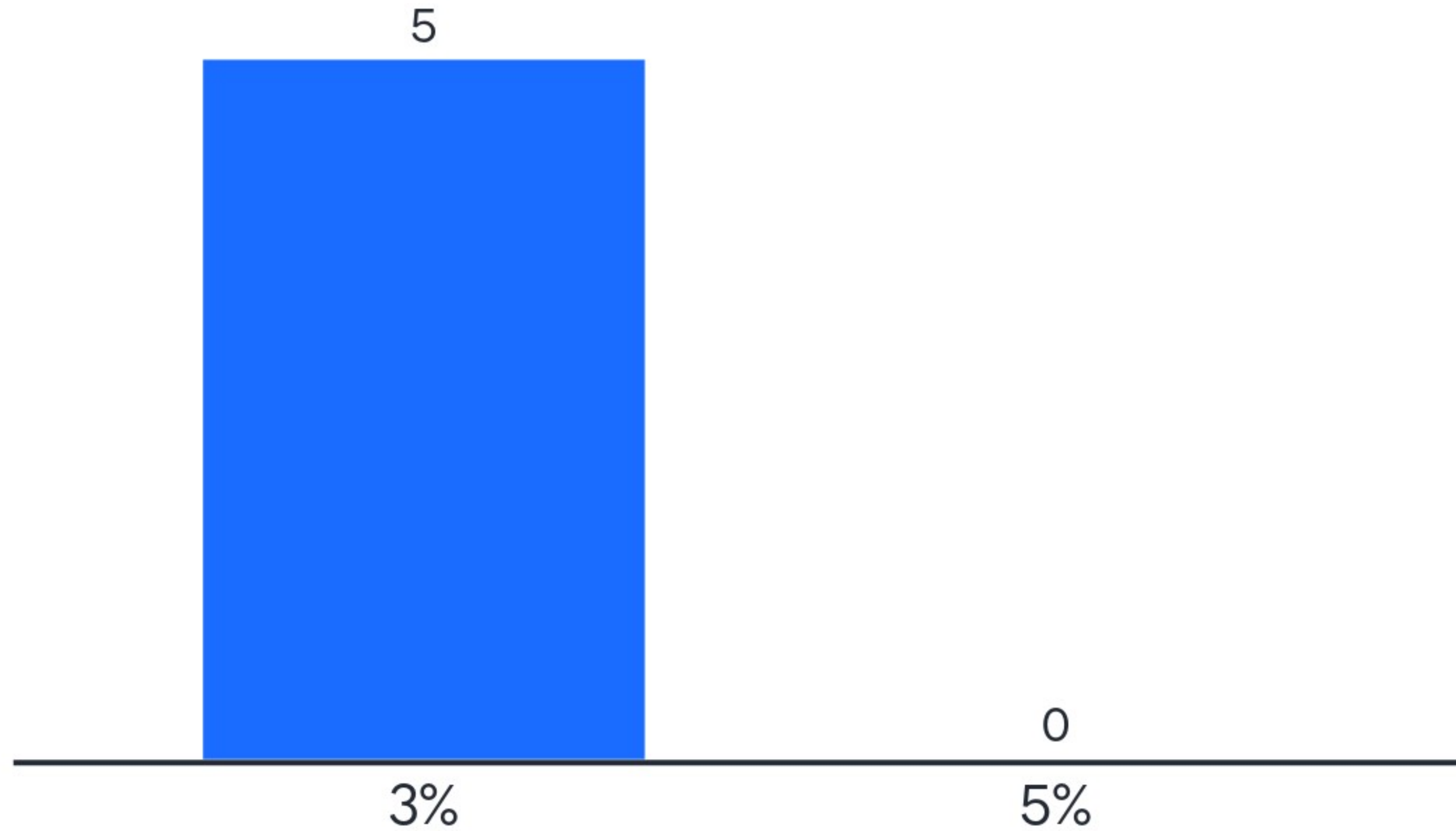
Question: What should the ceiling to the property tax limit factor be?

## Options:

- 3%
- 5%



# What should the ceiling to the property tax limit factor be?



# Vote

## Property Tax Limit Factor

Question: Should the change to the property tax limit factor be included in the TSWG's final policy recommendation to the full legislature?

### Options:

- Yes
- No



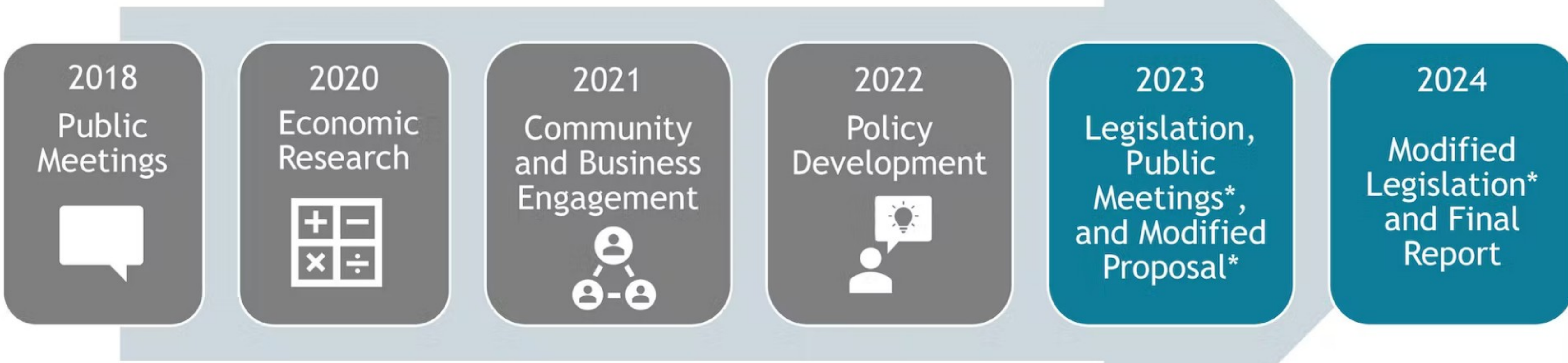


# 2023 TSWG Efforts

# Proviso Language re: 2023 Efforts

- (viii) **If the proposal is not adopted during the 2023 legislative session, the work group is directed to host no less than three public meetings to collect feedback** on the legislation proposed in the 2023 session, and may also collect feedback on other proposals under consideration by the work group, subject to the availability of funds in the 2023-2025 biennial budget. The work group is directed to modify the proposal to address the feedback collected during the public meetings;
- Full proviso is available on the [TSWG website](#)

# Timeline



*\*If proposal does not pass in 2023 session*

# 2023 TSWG Membership

- Welcome to Rep. Walen and Commissioner McKinney
- Other replacement appointments forthcoming



Rep. Amy Walen  
48th Legislative District



Commissioner Amanda McKinney  
Yakima County

# Public Comment Period

Comments can be up to 3 minutes long

# Wrap Up and Next Steps

# Next Steps

- The TSWG will reconvene after the 2023 Legislative Session
- TSWG Co-Chairs will meet on an as-needed basis during the session