

Tax Structure Work Group (TSWG) Meeting

May 8, 2023

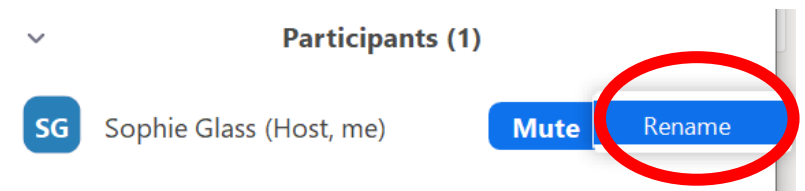
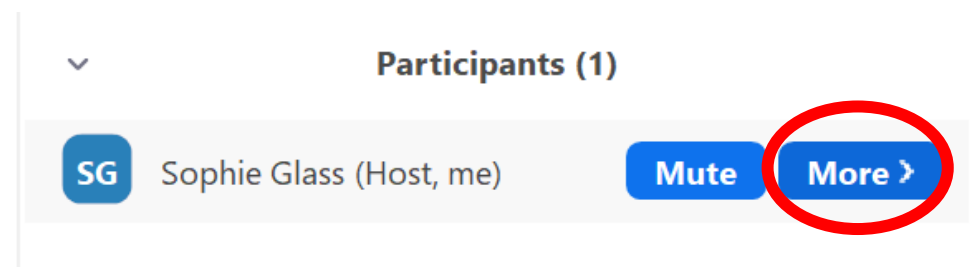
9 a.m. – 10:30 a.m.

Audio/Visual Check



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".



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 with your name and organization by 9:30 a.m.
- Treat each other with civility and respect.

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

Welcome and Introductions

Welcome & Introductions

- Welcome from Tax Structure Work Group Co-Chairs
- Welcome to Tax Structure Work Group Members (roll call)
- Welcome to participants
 - If you would like to provide public comment, email info@taxworkgroup.org with your name and organization by 9:30 AM

Agenda

- Recap of TSWG process to date
- Debrief of the 2023 WA Legislative Session
 - Margin tax
 - Property tax limit factor
- Reflections and comments from the public
- Reflections from TSWG members
- Wrap up and adjourn

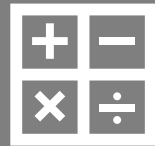
Recap of Process to Date

Timeline

2018
Public
Meetings



2020
Economic
Research



2021
Community and
Business
Engagement



2022
Policy
Development



2023
Legislation



2023 Legislative Session Debrief

Margin Tax

Margin Tax Proposal

- This proposal would have replaced Washington's B&O tax with a margin tax modeled after Texas's franchise tax.
- Under the 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%)

A flat amount (e.g., \$1 million)

Margin Tax Proposal (continued)

The margin tax proposal also:

- Changed the filing frequency for all entities to an annual return.
- Required quarterly estimated payments.
- Required combined reporting for corporations required to file consolidated federal returns.
- Eliminated all preferential rates, deductions, exclusions and exemption, except those necessary for legal compliance or practical administration.
- Allowed businesses to carryover earned but unused B&O tax credits to be credited from margin tax due for a limited amount of time.
- Compensated retailers by creating a retail sales tax credit.

Margin Tax Proposal (continued)

- The B&O tax would be eliminated starting January 1, 2027, and the margin tax would begin for gross income earned in 2027.
- The first quarterly estimated payments would be due in April 2027, with the annual tax return for 2027 due April 15, 2028.

2023 Margin Tax Bills

- SB 5482 (Frame) – Concerning the margin tax.
 - Heard in the Senate Business, Financial Services, Gaming & Trade Committee on January 26th.

- HB 1644 (Walen) – Concerning the margin tax.
 - Heard in the House Finance Committee on February 20th.

Property Tax Limit Factor

Current law limits taxing districts' annual property tax levy increases by the levy growth limit, often referred to as the "101% levy limit" or the "1% growth limit," plus any increase in levy capacity for the following add-ons:

- New construction.
- Construction of wind turbine, solar, biomass, and geothermal facilities.
- Improvements to property.
- Increased value of state-assessed property.
- Increases in real property value within a local tax increment finance area designated by a local government.

Property Tax Limit Factor Proposal

- This proposal amended the 101% levy limit for all local property taxes.
- The proposal revised the definition of “limit factor” to mean 100% plus population change and inflation, but not to exceed 103%.
- This proposal would have taken effect beginning with property taxes due for Calendar Year 2024.

2023 Property Tax Limit Factor Bills

- SB 5618 (Kuderer) – Increasing the local property tax revenue growth limit.
 - Heard in the Senate Local Government, Land Use & Tribal Affairs Committee on February 14th.
- HB 1670 (Ormsby) – Raising the limit factor for property taxes.
 - Heard in the House Finance Committee on February 20th.
 - Passed out of the House Finance Committee on February 21st.
 - Referred to the House Rules Committee on February 23rd.

Questions and
Comments?



Reflections from the Public

Reflections from the Tax Structure Work Group

Wrap Up and Adjourn

TSWG Close Out



- The TSWG website will be taken down and key components will be archived on DOR's website.



- A final report summarizing the TSWG's efforts will be distributed via the email list-serv.



- The info@taxworkgroup.org email address will be closed.

Closing Remarks

Closing words from Senator Frame and
Senator Wagoner

