

Technology Practice Session for Tax Structure Work Group (TSWG) Meeting

November 14, 2022

7:30 – 8 a.m.


Anonymous Polling Instructions

Instructions for voting TSWG members only:

- Click the link in the chat
or
- Go to 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?

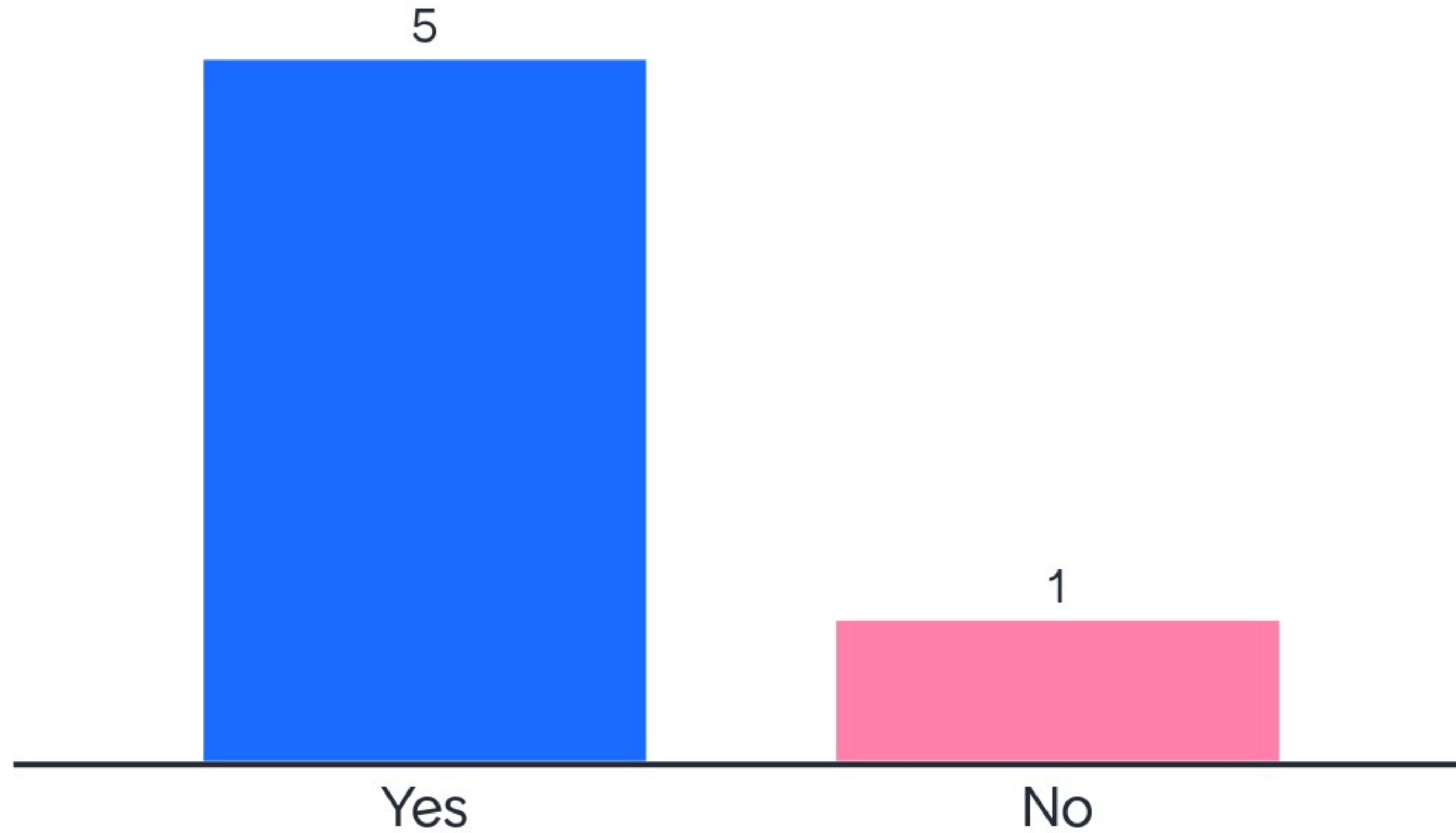
Yes

No

Submit

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

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



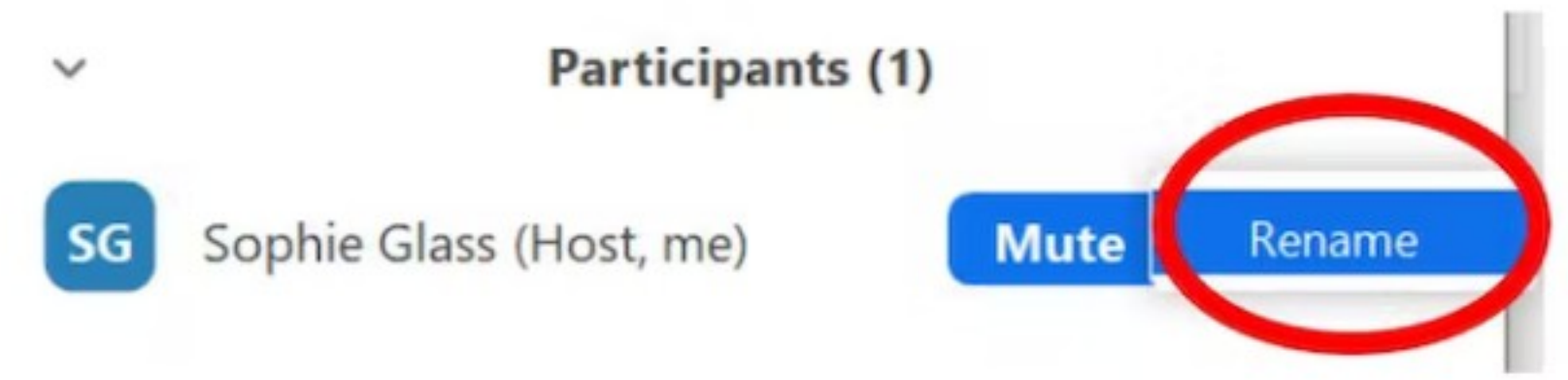
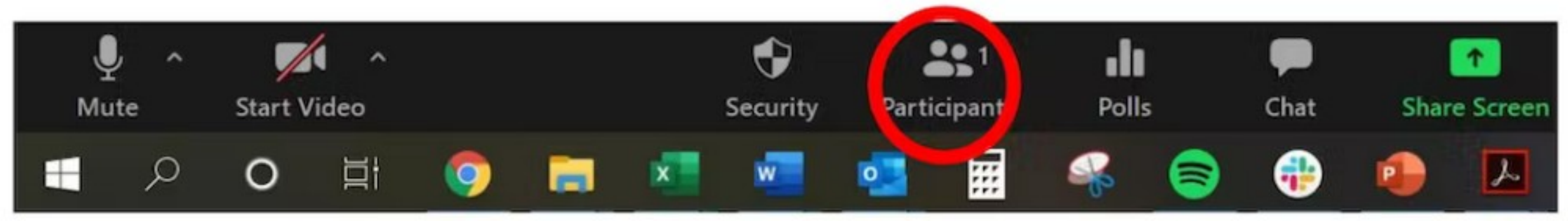
Tax Structure Work Group (TSWGW) Meeting

November 14, 2022

8 a.m. – 11 a.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 with your name and organization by 10:15 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
- Overview of all policy proposals
- Break
- Polling
- Public comment
- Wrap up and summary of action items

Review of Progress so Far

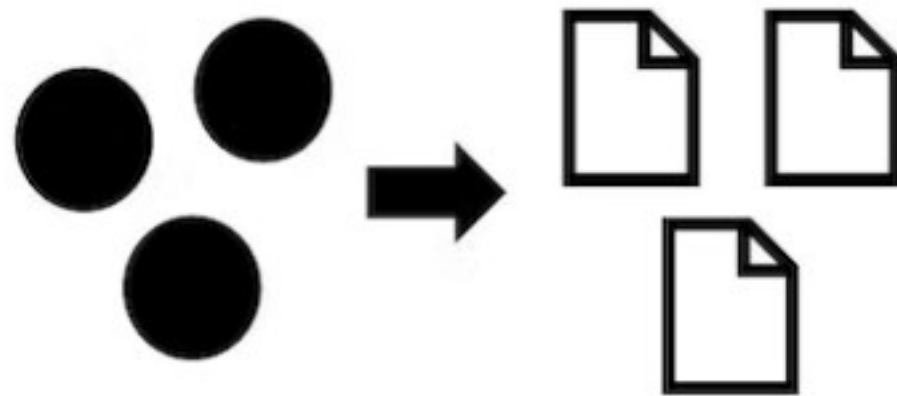
2021

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



TSWG Meeting Goals

November
14

Review policy proposals with
estimated fiscal impacts
(NEW!)

POLL: Provide guidance on
which tax types to move
forward for policy
recommendation

December
13

Review policy proposals with
estimated fiscal impacts

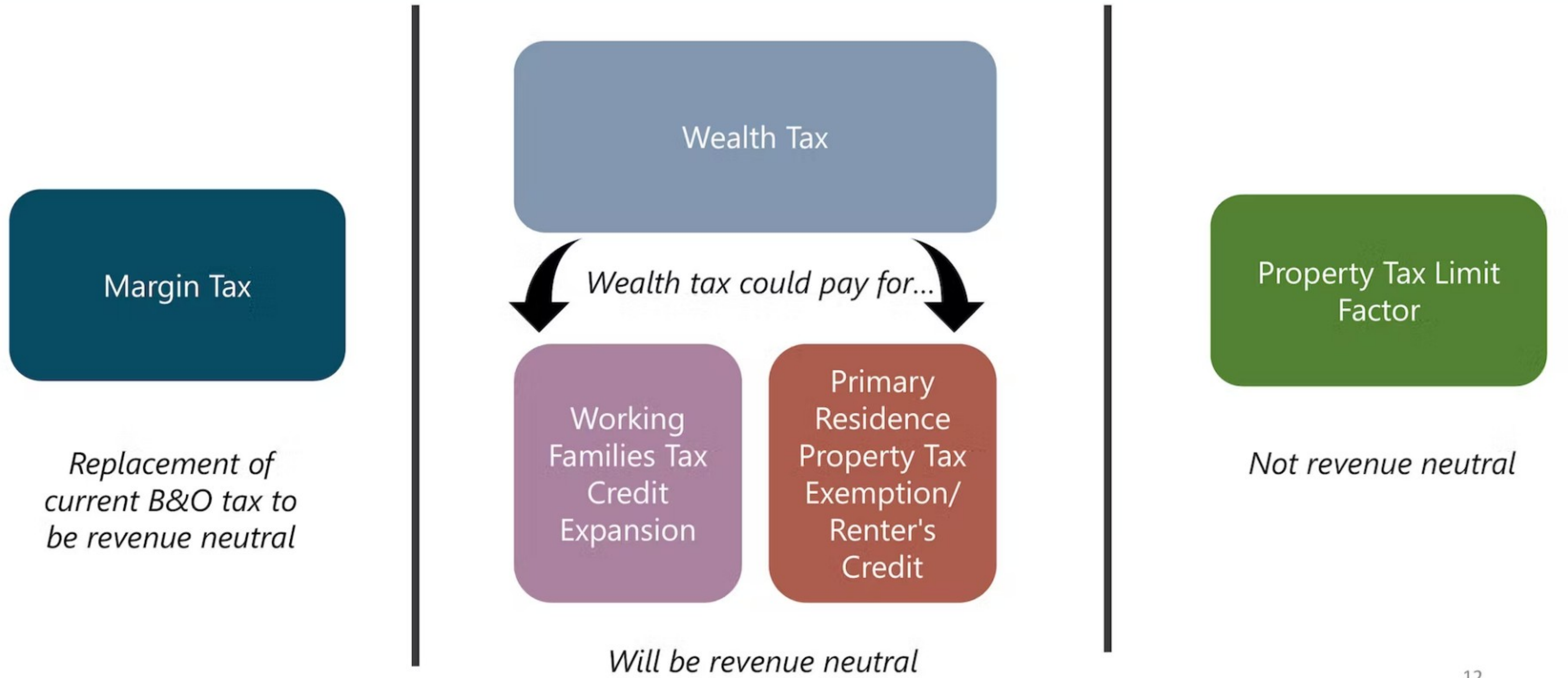
VOTE: Whether to approve a
revenue neutral policy
recommendation/ legislation

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



Background on Tax Types to Consider Moving Forward for Policy Recommendation

Reminder of Revenue Neutrality



Approach for Polling

1

Margin Tax
Yes/No

Approach for Polling

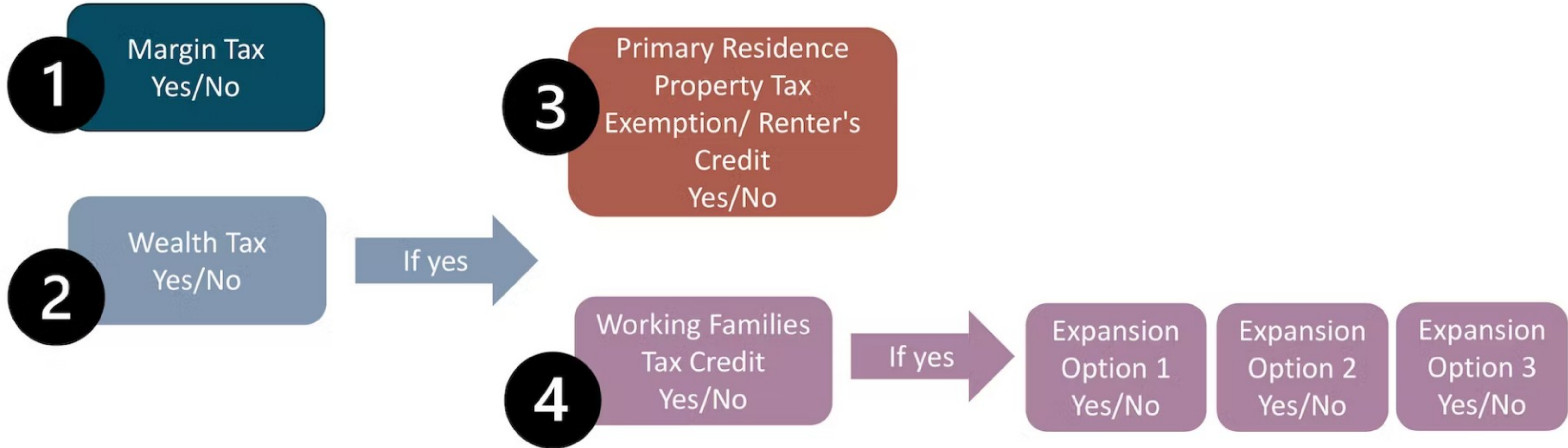
1

Margin Tax
Yes/No

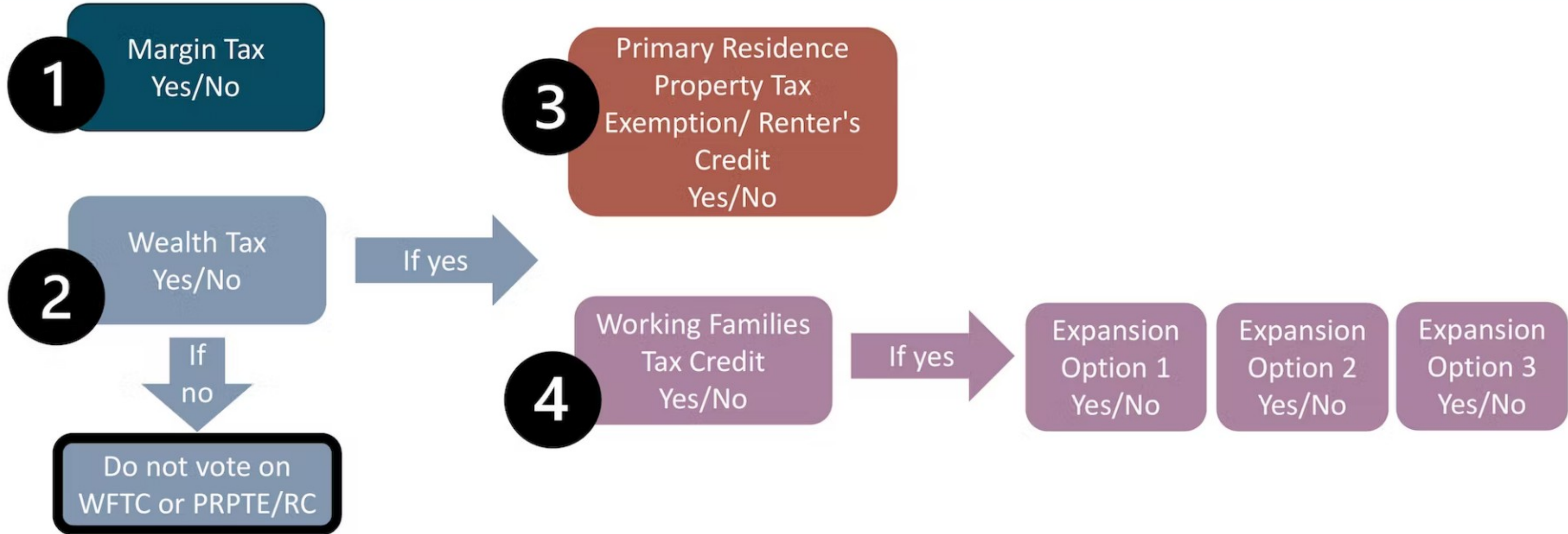
2

Wealth Tax
Yes/No

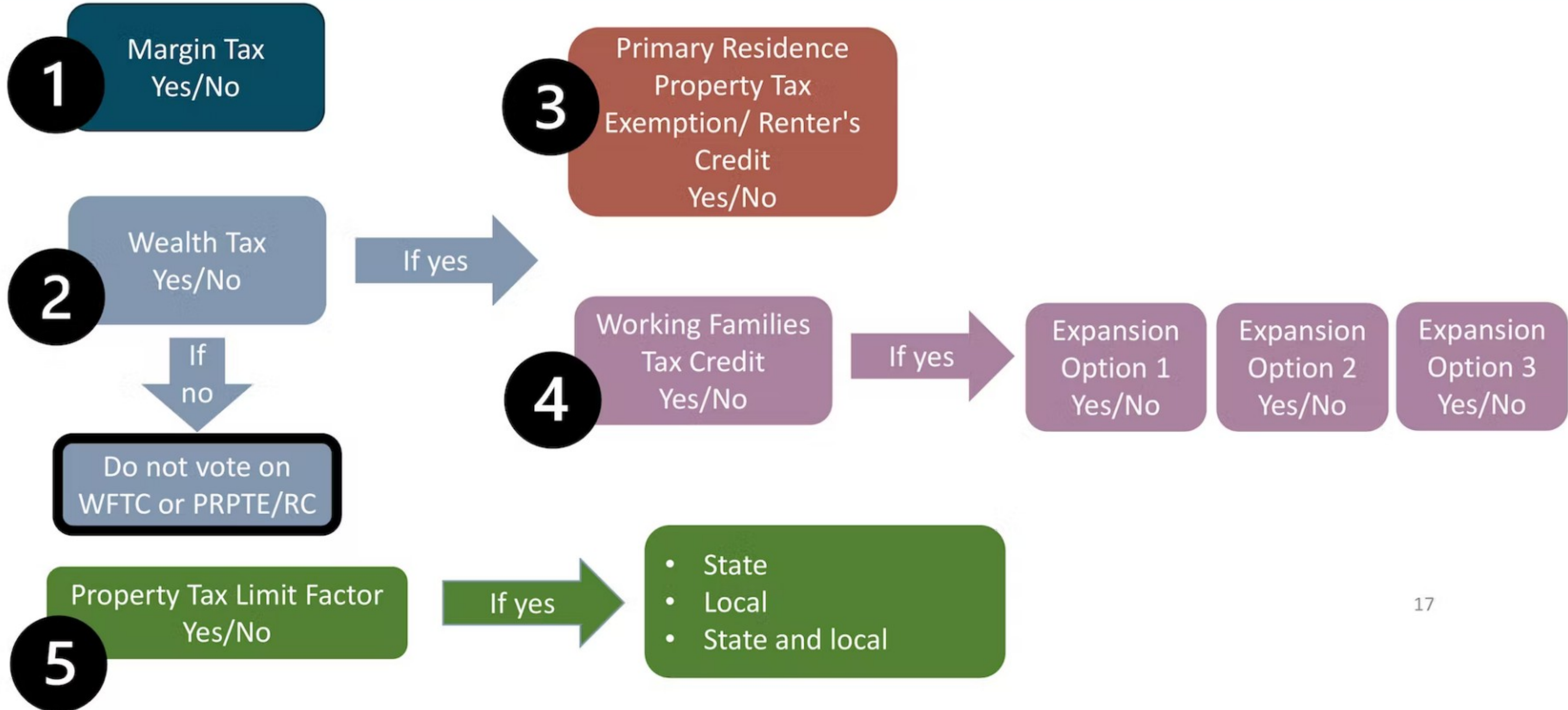
Approach for Polling



Approach for Polling



Approach for Polling



Fiscal Estimate Documents

- Included in today's meeting packet and on the TSWG website
- Fiscal estimates share detailed information about:
 - Current law
 - Proposal
 - Effective date
 - Revenue estimate and assumptions
 - Expenditure estimate and assumptions, for some options
 - Data sources
- This presentation only includes high-level information

Margin Tax

Decisions to Date (May)

Margin Tax

- **Reporting:** Consolidated corporate entity
- **Nexus standard:** Current physical presence and economic standards
- **Apportionment:** Single factor sales/gross receipts
- **Rate structure:** Model both flat and graduated
- **Rate basis:** Receipts
- **Surcharges:** Maintain current surcharges
- **Compensate retailers:** Yes
- **Tax Base:** Maintain current B&O tax base
- **Preferential Rates:** Eliminate preferential rates
- **Deductions, Credits, Exemptions:** Eliminate, except those necessary for legal compliance and practical administration
- **Standard Deductions:** A fixed % of gross receipts, a flat amount, cost of goods sold, or compensation paid
- **Application to Utility Tax:** None

Decisions to Date (Sept.)

Margin Tax

- **Calculate compensation:** Limit the deductions to IRS W-2 wages
- **Contractor compensation:** Do not allow contractor compensation
- **Per employee cap:** Cap the deduction to a set amount
- **Percentage cap for compensation paid:** Do not cap the deduction at a certain percentage
- **Calculate COGS:** Use the IRS definition
- **Percentage cap for COGS:** Do not cap the deduction

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.

Revenue Neutral Considerations

Margin Tax

The margin tax revenue neutral tax rate for the 2025-27 Biennium would be 2.8887%. Under this scenario, we would expect the revenue impact in the out years to approximate what is shown for FY 2029.

Fund - Source	Estimated revenue by fiscal year (FY)					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF-State – Margin Tax	0	1,518,100,000	6,224,300,000	6,763,500,000	7,093,500,000	7,422,700,000
GF-State - Business and Occupation Tax	0	(2,522,700,000)	(6,33,500,000)	(6,634,100,000)	(6,957,700,000)	(7,280,700,000)
Fiscal Year Total	0	(1,004,600,000)	(129,200,000)	129,400,000	135,800,000	142,000,000
Biennial Total		(1,004,600,000)		200,000		277,800,000

Revenue Neutral Considerations

Margin Tax

The margin tax revenue neutral tax rate for the 2027-29 Biennium would be 2.8334%. Shifting the revenue neutral biennium out allows for a lower overall rate, as we are assuming higher reporting compliance over time. Under this scenario, we would expect the revenue impacts in the out years to approximate what is shown for Fiscal Year 2029.

	Estimated revenue by fiscal year (FY)					
Fund - Source	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF-State - NEW	0	1,489,000,000	6,105,100,000	6,634,000,000	6,957,700,000	7,280,600,000
GF-State - Business and Occupation Tax	0	(2,522,700,000)	(6,353,500,000)	(6,634,100,000)	(6,957,700,000)	(7,280,700,000)
Fiscal Year Total	0	(1,033,700,000)	(248,400,000)	(100,000)	0	(100,000)
Biennial Total		(1,033,700,000)		(248,500,000)		(100,000)

Technical Updates

Margin Tax

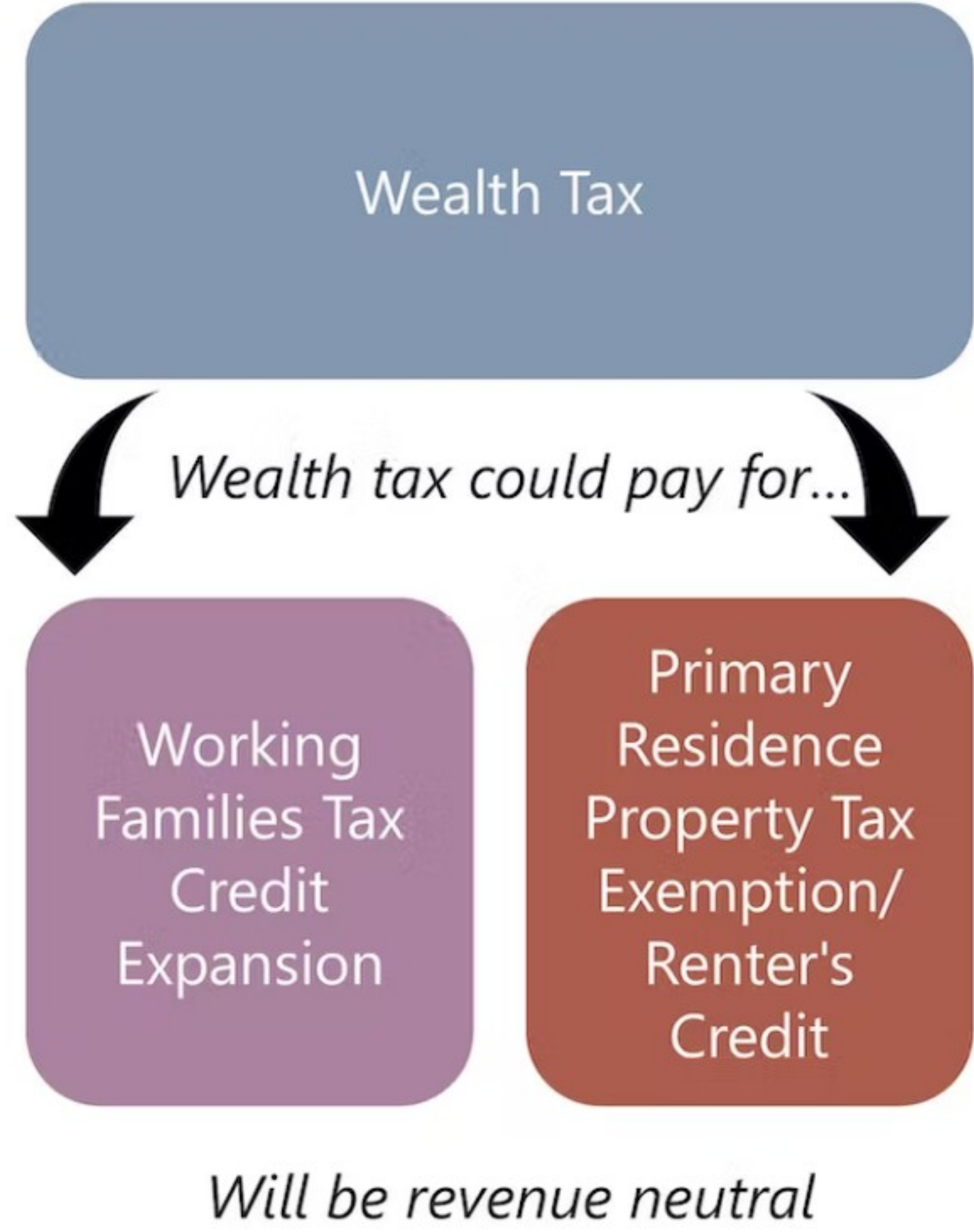
- EZ Computation Rate option
- Implications of a proposal based on revenue only for manufacturing and extracting industries
- DOR will provide additional information prior to the Dec. TSWG meeting

Wealth Tax

Background on Wealth Tax



- There is no similar tax in Washington state.
- As the TSWG's recommendations must be revenue-neutral, the wealth tax provides an option for offsetting revenue losses.



Description of Proposal

Wealth Tax

- The wealth tax rate is 1% and the tax base would be a Washington resident's taxable worldwide wealth over a set exemption amount:
 - \$100 million,
 - \$250 million, or
 - \$500 million.
- Taxable worldwide wealth means the fair market value of all of a person's financial intangible assets as of December 31 of the tax year.

Revenue Estimate

Wealth Tax

Revenue estimated at each exemption level at a 1% rate and assumes all revenues are deposited into the state general fund:

Exemption Level	Impacted Taxpayers	Estimated revenue by fiscal year (FY)			
		FY 2026	FY 2027	FY 2028	FY 2029
\$500 million	300 people	\$2,615,000,000	\$2,572,000,000	\$2,455,000,000	\$2,480,000,000
\$250 million	700 people	\$3,296,000,000	\$3,244,000,000	\$3,096,000,000	\$3,127,000,000
\$100 million	2,000 people	\$4,319,000,000	\$4,259,000,000	\$4,067,000,000	\$4,106,000,000

Primary Residence Property Tax Exemption/ Renter's Credit

Decisions to Date

PRPTE/RC

- Exemption should apply to all primary residences.
- Program administered as state-level refund program.
- Department models a renter's credit.

Background on Primary Residence Property Tax Exemption & Renter's Credit



- Under current law, Washington does not have a Primary Residence Property Tax Exemption (PRPTE)
- Washington also does not have a corresponding property tax refund for renters (renter's credit) for the portion of rent attributed to property taxes.

Description of Proposal

PRPTE/RC

- This proposal would create a Department of Revenue administered PRPTE and renter's credit.
- Both refunds equal property taxes paid to the state school levies, up to the first \$250,000 of assessed value.

Estimated Impact

PRPTE/RC

The table below shows the impacts or the "cost" of both the Primary Residence Property Tax Exemption (PRPTE) and the Renter's Credit (RC). While the PRPTE would be a direct reduction to revenue collections, the renter's credit would be an expenditure requiring an appropriation for the Department, like the Working Families Tax Credit.

	Estimated impact by fiscal year (FY)	
	FY 2028	FY 2029
Primary Residence Property Tax Exemption	(\$665,000,000)	(\$728,000,000)
Renter's Credit	(\$228,000,000)	(\$259,000,000)
Fiscal Year Impacts	(\$893,000,000)	(\$987,000,000)
Biennial Impact		(\$1,880,000,000)

Working Families' Tax Credit

Decisions to Date

WFTC

- Consider how eligibility could be broadened.

Background



- The Working Families' Tax Credit (WFTC) is a credit in the form of a refund of sales and use tax provided to eligible low-income individuals.
- Currently, maximum credit amounts are the following:
 - \$300 for eligible persons with no qualifying children,
 - \$600 for eligible persons with one qualifying child,
 - \$900 for eligible persons with two qualifying children, and
 - \$1,200 for eligible persons with three or more qualifying children.

Description of Proposal



- There are three options for expanding the WFTC:
 - **Option 1:** Increase the maximum credit amount by \$200 in each of the four categories based on the number of qualifying children.

Number of qualifying children	Current law	Option 1
0	\$300	\$500
1	\$600	\$800
2	\$900	\$1,100
3 or more	\$1,200	\$1,400

- **Option 2:** Expand the WFTC minimum age requirement to 18 years of age or over for individuals with no qualifying children. Under current law, the eligible age limit is 25-64.
- **Option 3:** Expand eligibility to individuals who filed their federal income tax return under the "married filing separately" status.

Cost



Option	Increase in Participant Count	Increase in Credit/Refund Payout Amounts*					
		FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Increase Maximum Credit Amount by \$200	0	\$66,000,000	\$65,000,000	\$65,000,000	\$65,000,000	\$65,000,000	\$65,000,000
Expand Age to 18+ for Individuals w/o Children	210,000	\$66,000,000	\$65,000,000	\$65,000,000	\$65,000,000	\$65,000,000	\$65,000,000
Expand to Include Married Filing Separately Status	6,000	\$2,900,000	\$2,900,000	\$2,900,000	\$2,800,000	\$2,800,000	\$2,700,000

**Note: If all options are selected, the total increase in credit/refund payout amounts will be greater than the sum of the three individual proposals.*

Property Tax Limit Factor

Decisions to Date

**Property Tax Limit
Factor**

- Growth is limited to 0% floor (no negative growth).
- There should be maximum limit on growth.

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.
- A ceiling up to 5% creates no prorationing at this time, but may lead to prorationing in the future.

Description of Proposal

Property Tax Limit Factor

- In DOR's current model, this proposal would amend the 101% levy limit for all regular state and local property taxes. The proposal would:
 - Revise the definition of "limit factor" to mean 100% plus population change and inflation, but not to exceed 103%.

Options

Property Tax Limit Factor

- The Department can model a change to the property tax limit factor at the following levels:
 1. State only
 2. Local only
 3. State and local

Revenue Estimate

Property Tax Limit Factor

Option	Revenue Impact					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
0% Floor / 3% Ceiling						
State Impact	\$48,000,000	\$143,300,000	\$245,300,000	\$354,400,000	\$471,000,000	\$595,600,000
Local Impact	\$60,400,000	\$178,100,000	\$302,400,000	\$435,300,000	\$577,300,000	\$728,600,000
0% Floor / 4% Ceiling						
State Impact	\$72,100,000	\$198,400,000	\$318,800,000	\$448,000,000	\$589,300,000	\$740,300,000
Local Impact	\$91,300,000	\$273,200,000	\$444,100,000	\$604,700,000	\$776,700,000	\$964,500,000
0% Floor / 5% Ceiling						
State Impact	\$96,100,000	\$245,400,000	\$368,200,000	\$499,800,000	\$643,600,000	\$797,300,000
Local Impact	\$121,700,000	\$362,000,000	\$564,700,000	\$732,400,000	\$912,100,000	\$1,108,200,000

**Under the current forecast, prorationing does not occur under any of these scenarios*

Break (10 minutes)

If you would like to provide public comment, email info@taxworkgroup.org with your name and organization

Polling on Tax Types to Move Forward for Policy Recommendation


Anonymous Polling Instructions

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or
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menti.com



Mentimeter

Please enter the code

Submit

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Practice Question:
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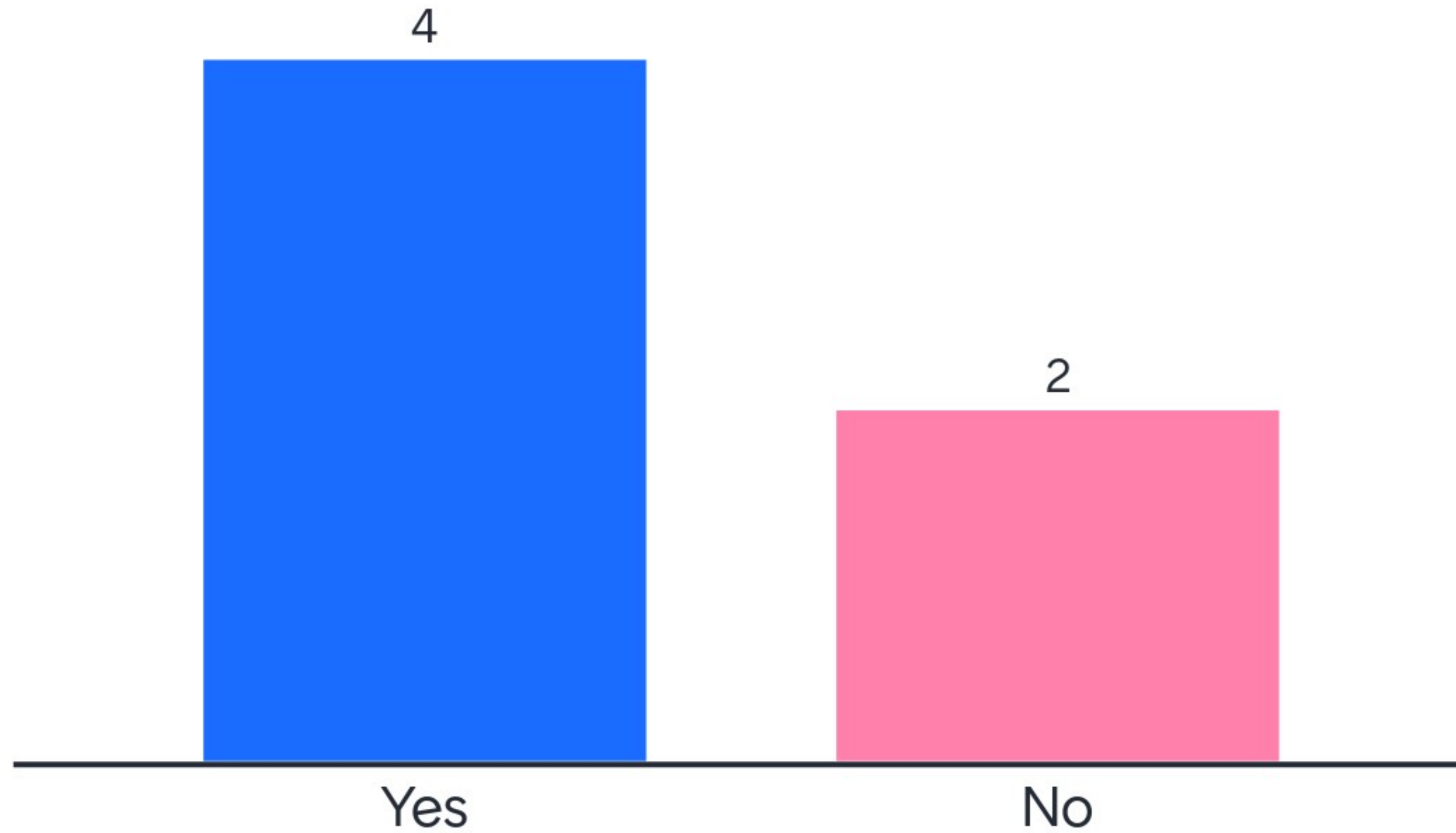
Yes

No

Submit

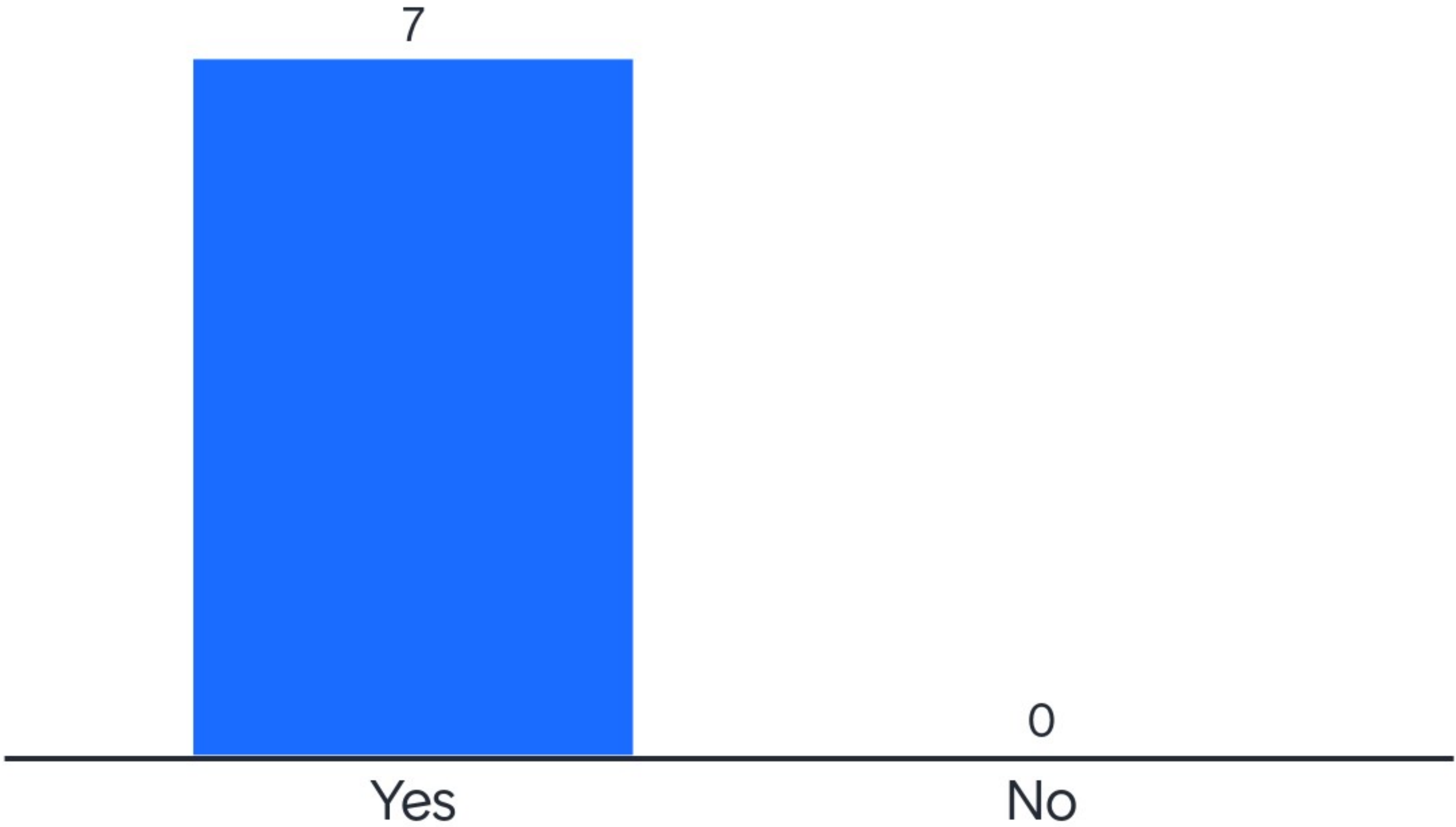
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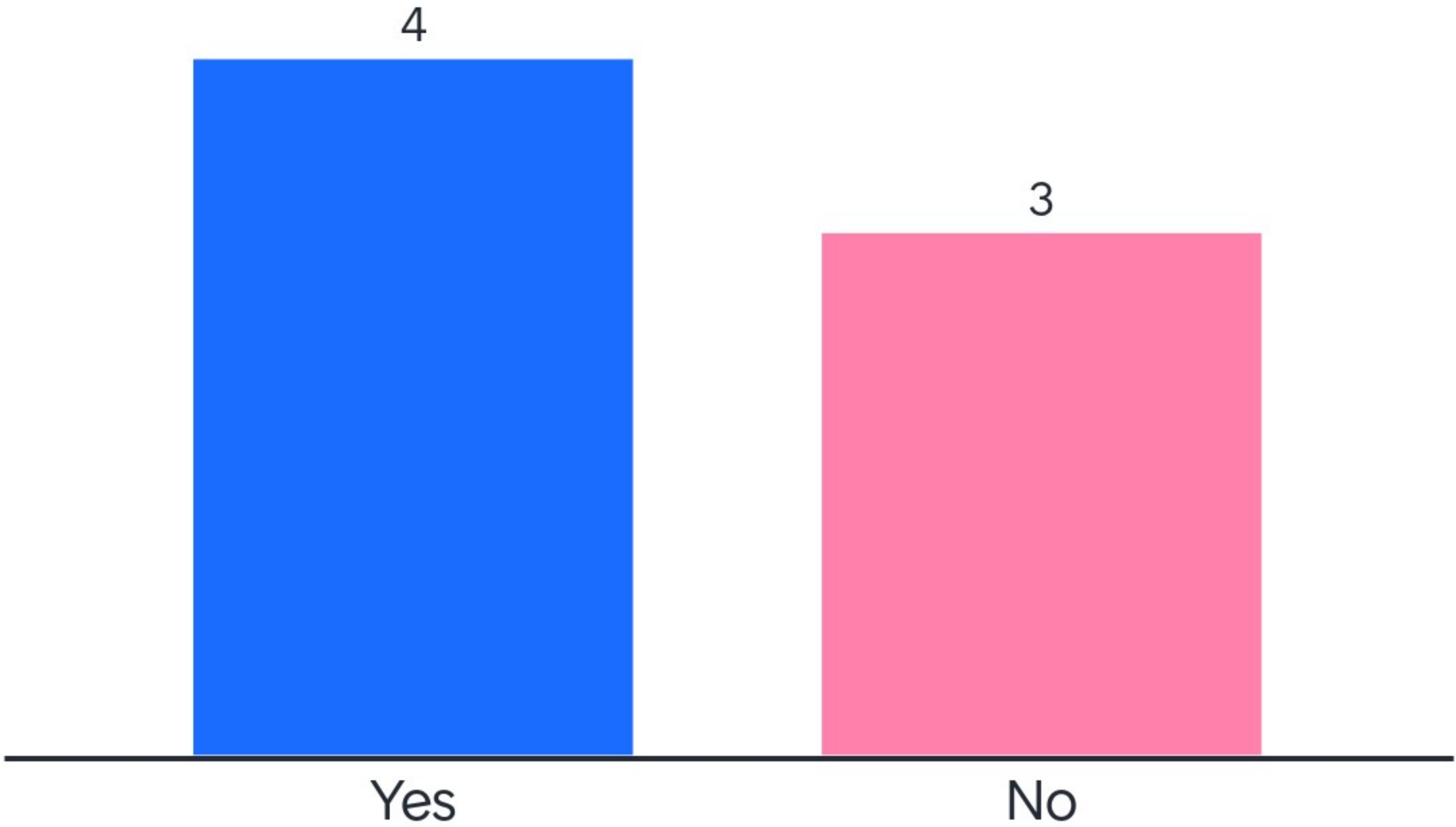
Margin Tax

Given the additional information, do you still want to move forward with the margin tax?



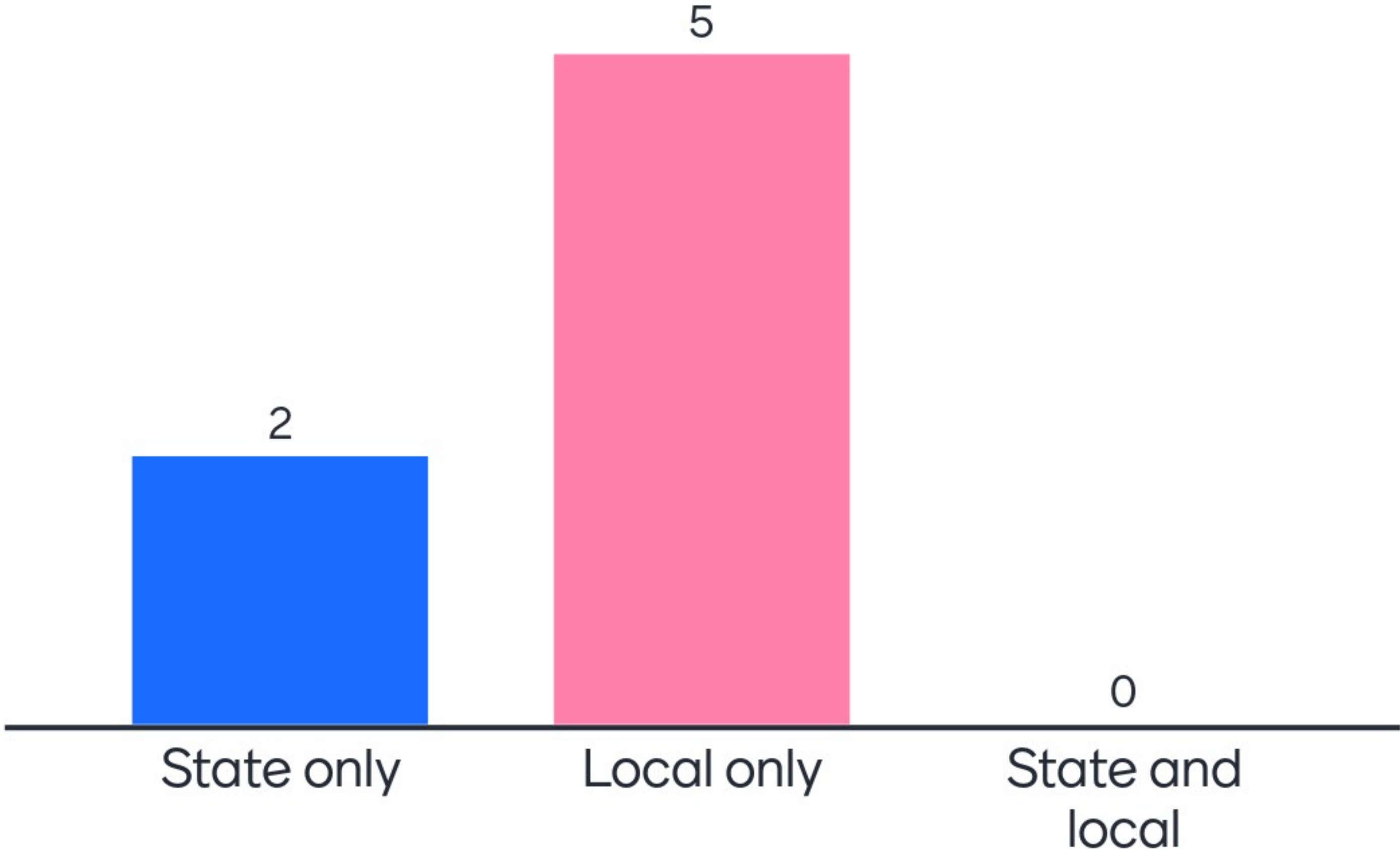
Wealth Tax

Given this updated information, do you still want to move forward with the wealth tax?



Property Tax Limit Factor

What level should the property tax limit factor be modeled at?



Public Comment Period

Comments can be up to 3 minutes long

Wrap Up and Next Steps

Next Steps

- **December:** TSWG will convene on December 13 to confirm legislative recommendation and discuss TSWG's approach during the '23 session