

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

September 21, 2022

8:30 – 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?

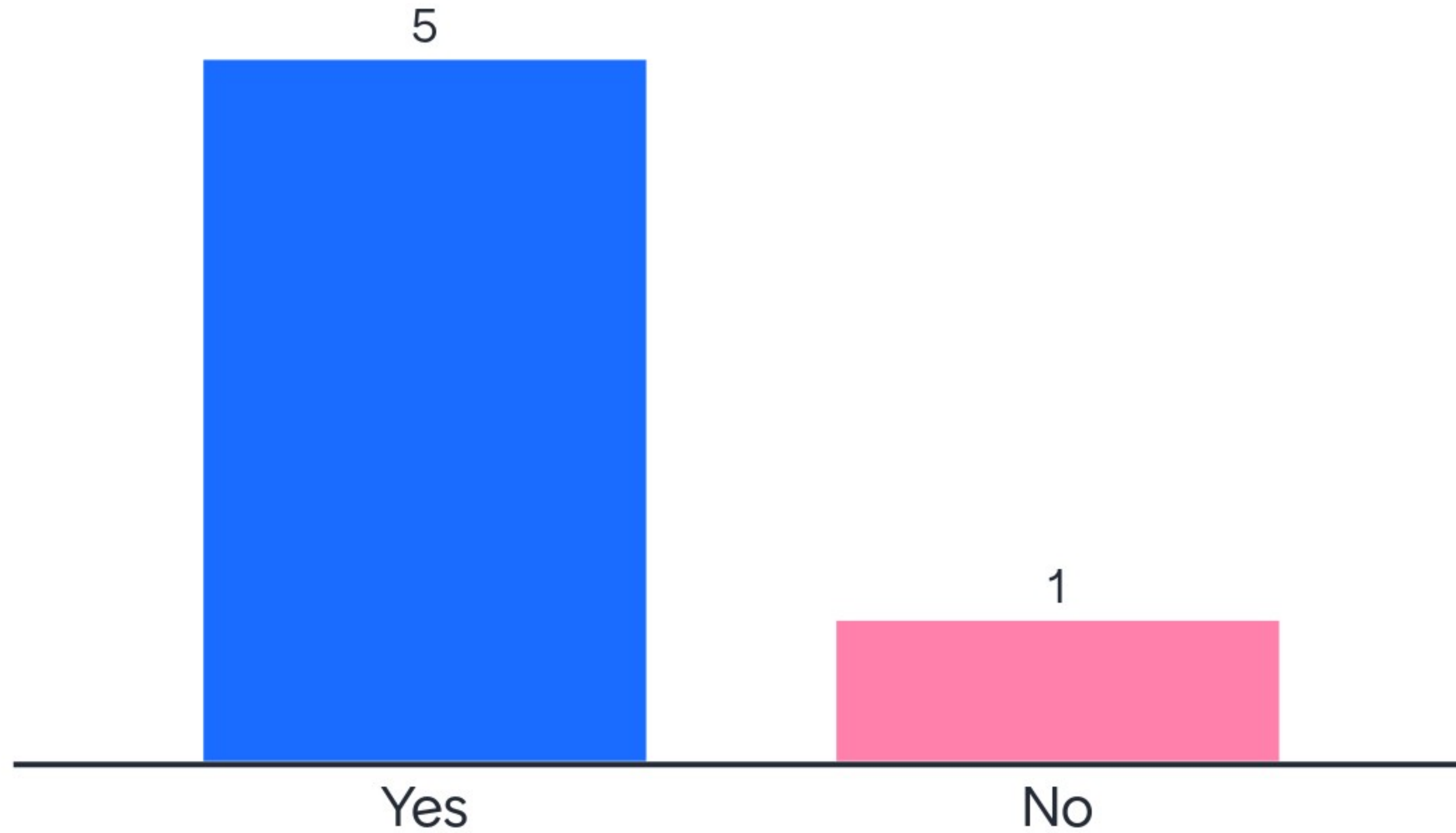
Yes

No

Submit

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

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



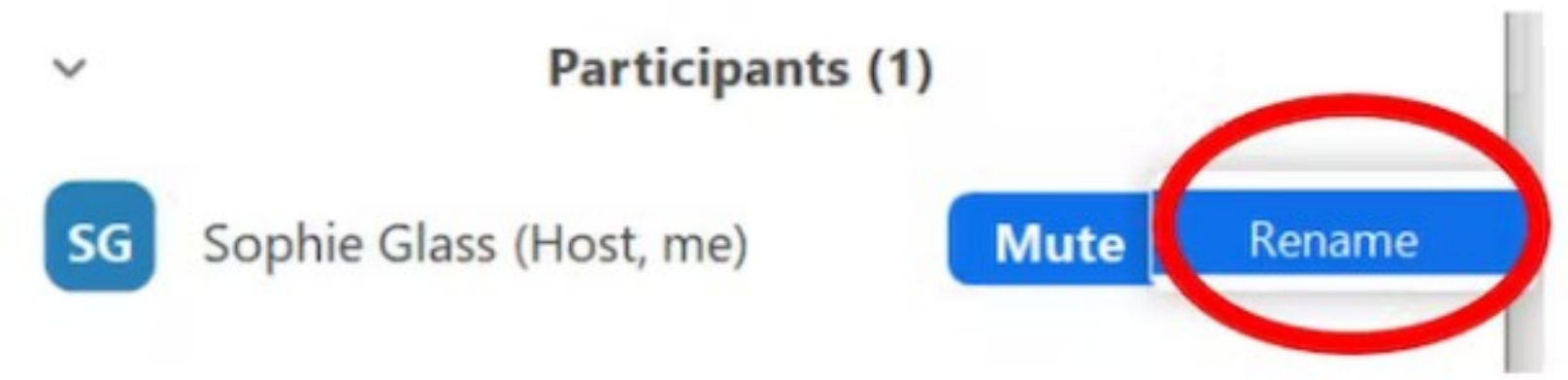
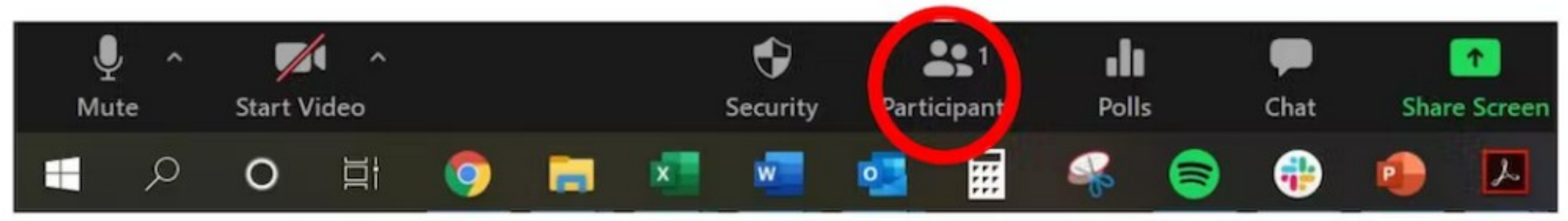
# Tax Structure Work Group (TSWGW) Meeting

September 21, 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 11:15 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
- Engagement updates
- Provide guidance to DOR on policy proposal development
- Break
- Provide guidance to DOR on policy proposal development (continued)
- Public comment
- Wrap up and summary of action items

# TSWG Terminology

- **Policy Proposals** = Taxes for DOR to analyze; product for September TSWG meeting **(we are here)**
- **Policy Recommendations/Legislation** = TSWG's final product, per the proviso

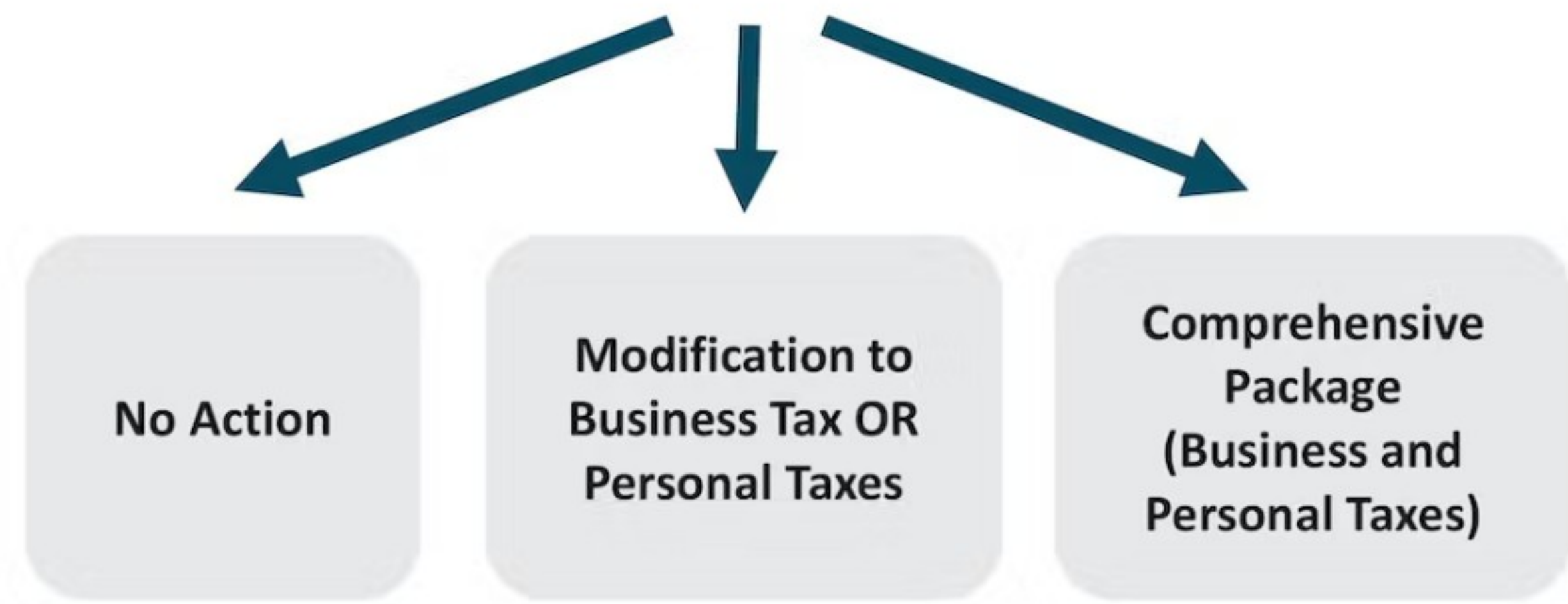
# TSWG Meeting Goals

**September 21**

Provide guidance to DOR for modeling and drafting

**November 14**

VOTE: Pick a Path



**December 13**

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

Approve a policy recommendation/legislation



# Engagement Updates

# Stakeholder Engagement Updates



Recorded and distributed webinar on survey results/next steps to stakeholders

**Webinar views = 185**



Sent Executive Summary for translation and developed distribution plan



Distributed Final Survey Engagement Report

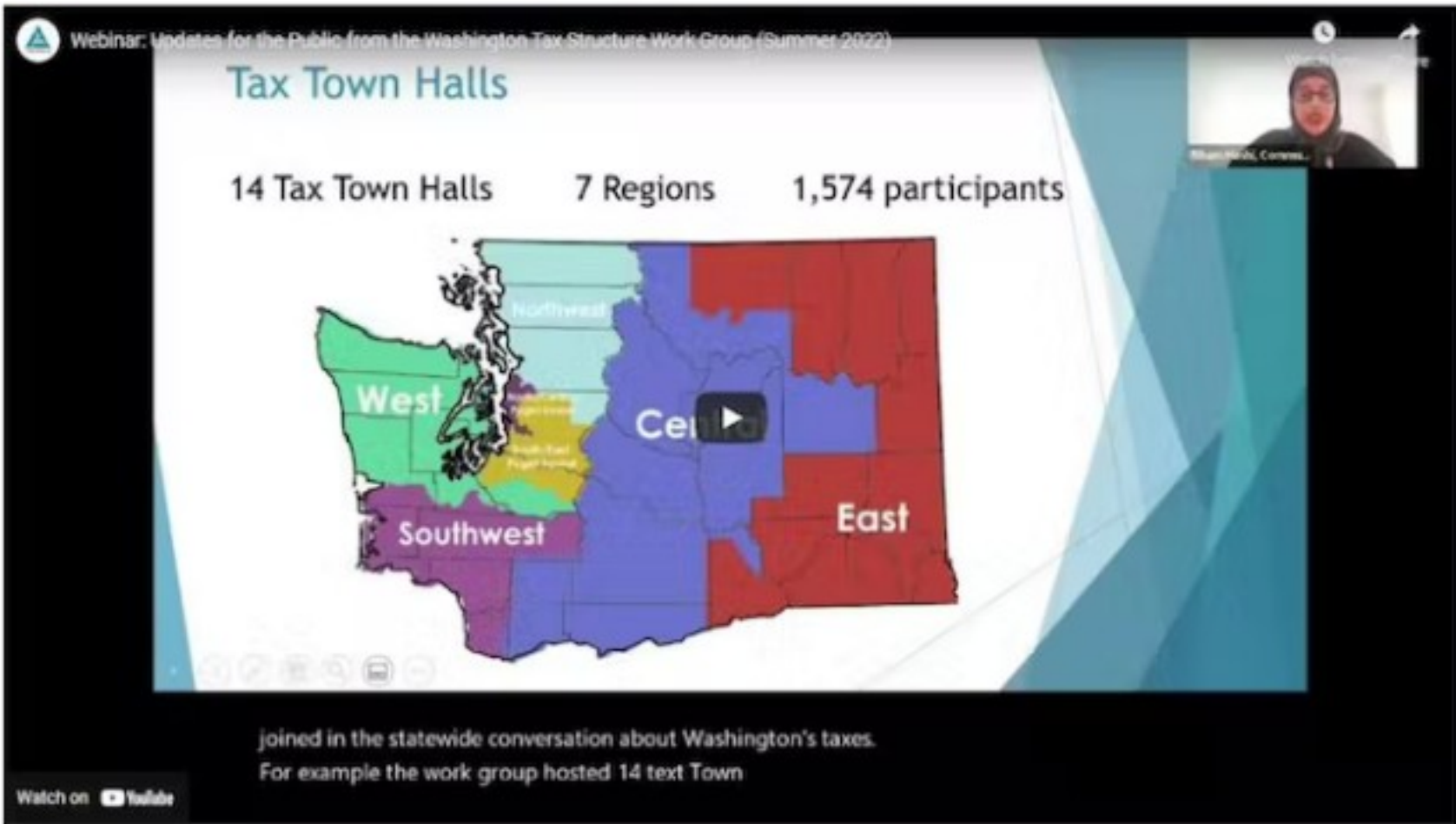


Monitored and tracked stakeholder feedback received



Began developing one-pager process update

Webinar: Updates for the Public from the Tax Structure Work Group (Summer 2022)



# Direction to DOR for Policy Proposal Development

# Progress in Summer 2022

- TSWG co-chairs hosted meetings with key stakeholders to discuss tax questions
- DOR developed and refined models based on guidance from the TSWG in spring 2022
- DOR developed briefing memos on the margins tax, Primary Residence Property Tax Exemption/Renters Credit, and the Property Tax Limit Factor (see meeting attachments)


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Yes

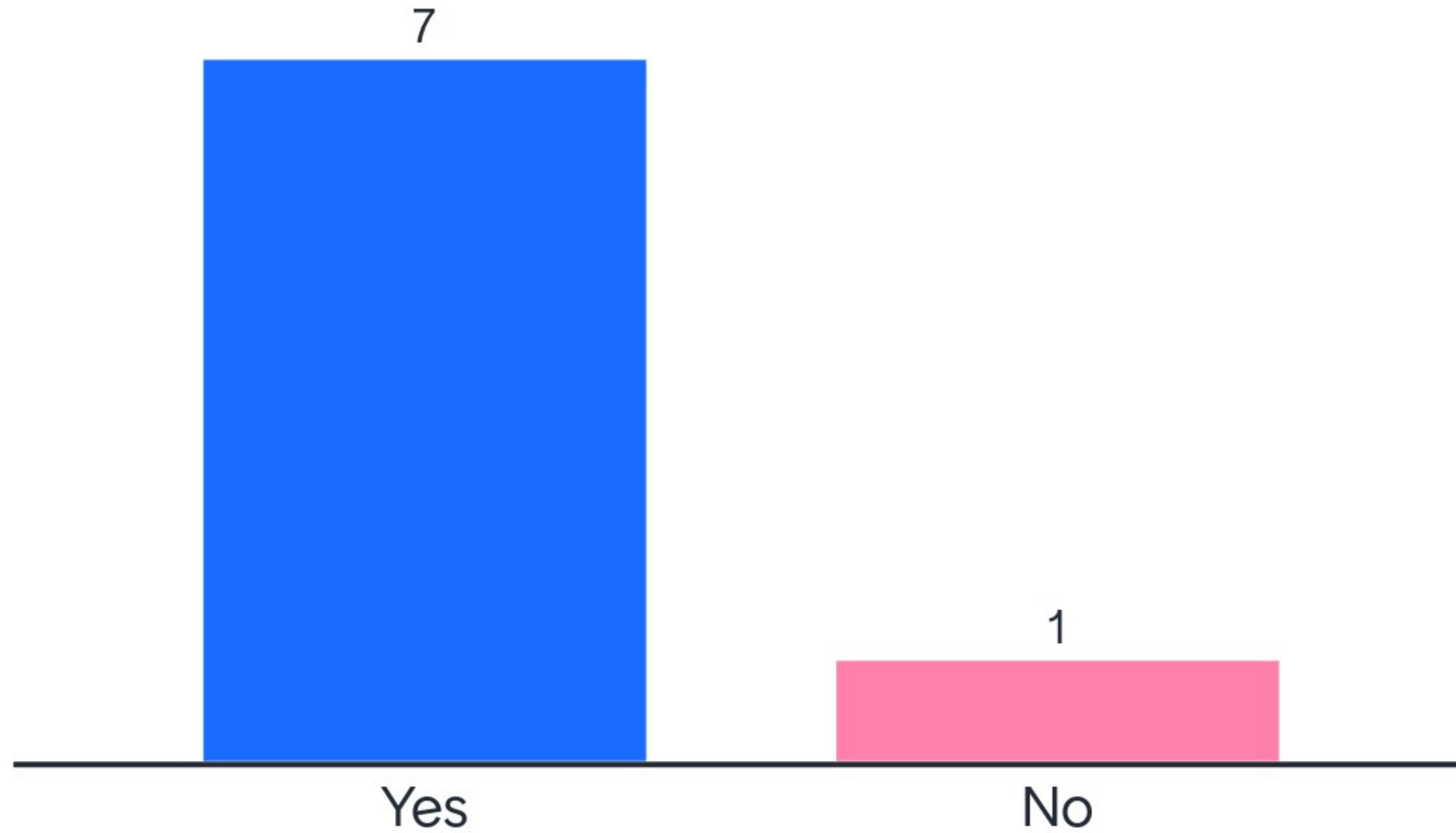
No

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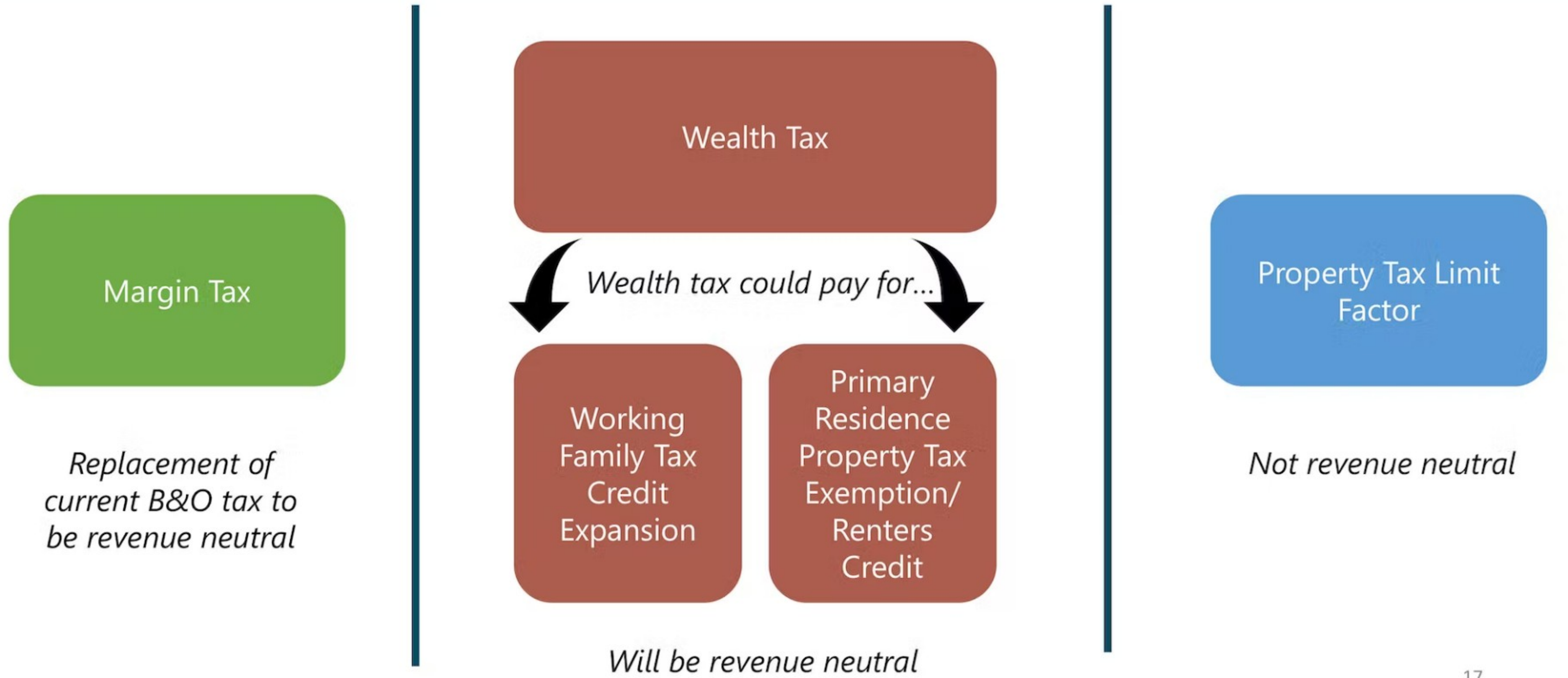
Once you have entered the poll, please participate in the practice question.

This is fully anonymous.

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



# Reminder of Revenue Neutrality



# Background on Margin Tax

Under a margin tax, businesses are taxed on their margin, which is generally calculated as gross receipts minus the greater of the following:

- Compensation paid,
- Cost of goods sold (COGS),
- A fixed percentage of gross receipts, or
- A flat amount (e.g., \$1 million).

There are two potential approaches for the compensation paid and COGS deductions:

1. Use IRS method, or
2. Develop custom definitions (Texas method).

# Summary of Margin Tax Questions

## Compensation Paid Deduction

- **Calculate Compensation:** How should Washington calculate the compensation paid deduction?
- **Contractor Compensation:** Should Washington allow contractor compensation to qualify for the compensation deduction?
- **Per Employee Cap:** Should Washington cap the per employee compensation deduction?
- **Percentage Cap:** Should Washington limit the compensation deduction to a certain percentage of possible compensation costs?

## Cost of Goods Sold Deduction

- **Calculate COGS:** How will Washington calculate cost of goods sold?
- **Percentage Cap:** Should Washington limit the cost of goods sold deduction to a certain percentage of possible cost of goods sold?

# Calculate Compensation

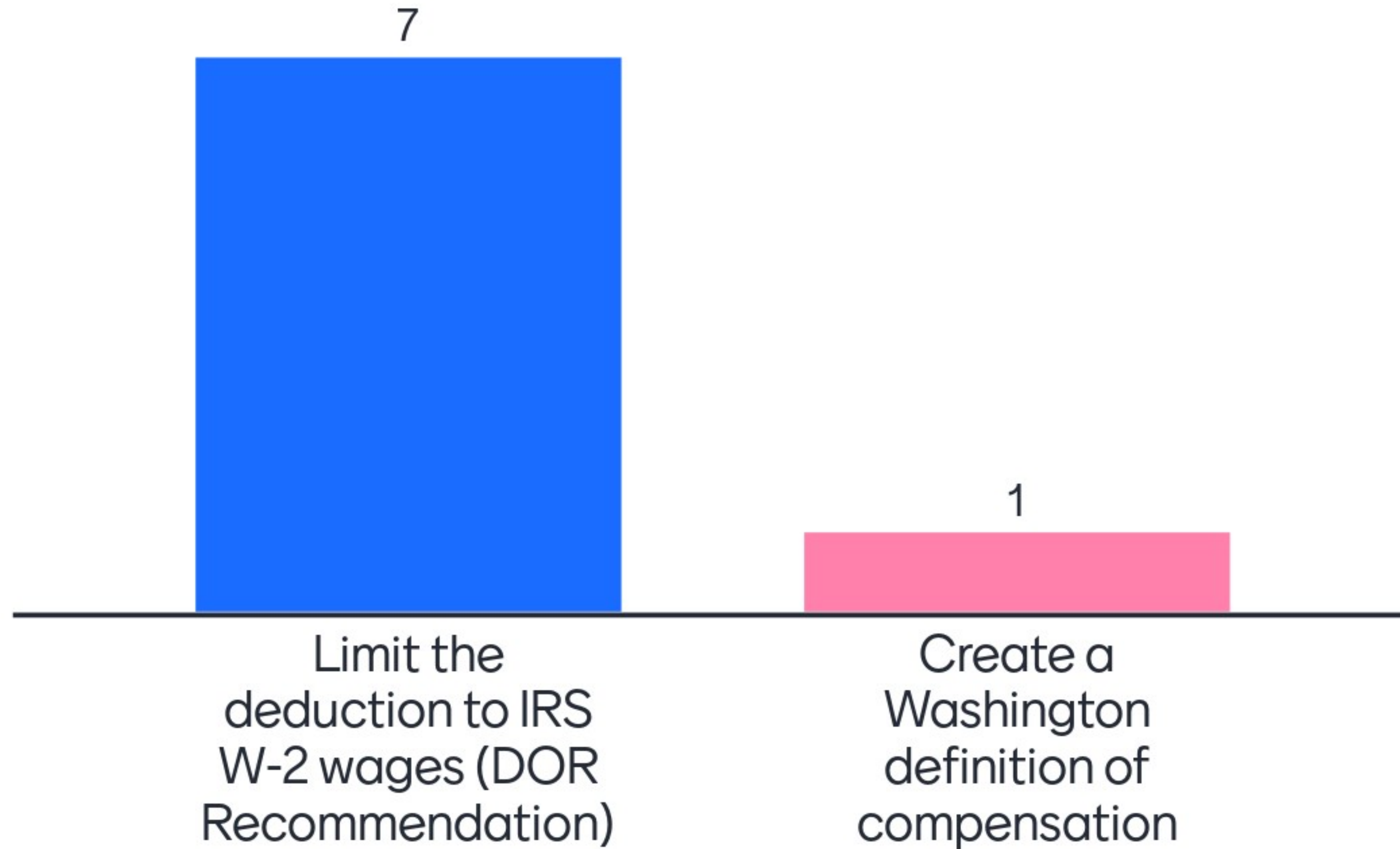
## Margin Tax - Compensation

### Overview:

- Employers use Form W-2 to report:
  - Wages, tips, and other compensation paid to an employee, including some stock-based compensation.
  - Income and social security taxes withheld.
  - Information regarding deductible benefits, etc.
- Texas compensation deduction includes:
  - W-2 wages and cash compensation
  - Benefits
  - Net distribution income from entities treated as partnerships and LLCs treated as either S-Corps or sole proprietors
  - Fees paid to directors of the business
  - Stock awards and stock options



# How should Washington calculate the compensation paid deduction?



# Contractor Compensation

## Margin Tax - Compensation

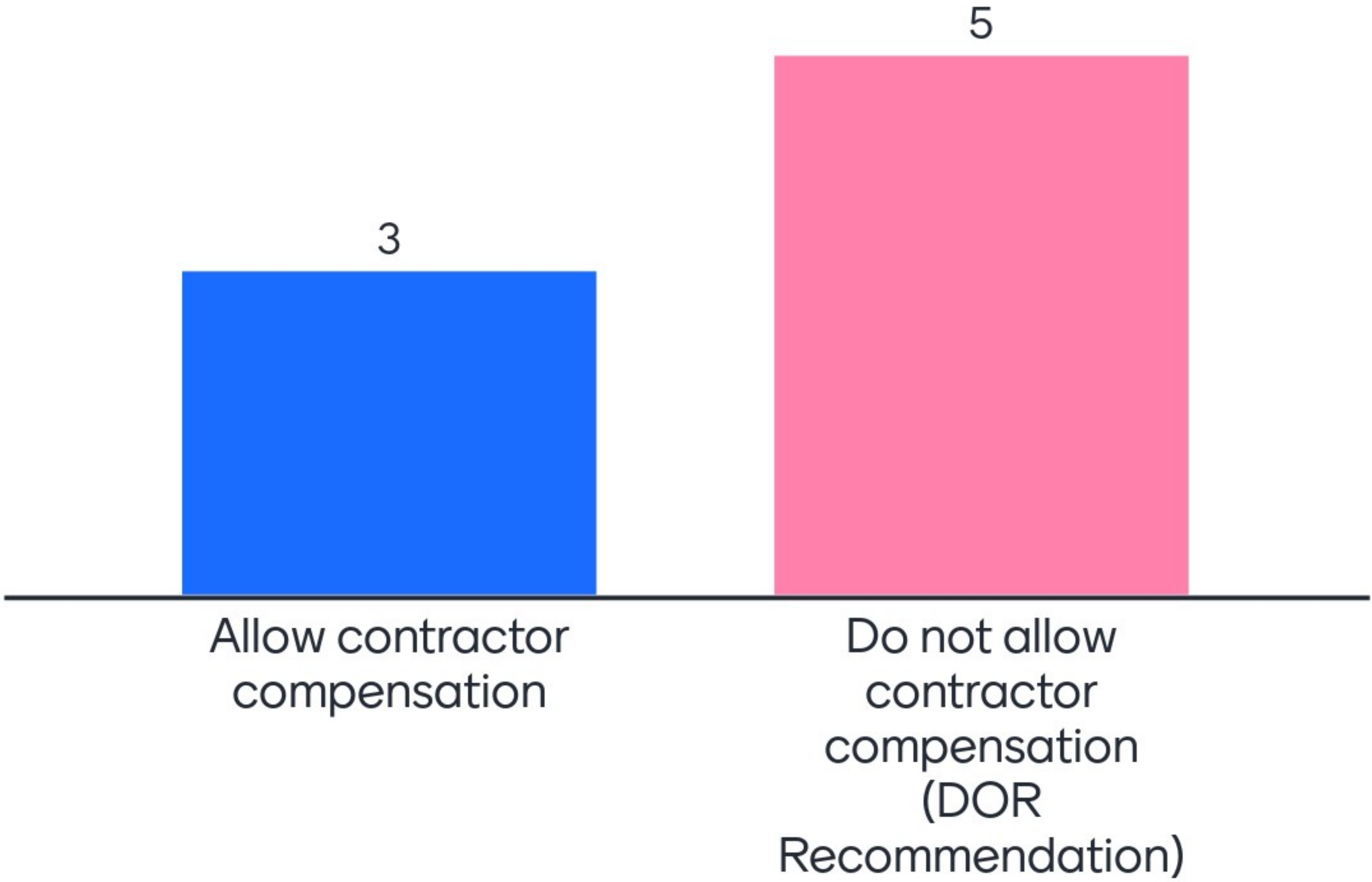
### Overview:

- Contractor compensation could be included in the compensation deduction.
- Form 1099-MISC and Form 1099-NEC are used to report payments to independent contractors and other non-employees, including corporate directors.





# Should Washington allow contractor compensation to qualify for the compensation deduction?



# Per Employee Cap

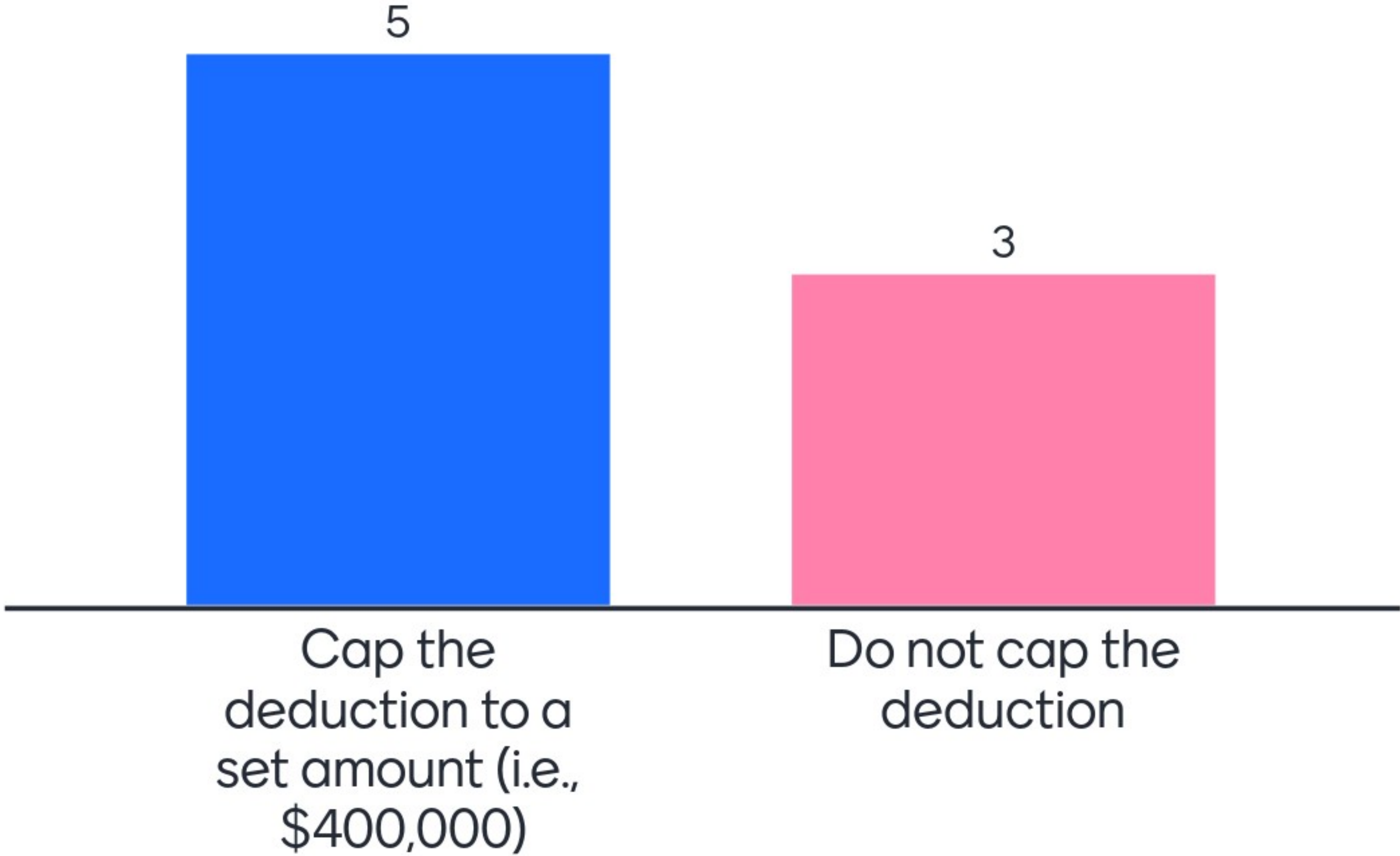
## Margin Tax - Compensation

### Overview:

- Washington could choose to impose a per employee cap on wages
- Texas imposes a wage limitation on W-2 wages and cash compensation paid to officers, directors, owners, partners, and employees. The limitation is \$400,000 per person for reports due in 2022 and 2023.



# Should Washington cap the per employee compensation deduction?



# Percentage Cap - Compensation

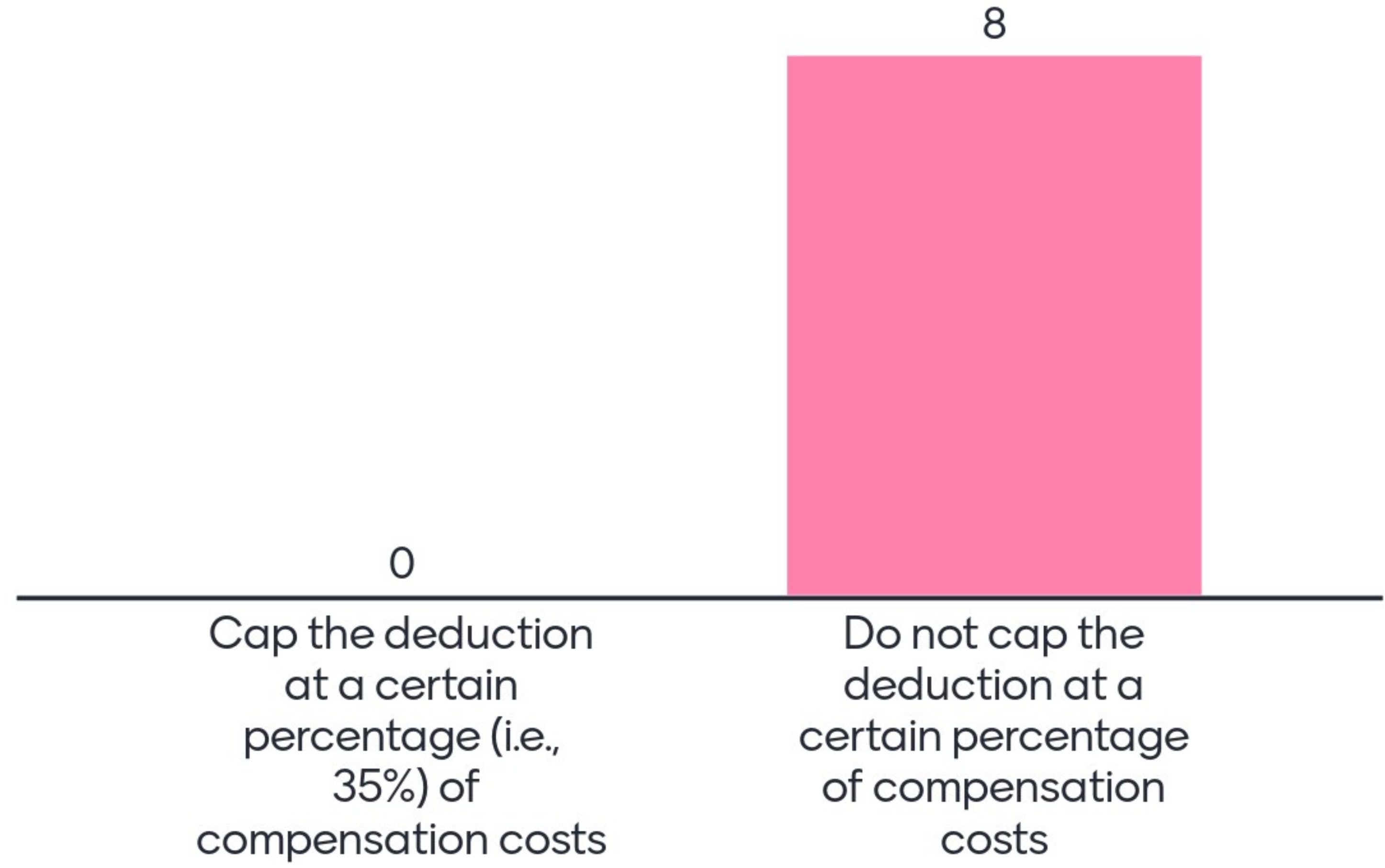
Margin Tax - Compensation

## Overview:

- Washington could choose to impose a percentage cap on compensation.
- Texas does not impose a percentage cap on compensation.



# Should Washington limit the compensation deduction to a certain percentage of possible compensation costs?



# Calculate Cost of Goods Sold (COGS)

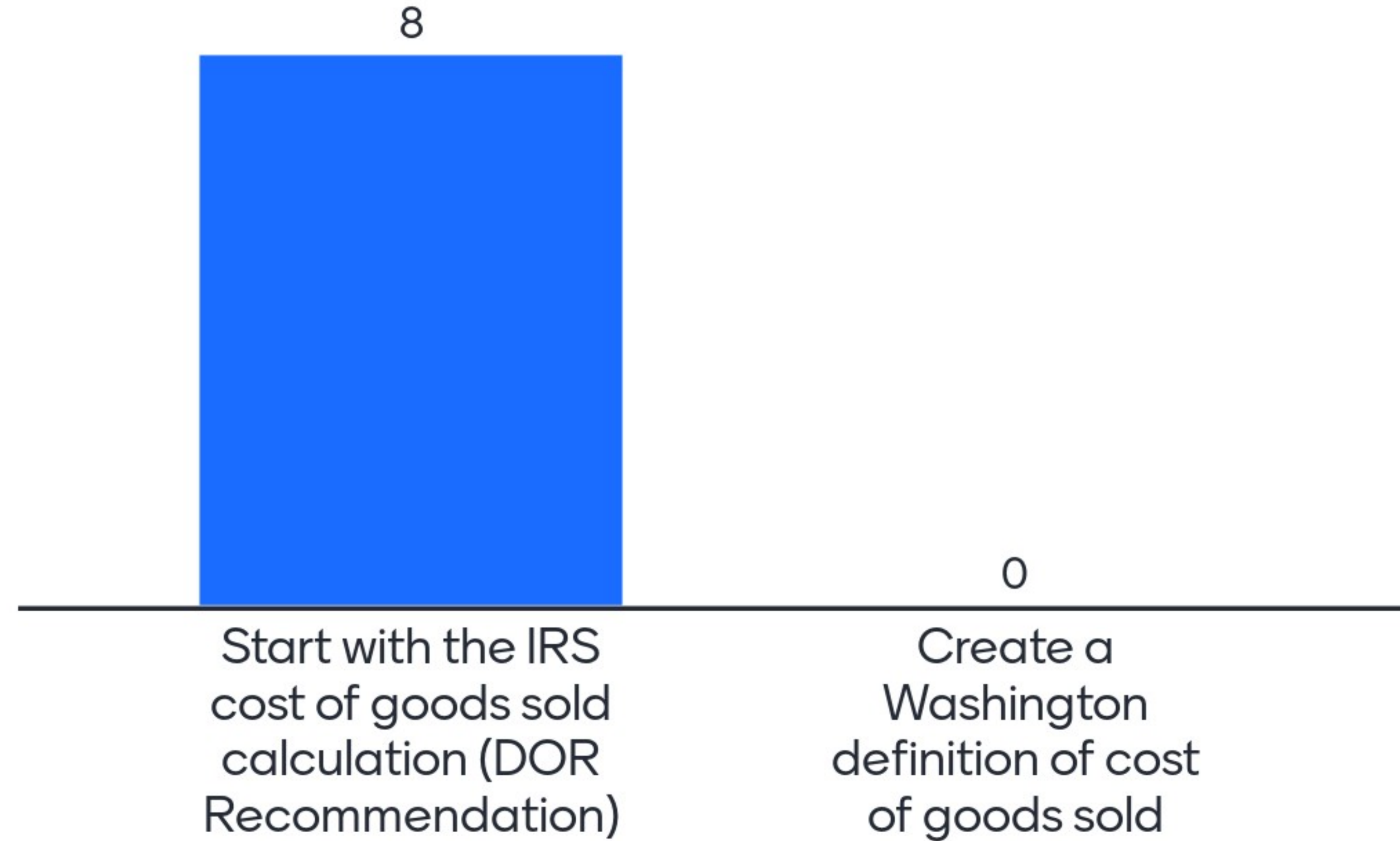
Margin Tax - COGS

## Overview:

- Cost of goods sold (COGS) includes the direct cost of the materials and labor used to create the final product. It excludes indirect expenses.
- Generally, the IRS calculates COGS for manufacturers and resellers as:
  - + Inventory at the beginning of the year
  - + Purchases
  - + Necessary manufacturing labor costs
  - + Other costs incurred in the manufacturing process
  - Inventory at the end of the year
- The Texas definition of COGS is broader and allows certain service providers to also claim a COGS deduction.



# How will Washington calculate cost of goods sold (COGS)?



# Percentage Cap - COGS

Margin Tax - COGS

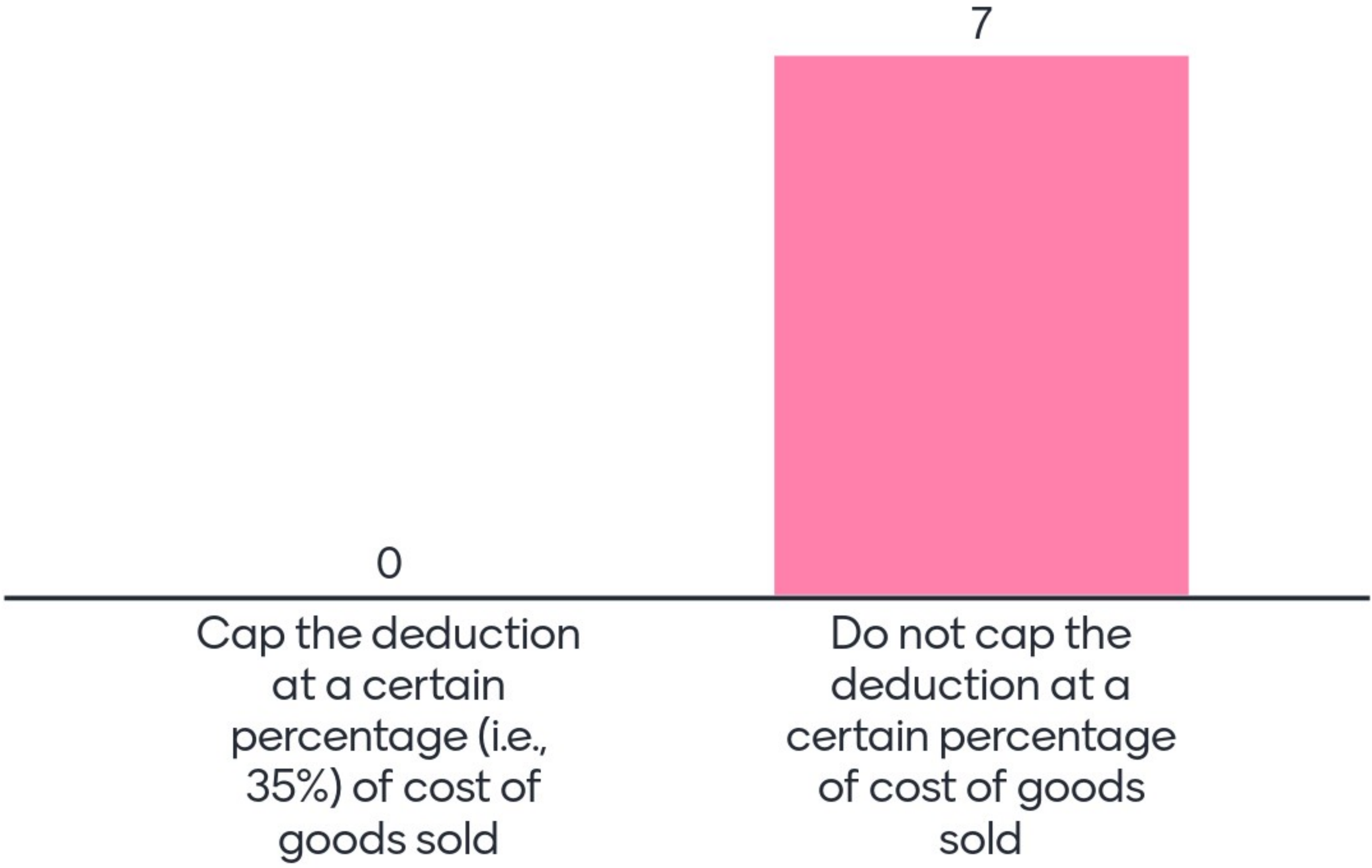
## Overview:

- Washington could impose a percentage cap on COGS.
- Texas does not impose a percentage cap on COGS.





# Should Washington limit the cost of goods sold deduction to a certain percentage of possible cost of goods sold?



# Background on Working Families' Tax Credit



- The Working Families' Tax Credit (WFTC) is for families with low to moderate income and is based in part on the federal Earned Income Tax Credit (EITC).
- For the current year, the maximum WFTC amounts vary depending on income and number of qualifying children. 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.
- The first payments will be made in spring of 2023 for tax year 2022.

# Update on Working Families' Tax Credit



## Overview:

- The Department has worked with stakeholders to identify options for expanding the current WFTC program.
- The Department has identified three options it can administer and can model for the 2023 legislative session:
  1. Increase flat payment amount for eligible persons with no children with \$300 increase per child up to 3 children.
  2. Extend eligibility to those 18+ (current age range is 25-65), and
  3. Extend eligibility to the "married filing separately" filing status.



# Break (10 minutes)

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

# Background on Primary Residence Property Tax Exemption & Renters' Credit



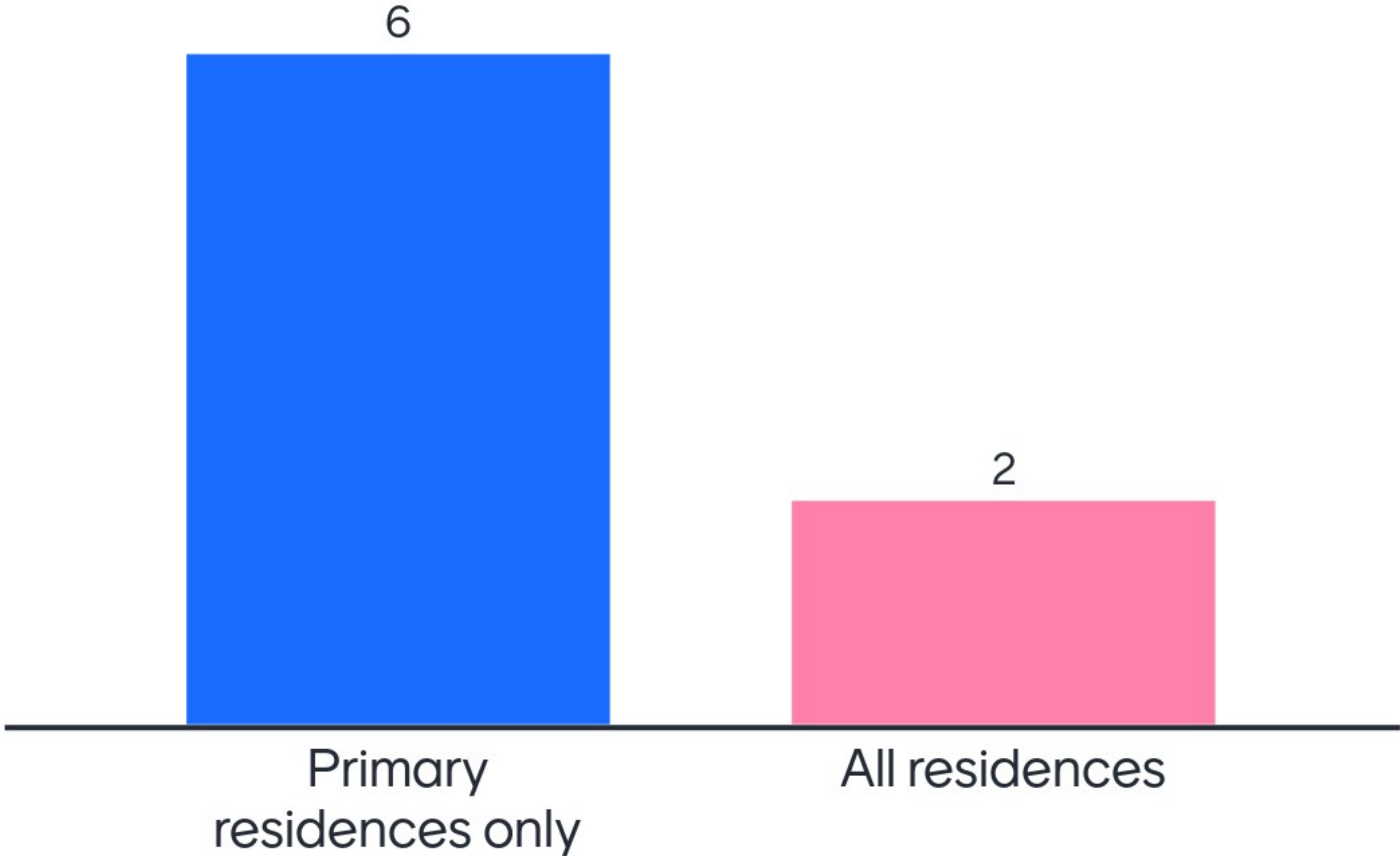
- Washington has a budget-based property tax system, meaning the tax rate on property within a taxing district is determined by the budget need of the taxing district (expressed as a levy), divided by the taxable property within that district.
- This proposal would provide a property tax exemption from the state school levy for the first \$250,000 of assessed value on residential property occupied as the principal place of residence.
- This proposal could also provide a corresponding renters' credit or refund.

# Summary of PRPTE/RC Questions



- **Residences:** Should the exemption include primary residences only or all residences?
- **PRPTE Administration:** How should the primary residence property tax exemption be administered?
- **Renters' Credit:** Should DOR model a renters' credit?

# Should the exemption include primary residences only or all residences?



# PRPTE Administration

PRPTE/RC

## Overview:

- A primary residence property tax exemption could be administered at the local level by county assessors and treasurers. This would require property owners to apply to their local county assessor and attest that the property is their primary residence.
- A refund program that is equivalent to \$250,000 of assessed value could be created and administered by the state. This would require a new centralized state computer system with county assessment data.





# How should the primary residence property tax exemption be administered?



# Renters' Credit

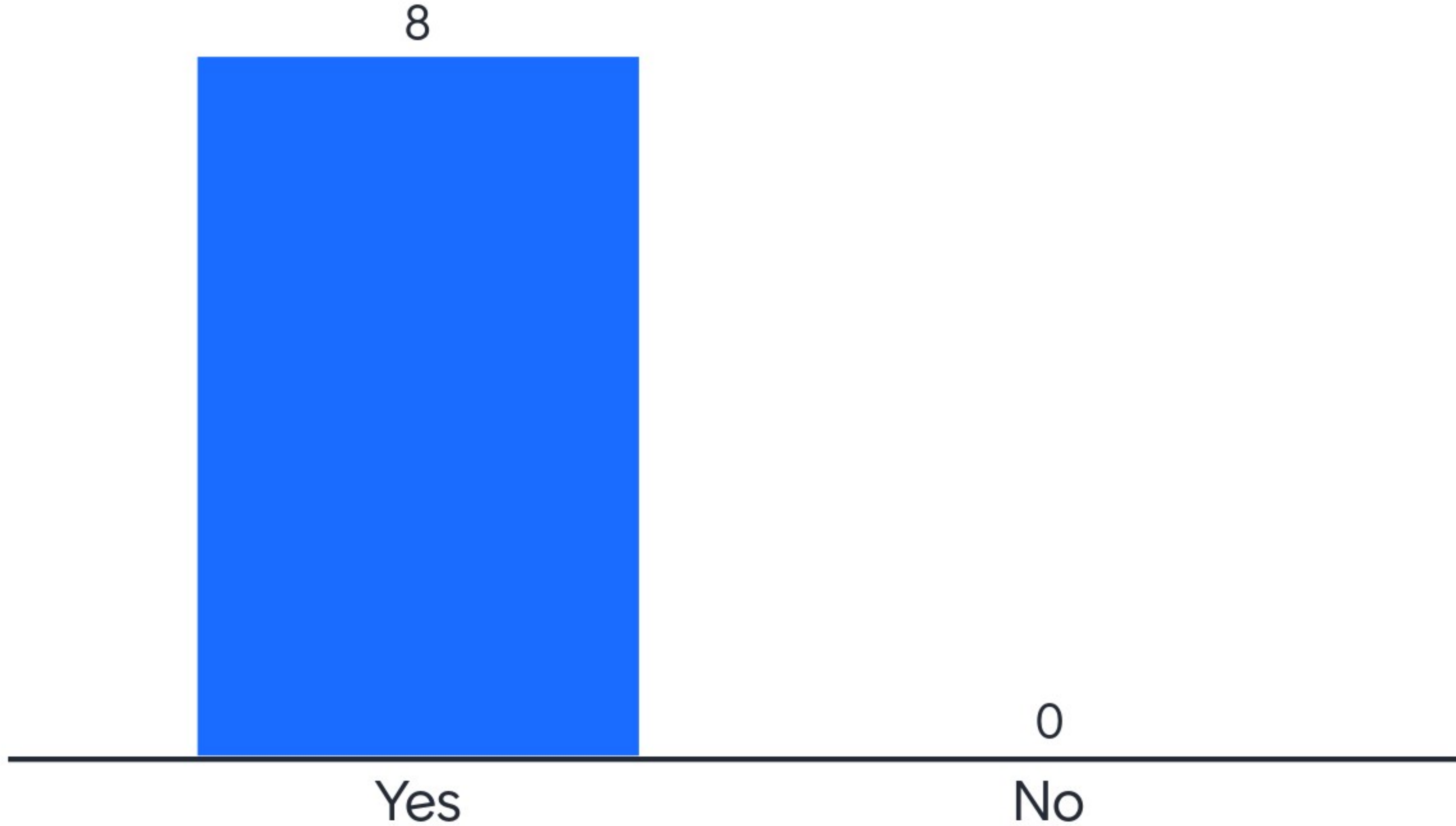
PRPTE/RC

## Overview:

- The state could create a renters' refund program with a specified refund amount equal to the taxes due on up to \$250,000 of assessed value.
- Renters would apply to the state and include documentation to validate the amount of rent paid.



# Should DOR model a renters' credit?



# Update on Wealth Tax

## Wealth Tax

- As the work group's recommendations must be revenue-neutral, the wealth tax provides an option for offsetting revenue losses that would result from a primary residence state property tax exemption and corresponding renters' credit AND/OR an expansion to the Working Families Tax Credit program.
- Previous legislative proposals have included an exemption for the first \$1 billion of a Washington resident's financial intangible assets.
- The Department will proceed with modeling alternative thresholds less than \$1 billion to have that information ready for the November meeting.

# Background on Property Tax Limit Factor

## Property Tax Limit Factor

Washington law limits levy increases. The limit factor is calculated as:

- For lower-population taxing districts (fewer than 10,000 residents), 101%;
- For higher-population districts, the lesser of 101% or 100% plus inflation; or
- For taxing districts who adopt a substantial need resolution (authorized under RCW 84.55.0101), up to 101% if the implicit price deflator (IPD) is less than 1%.

# Minimum

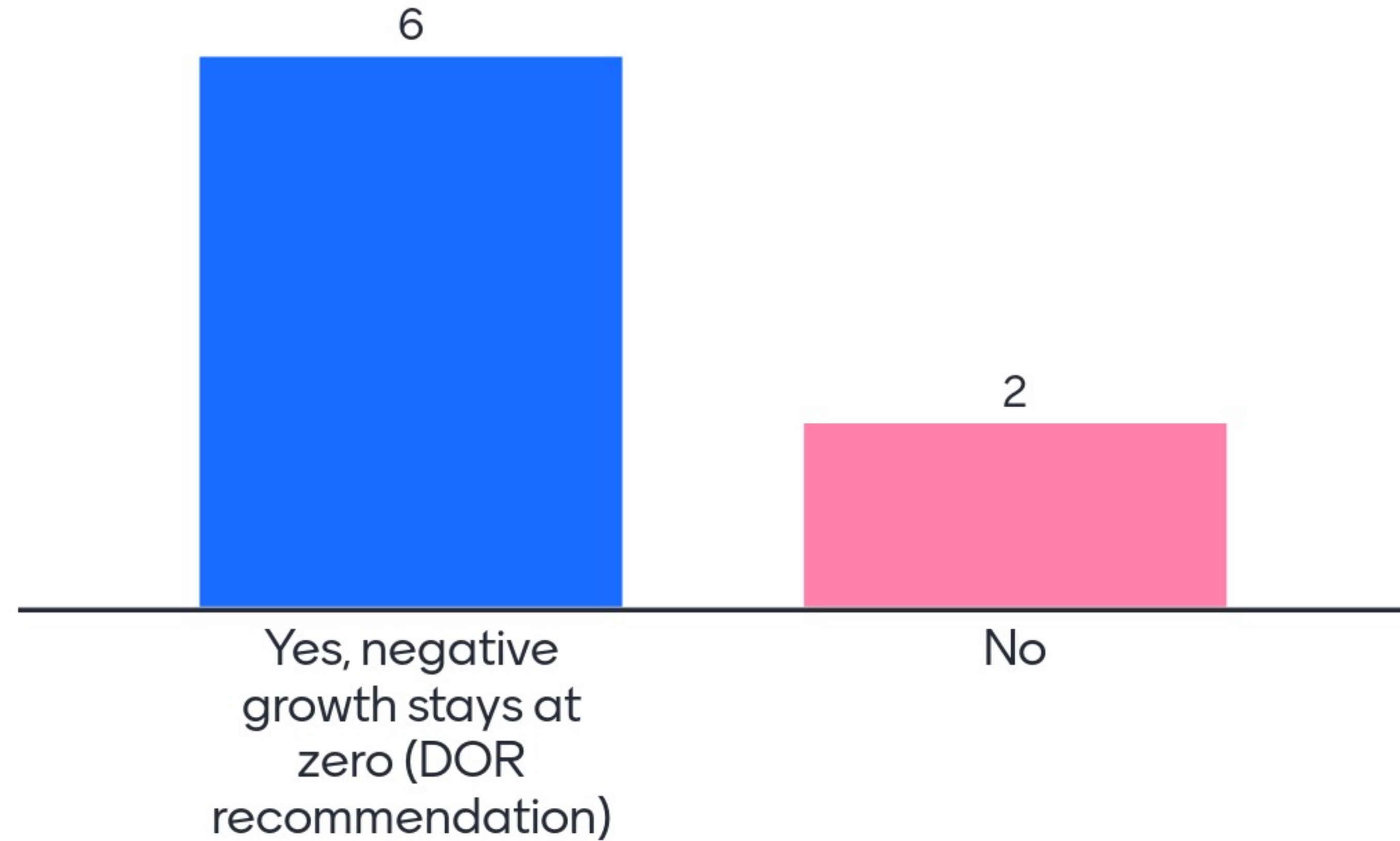
## Property Tax Limit Factor

### Overview:

- This means that if the population decreases, then the population change is set to zero when calculating the limit factor.



# Should there be a minimum limit of 0% on the growth?



# Maximum

Property Tax Limit  
Factor

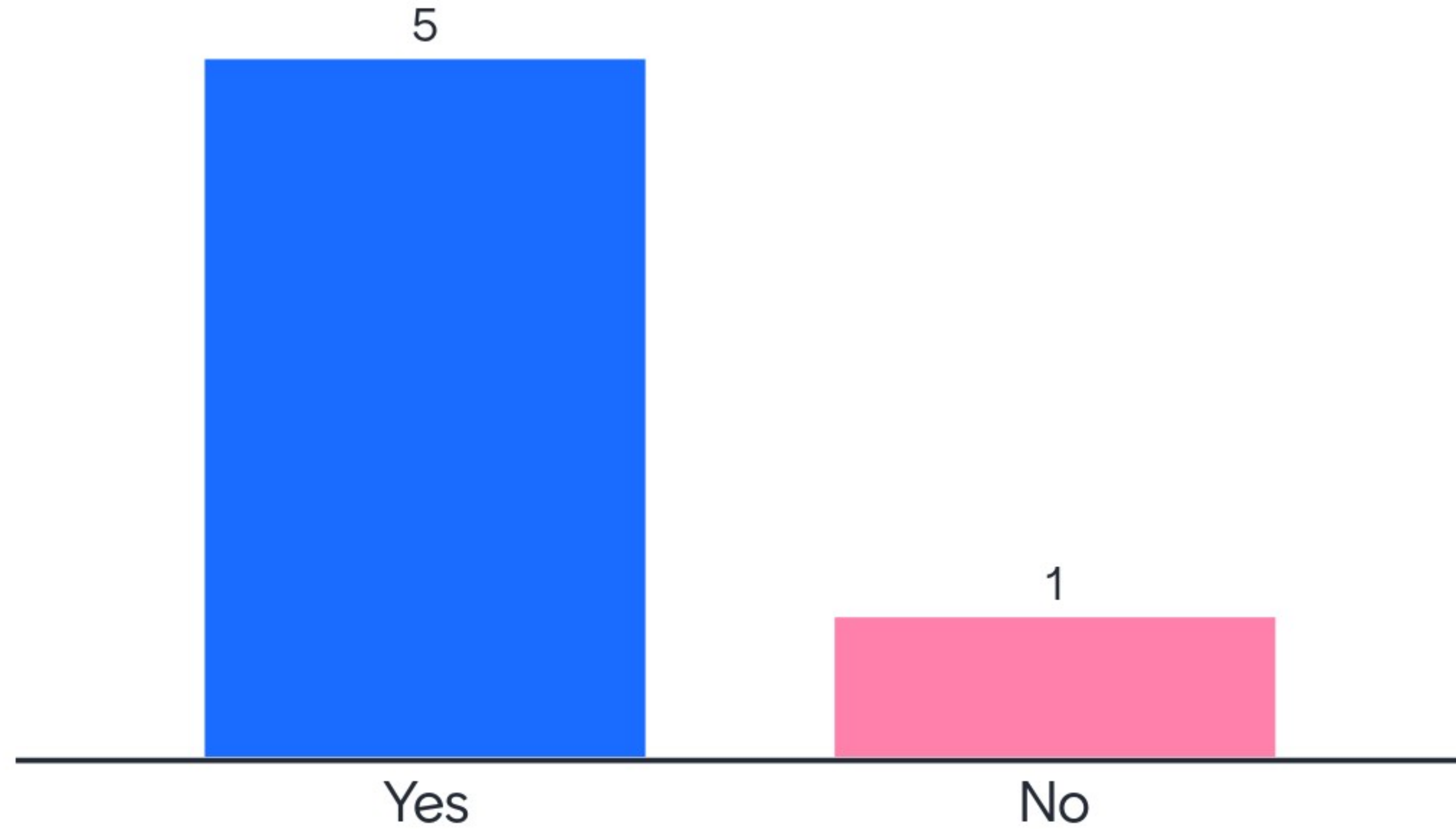
## Overview:

- This means that the growth would be capped when calculating the limit factor.





# Should there be a maximum limit on the property tax?



# Public Comment Period

Comments can be up to 3 minutes long

# Wrap Up and Next Steps

# Next Steps

- **October:** DOR will continue modeling and drafting proposals
- **November:** TSWG will convene in November to vote on policy proposal path to move forward
- **December:** TSWG will convene to confirm legislative recommendation and discuss TSWG's approach during the '23 session