

Chapter 1: Committee Charge

Creation of the Washington State Tax Structure Study Committee

The Washington State Tax Structure Study Committee was created by Engrossed Substitute Senate Bill (ESSB) 6153 to report to the Legislature by November 30, 2002, on “how well the current tax system functions and how it might be changed to better serve the citizens of the state in the twenty-first century.”

As far back as the 1920s, special tax study groups have met to examine Washington's tax structure. Over the last 80 years, several such studies, about one each decade, have brought together distinguished collections of legislators, civic leaders, and other citizens to recommend improvements to Washington's system of taxation. Very often the studies sprang out of fiscal crises, such as the 1982 study conducted during the most severe recession since the Great Depression. Other studies led to the establishment of administrative structures for collection of the tax. Our current tax structure and administration is, in large part, based upon the work of these committees. The 2002 Tax Structure Study differed significantly from previous studies in its membership, approach, and result.

In past studies, the study committee has consisted of legislators, business representatives, and civic leaders, but very few academics. The 2002 Committee consisted of eleven members appointed by the Governor, legislative leadership and the Department of Revenue. Committee members included six academic scholars in economics and tax policy, four members representing the Legislature, and one member appointed directly by the Governor. Governor Gary Locke appointed William H. Gates Sr. who was selected by the Committee to serve as Chair.

Instead of responding to a particular problem or crisis, this study is intended as a blueprint for policy choices with relevancy currently and for years to come. Several previous study groups adopted a set of tax principles to guide their examination of Washington's tax structure. The 2002 study took this analysis a step further by formulating conclusions and designing alternatives based on the advancement of these principles.

While previous study groups were directed to provide recommendations, the 2002 study group was charged with developing multiple alternatives to the existing tax system. Alternatives, to the extent possible, were to be designed to increase the harmony between Washington's and its neighbors' tax systems, to assist commerce

and business creation, and to encourage home ownership. Alternatives were to be guided by:

- Simplicity of administration and collection;
- Economic neutrality among taxpayers;
- Fairness among taxpayers;
- Stability; and
- Transparency (i.e., taxpayer awareness of how, when, and how much taxes are paid).

The Legislature charged the Committee with developing alternatives that “range from incremental improvements in the current tax structure to complete replacement of the tax structure.” In developing alternatives, the Committee was asked to consider the effects of tax incentives, including exemptions, deferrals and credits. ESSB 6153 also provided that: “Most of the alternatives presented by the committee to the legislature shall be revenue neutral and contain no income tax.”

The Committee systematically analyzed Washington's entire tax system according to each of the generally-accepted principles of taxation. The systematic analysis yielded conclusions about the strengths and problems of Washington's tax system as a whole. Some of these conclusions supported common knowledge about Washington's tax system—while other conclusions were surprises. The Committee designed tax structure alternatives to address the key problems that were highlighted by the analysis. In designing these alternatives, the Committee selected the most effective options to address the problems, with knowledge that sometimes these alternatives may not be politically feasible.