

DRAFT

MAJOR WASHINGTON STATE TAXES

Tax	Description	FY 2001 Yield	Advantages	Disadvantages	Tax Principles	
					Most Advanced	Most Eroded
1 Retail Sales and Use Tax	<ul style="list-style-type: none"> • State rate at 6.5% • Local rates vary—5% to 2.4% • Includes repair and labor & materials on construction • Exempts food, drugs, M&E, and most services 	<ul style="list-style-type: none"> • State: \$5.92 billion • Local: \$1.68 billion • 52% of state general fund 	<ul style="list-style-type: none"> • Productive • Broad-based • Not lumpy • Administratively simple • Perceived to be the most equitable tax 	<ul style="list-style-type: none"> • Most volatile WA tax • Regressive • Not adequate in long run • Encourages tax avoidance • Collection cost for retailers • Dampens firm investment • Least exportable 	•	•
2 Business and Occupations Tax/Public Utility Tax	<ul style="list-style-type: none"> • Manufacturing, wholesaling rate at 0.484% • Retailing rate at 0.471% • Services and hospitals at 1.5% • Tax on gross business receipts 	<ul style="list-style-type: none"> • \$2,012.4 million—B&O • \$267.6 million—PUT • 17% of state general fund 	<ul style="list-style-type: none"> • Compared to corporate income tax: less volatile, broad-based, simple • Interstate competitive advantage for high profit industries • Most exportable 	<ul style="list-style-type: none"> • Burdensome to firms in unprofitable years • Interstate competitive disadvantage for low profit inds. • Not transparent • Pyramids • Lumpy for small taxpayers 	•	•
3 Property Tax	<ul style="list-style-type: none"> • Rates per \$1000 assessed value • State rate at \$3.16 • Local at \$9.80 • Taxes real and pers. property 	Calendar Year 2001 <ul style="list-style-type: none"> • \$1,396.7 million—state • \$4,313.4 million—local • 12% of state GF 	<ul style="list-style-type: none"> • Adequate in long run • Federal tax deduction • Tied to benefits received • Transparent 	<ul style="list-style-type: none"> • Moderately regressive • Lumpy • Burdensome when value grows faster than income • Perceived to be unfair • Exemptions cause shifts • Uncertain school funding • Geographic inequities • Expensive to administer 		•
4 Selective Sales Taxes	<ul style="list-style-type: none"> • Gas rate at 23 cents/gallon • Cigarette at \$1.425/pack • Liquor at 20.5% of wholesale + \$2.44 per liter 	<ul style="list-style-type: none"> • \$1,294.6 million—state • \$94.8 million—local • Gas tax 5.2% all taxes • Cigarette 2.1% all taxes • Liquor 1.1% all taxes 	<ul style="list-style-type: none"> • Gas tax tied to benefits received • To extent smoking and drinking are related to higher health costs, cigarette and liquor taxes are tied to externalities. 	<ul style="list-style-type: none"> • More regressive than general RST • Very high cigarette tax rates encourage tax evasion • Not adequate in long run 	•	•
6 Total tax mix	•	• \$11,960.7 million—state	•	•	•	•

Taxes are evaluated on the basis of the following principles: Simplicity, Economic Neutrality, Equity/Fairness, Stability, Transparency, Interstate Competitiveness, Long-Term Adequacy