

DRAFT

MENU OF MAJOR REPLACEMENT WASHINGTON TAX ALTERNATIVES

				Tax Principles**			
Description		Annual Estimated Impact	Advantages	Disadvantages	Most Advanced By Tax	Most Eroded By Tax	
Taxes on Goods and Services							
1	Conventional value-added tax (<i>multi-stage tax</i>)	<ul style="list-style-type: none"> • Single rate at 1.1% • Credits taxes already paid • Includes services • Subtraction method or addition method 	<ul style="list-style-type: none"> • \$2.0 billion* 	<ul style="list-style-type: none"> • Broad-based • Approximates cost of government services • Removes pyramiding 	<ul style="list-style-type: none"> • Fed tax deduction in the year product sold • Unique tax 	<ul style="list-style-type: none"> • Neutrality • Equity • Stability 	<ul style="list-style-type: none"> • Simplicity
2	Unified goods and services tax	<ul style="list-style-type: none"> • Rate at 4% • Includes services • Invoice credit method 	<ul style="list-style-type: none"> • \$7.9 billion* 	<ul style="list-style-type: none"> • Broad-based • Removes pyramiding • Could target low-income relief 	<ul style="list-style-type: none"> • Fed tax deduction in the year product sold • Unique tax 	<ul style="list-style-type: none"> • Neutrality • Transparency • Equity • Transparency 	<ul style="list-style-type: none"> • Simplicity
3	Modified VAT/flat tax on wages (" <i>true</i> " <i>business and occupation tax</i>)	<ul style="list-style-type: none"> • Single rate at 1% • Conventional VAT less wages • Targets low-income relief 	<ul style="list-style-type: none"> • \$1.1 billion from wages and salaries* • \$800 million from firms* 	<ul style="list-style-type: none"> • Everyone (owners and workers) pays the same on their value added • Removes pyramiding 	<ul style="list-style-type: none"> • Could be perceived as an income tax • Unique tax 	<ul style="list-style-type: none"> • Neutrality • Equity • Stability • Transparency 	<ul style="list-style-type: none"> • Simplicity
Taxes on Business and Personal Income							
4	Corporate net income tax	<ul style="list-style-type: none"> • Rate at 3.4% • Tax base is corporate profits 	<ul style="list-style-type: none"> • \$500 million 	<ul style="list-style-type: none"> • Federal tax deduction • Similar to 46 states 	<ul style="list-style-type: none"> • Declining as a revenue source for states 	<ul style="list-style-type: none"> • Equity • Neutrality • Competitiveness 	<ul style="list-style-type: none"> • Stability • Volatility
5	Flat rate personal income tax	<ul style="list-style-type: none"> • Single rate at 1% • Based on federal AGI 	<ul style="list-style-type: none"> • \$1.1 billion (with deductions & personal exemption) • \$1.5 billion (no deductions) 	<ul style="list-style-type: none"> • Federal tax deduction • Paid when income earned • Similar to 6 states 	<ul style="list-style-type: none"> • Administrative burden 	<ul style="list-style-type: none"> • Equity • Neutrality • L-T Adequacy • Stability 	<ul style="list-style-type: none"> • Simplicity • Transparency
6	Graduated personal income tax	<ul style="list-style-type: none"> • Rate at 3, 4.5 and 5% • Based on federal taxable income 	<ul style="list-style-type: none"> • \$4.7 billion 	<ul style="list-style-type: none"> • Federal tax deduction • Paid each payroll period • Similar to 33 states 	<ul style="list-style-type: none"> • Administrative burden • Constitutional Amendment required 	<ul style="list-style-type: none"> • Equity • Neutrality • L-T Adequacy • Stability 	<ul style="list-style-type: none"> • Simplicity • Transparency

*Impacts are based on calibrations by Neil Bruce. All others are preliminary Department estimates.

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