

QUESTIONS RELATING TO TAX PRINCIPLES

[Note that in answering each of these questions we will also answer further analytical questions such as: **How much? Why? Is it getting better or worse? How do we compare to other states (where appropriate)?**]

Elasticity/Volatility

- 1) Do our tax revenues keep up with income?
 - a) over the long run?
 - b) during economic expansion?
 - c) during economic downturns?
- 2) Have changes in our tax system such as exemptions, deductions and base broadening over the past ten years changed our elasticity?
- 3) Are our tax revenues stable?

Stability

- 1) Are our tax revenues predictable?
- 2) Is our tax system stable? If not, why not?
- 3) Has the rainy day fund been an effective tool for keeping the tax base stable?
- 4) How stable are the major local taxes?
- 5) How do changes in the state tax system affect the stability of local taxes?

Equity/Fairness

Ability to pay

- 1) How regressive is our tax system (on both an income and wealth basis)?
- 2) Is our system regressive when looking at lifetime equity?
- 3) How do business taxes affect regressivity when passed through to households?
- 4) To what extent can households shift or export taxes (to business, the federal government, etc.)

5) What taxes are on income, assets, and consumption?

Benefits received

6) Do people/entities that receive benefits from the state pay a corresponding amount of tax for the benefits (who is paying taxes, how are they being spent(answer at a high level))?

7) Which of our taxes are tied to benefits received? What percentage are these taxes compared to the tax system? How does that percentage compare with the percentage of these taxes in other states?

8) Regionally, where are taxes generated, and where are they spent? (Answer to the degree that information is available.)

9) To what extent are taxes targeted and earmarked?

10) Do activities that create negative impacts pay a proportionate tax?

Horizontal Equity (Equity among similarly situated taxpayers)

11) Do similar businesses (businesses in the same industry) pay similar amounts of tax?

12) Do similar households (with similar income/household size) pay similar amounts of tax?

13) Do similar taxpayers in different locations pay significantly different taxes because of local taxes?

Perceived Equity

14) Do taxpayers think our tax system is fair?

15) Which taxes do taxpayers think are fair?

Adequacy

1) Do tax revenues keep up with, fall short of, or exceed change in personal income?

2) Do tax revenues keep up with, fall short of, or exceed the same level of services given changes in caseload levels (including school caseloads), infrastructure needs and government administration needs?

- 3) Do *local* tax revenues keep up with, fall short of, or exceed the same level of services given changes in caseload levels (including school caseloads), infrastructure needs and government administration needs?
- 4) Do state-required mandates decrease local government's ability to provide its core services?
- 5) Do tax revenues provide adequate funding for infrastructure needs such as transportation?
- 6) How do changes in demand for services compare to changes in personal income?
- 7) Does dedicated funding give policymakers the flexibility they need to respond to state and local shortages?

Economic Vitality
(Encourage commerce and business creation)

- 1) Do Washington taxes affect the competitive position of Washington business?
- 2) Do Washington taxes affect the ability to start and grow a new business?
- 3) Do Washington taxes affect the ability of established business to survive and grow?
- 4) Does our tax system (especially the B&O tax) affect businesses' ability to survive during economic downturns?
- 5) To what extent can Washington business export taxes (to their customers or to the federal government)?
- 6) Are Washington tax incentives effective and sufficient in encouraging firms to locate and remain in the state?
- 7) Do the effects of taxes on wages create a positive or negative impact on the competitive position of employers?
- 8) How much does the sales tax decrease in state retail activity via leakage through remote sales and cross-border shopping?
- 9) What is the impact on economic vitality of government investment in education, transportation, and public infrastructure?

Economic Neutrality/Efficiency

- 1) Does Washington's tax structure cause Washington businesses to organize or conduct business in any inefficient ways?
- 2) Does Washington's tax structure affect the behavior of individuals (such as consumption or residency)?
- 3) What do people and business do to avoid taxes and how much do they do it?
- 4) Does the sales tax cause under-capitalization?
- 5) Are similar items and activities taxed equally?

Inter-sectoral/Vertical Equity

- 6) What percentage of tax is paid by business? By households?
- 7) Do big and small businesses within the same industry have similar tax burdens?
- 8) Do businesses in different industries have similar tax burdens?
- 9) Do new businesses and established businesses have similar tax burdens?
- 10) When new exemptions are created, do tax increases shift to other taxpayers?
- 11) Are our taxes administered equitably?
- 12) Are there any sectors or groups that don't pay a proportionate share of tax?
- 13) Are there significant activities that are not subject to taxation?

Transparency/"Lumpiness"

- 1) Does Washington have any hidden taxes?
- 2) Do any Washington taxes pyramid (i.e. apply layers of tax to the same item or activity)?
- 3) Are all tax liabilities clear to taxpayers when they make business decisions?
- 4) Is the timing of tax payments onerous?

Administrative Simplicity

- 1) Does our tax system impose record-keeping and/or paperwork obligations on taxpayers above and beyond that required for normal business operations and federal tax obligations?
- 2) How much does the tax system cost the state to administer compared to collections?
- 3) Do different local taxes cause administrative burdens for businesses located in more than one local jurisdiction?
- 4) Is there an additional compliance burden caused by different agencies being involved in collecting different taxes?
- 4) Do taxpayers and decision makers understand how our tax system works when they are voting or making tax decisions?

Harmony With Other States

- 1) Do incompatibilities between Washington's taxes and other states' taxes cause problems in tax equity, efficiency, economic vitality, compliance or adequacy?

Home Ownership

- 1) Do taxes impede the ability to purchase and retain a home?
- 2) Does our tax system make the purchase of a home difficult for low-income households?
- 3) Does our tax system cause difficulties for fixed-income homeowners to retain their homes?
- 4) Do impact and mitigation fees increase the cost of homes?