

Primary Options to Increase State Tax Revenue

House Office of Program Research
Senate Committee Services
Office of Financial Management
November 7, 2012

Three Primary Approaches to Increase State Tax Revenue

1. Increase Tax Rates

- Sales and Use Tax
- Business and Occupation Tax
- Property Tax

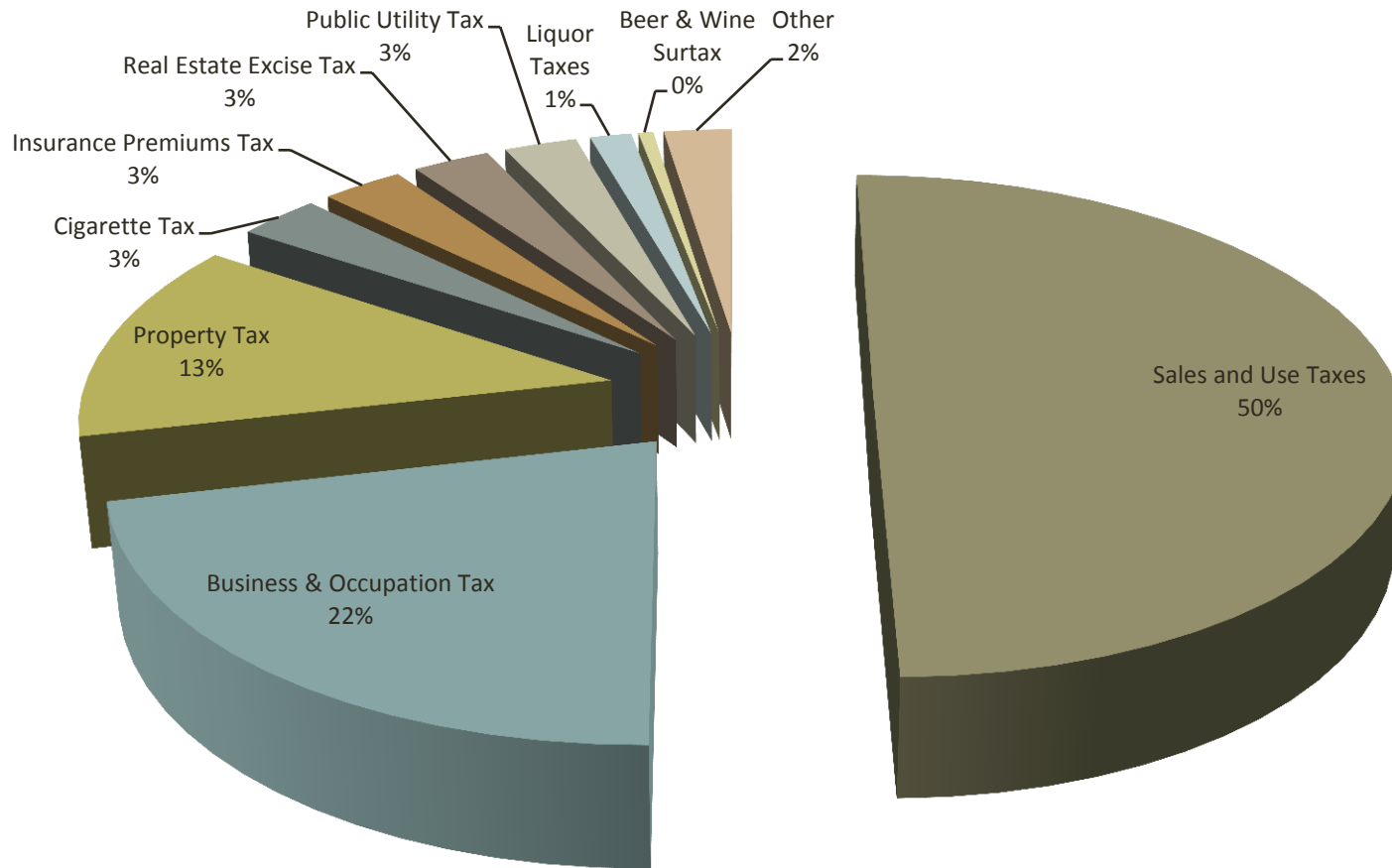
2. Expand Tax Base

- Primarily achieved by repealing or narrowing tax preferences

3. Impose New Taxes

- Examples of recently proposed taxes:
 - Capital Gains Tax
 - Income Tax
 - Product-Based Taxes
 - Property Tax on Intangible Assets

Relative Contribution of State General Fund Taxes



State General Fund Revenue Forecast

(millions of dollars)

(Source: September 2012 General Fund-State forecast, Table 3.9)

Forecast - State Taxes	Fiscal 2012	Fiscal 2013	2011-13 Biennium	Fiscal 2014	Fiscal 2015	2013-15 Biennium	Fiscal 2016	Fiscal 2017	2015-17 Biennium
Sales and Use Taxes	7,226	7,569	14,795	7,975	8,410	16,385	8,830	9,275	18,105
Business & occupation	3,126	3,318	6,444	3,278	3,440	6,718	3,629	3,822	7,451
Property (state school levy)	1,879	1,914	3,793	1,951	1,992	3,943	2,037	2,085	4,122
Cigarette	425	413	838	415	413	828	414	409	822
Insurance premiums	421	437	858	454	472	926	490	510	1,000
Real estate excise	399	409	808	448	523	971	588	623	1,211
Public Utility	377	393	771	421	446	867	467	488	954
Liquor sales/liter	215	264	479	239	245	484	252	260	512
Beer & wine surtax	77	78	155	27	28	55	28	28	56
<i>Other Taxes</i>	351.9	365.1	716.9	387.0	404.9	792.0	398.8	412.5	811.4
Total Taxes	14,497.4	15,159.2	29,656.6	15,594.4	16,373.3	31,967.8	17,134.1	17,910.8	35,044.9

Approach 1: Increase Tax Rates

(Tax estimates for FY 2014, annual amounts in \$millions)

	<u>Existing Tax Rate</u>	<u>New Tax Rate1</u>	<u>New Tax Rate2</u>	<u>New Tax Rate3</u>
Sales and Use Tax	6.50%	6.6%	6.7%	6.8%
Incremental Revenue		\$123	\$245	\$368

	<u>Existing Tax Rate</u> <u>(multiple rates)</u>		<u>New Tax Rate1</u>	<u>New Tax Rate2</u>	<u>New Tax Rate3</u>
B&O Tax	0.65%	Blended Rates	0.70%	0.75%	0.80%
Incremental Revenue			\$252	\$504	\$757

	<u>Existing Tax Rate</u>	<u>New Tax Rate1</u>	<u>New Tax Rate2</u>	<u>New Tax Rate3</u>
Property Tax	\$2.23	\$2.40	\$2.50	\$3.60
Incremental Revenue		\$143	\$228	\$1,155

Approach 2: Expand Tax Base

- **Approach:** Expand the tax base by repealing or narrowing tax preferences.
- **Definition:** A tax preference is a tax exemption, deduction, deferral, credit, or preferential tax rate.
- **Number:** Approximately 619 tax preferences
- **JLARC Study:** Ten year review of state tax preferences

Approach 2: Largest Excise Tax Preferences

2011-13 Biennium

Source: 2012 DOR
Exemption Study

			Taxpayer Savings (\$000) State
	RCW	Description	
1	82.04.050	Personal & professional services	\$3,241,484
2	82.04.360	Income of employees	\$2,949,600
3	82.08.0293	Food and food ingredients	\$1,993,810
4	82.08.0255(1f)	Motor vehicle and special fuel	\$1,651,268
5	82.45.010	REET exemptions	\$1,135,683
6	82.12.0254	Vehicles used in commerce	\$950,767
8	82.12.0251	Nonresidents' pers. property	\$881,766
9	82.08.0281	Prescription drugs	\$843,830
10	83.100.020(13)	Estate tax threshold	\$796,971
11	82.04.4281	Investments, nonfinancial firms	\$673,000
12	82.08.02565	Manufacturing machinery	\$472,329
14	82.04.440(2&3)	Multiple activities, instate	\$286,000
15	82.04.610	Import/export shipments	\$258,740
16	83.100.047	Marital deduction	\$252,008
17	82.04.4297	Govt. grants to nonprofits	\$242,204
18	82.08.0261	Items used in interstate comm.	\$217,286
19	82.08.010(1)	Trade-ins	\$208,335
20	82.04.4311	Public & nonprofit hospitals	\$206,000
21	82.04.260(11)	Manuf. commercial airplanes	\$160,061
22	82.04.4461	Aerospace product development	\$155,531
23	82.08.0252	Sales subject to public utility tax	\$148,205
24	82.16.050(11)	Exported/resold electric power	\$130,000
25	82.04.050(9)	Fertilizer and chemical spray	\$118,730
26	82.04.050(9)	Feed and seed	\$117,990
27	82.04.310(1)	Public utilities	\$111,000
28	82.04.4292	Interest on real estate loans	\$105,390
29	82.04.050(10)	Labor, local road construction	\$93,741
30	82.04.4451	Small business credit	\$91,600
31	82.08.0289	Local home telephone service	\$86,746
32	82.04.050(1a)	Extended warranties	\$86,510
33	82.04.050(6)	Custom computer software	\$84,992
34	82.63.030	High technology deferral	\$71,220
35	82.04.330	Agricultural producers	\$69,570

Things to Consider in a New Tax

Predictability and Reliability

- *The ability to reliably predict how much revenue will be collected and when it will be collected*

Clarity

- *The ease of determining when and how a tax is to be paid, and how it is calculated*

Administration

- *The cost of collection and the ability of the collecting agency to determine if taxes are appropriately paid*

Compliance

- *Minimize the likelihood of noncompliance*

Recently Proposed Taxes

1. Capital Gains Tax

2012- HB 2563- 5% tax on capital gains. \$5,000 individuals/\$10,000 couples threshold deductions.

2. Income Tax

- Individual
- Corporate
- “High Earners”

2010-Initiative 1098-- 5% over \$200k individuals/\$400k couples and 9% over \$500k individuals/\$1 million couples.

3. Product-Based Taxes

Oil, Carbonated Beverages, Water ...

4. Property Tax on Intangible Assets

Additional Information

DOR 2012 Tax Exemption Report

- A study of tax preferences for major Washington State and local taxes.
- Includes a description and fiscal impact associated with each tax preference.
- Updated every 4 years.
- http://dor.wa.gov/content/aboutus/statisticsandreports/stats_ExemptionStudy.aspx

JLARC Tax Preference Review Reports

- The reports provide detailed information about many of the tax preferences JLARC has reviewed.
- <http://www.citizentaxpref.wa.gov/default.htm>

DOR Revenue Alternatives List

- A list of options for raising tax revenues that have been commonly requested.