



REVENUE REFORMS WE NEED TO BUILD A BETTER FUTURE FOR ALL WASHINGTONIANS

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THREE KEY POINTS



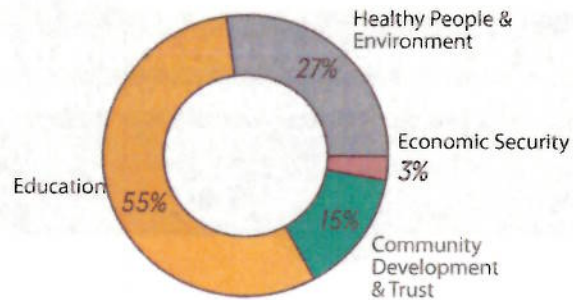
- We are *in danger* of falling backwards on key priorities. ✓
- We must fix our *broken tax system*.
- We must be **creative and engage** all communities.



OUR SHARED INVESTMENTS



HOW WASHINGTON STATE INVESTS ITS RESOURCES
State funding + federal stimulus funding, WA, FY 2014



Source: Budget & Policy Center analysis of LEAP data

Note: This funding measures the Washington state Near General Fund (the principal state fund supporting state operations) and Opportunity Pathways (the lottery revenues used to fund education programs) as well as federal stimulus funding from the American Recovery and Reinvestment Act (ARRA).

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THE PROBLEM



- **Maintaining current services**

- \$314 million

- **McCleary**

- Basics: \$3.5 billion - \$4 billion
- Salaries: \$3 billion - \$6 billion
- New school construction: \$???

- **Other needs**

- Mental health improvements
- Early learning
- Affordable higher education
- Better work supports
- Infrastructure.

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CUTS AREN'T THE ANSWER



On the chopping block:

- Universities and community colleges (\$3.4 billion).
- Community clinics, Kids' health care, and other health care services (\$4.1 billion).
- Public safety (\$2.2 billion).
- Mental health, developmental disabilities, and long-term care (\$4.3 billion).



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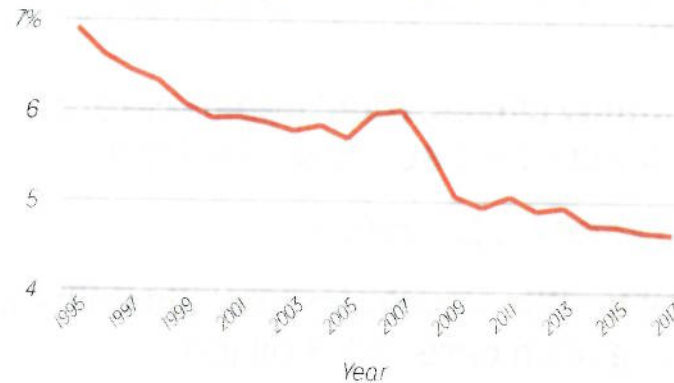


OUR FAILING TAX SYSTEM



Washington State's Tax System Cannot Keep Pace With The Changing Economy

Total Washington state near general fund revenue as a share of total personal income, 1995-2017.



SOURCE: Budget & Policy Center calculations, data from ERFC, BEA

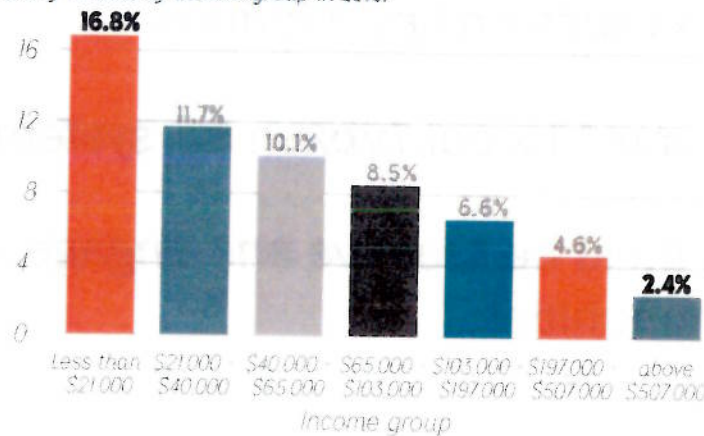
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OUR FAILING REVENUE SYSTEM



Washington State's Tax System Is Upside Down

Washington state and local taxes as a share of family income by income group in 2015.



SOURCE: Institute on Taxation And Economic Policy

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THE CHALLENGE



- **Generate A lot of \$\$\$**
- **Scalable**
- **Consistent with our values**
- **Politically feasible**
- **Embraced by partners**



TWO BROAD AVENUES

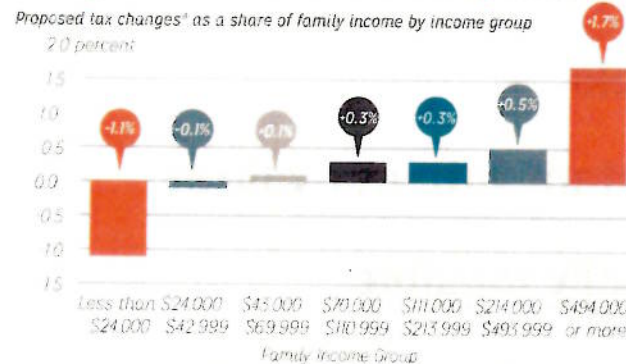


- ***“Current system plus”***: Capital gains, plus changes to property tax
- ***“Something new”***: Rethinking how we tax consumption



CAPITAL GAINS + PROPERTY TAX CHANGES

Proposal Would Lower Washington State Taxes For Working Families, Raise Them Modestly For Richest Families



SOURCE: Institute on Taxation and Economic Policy
 Tax changes include: \$1.0/\$1,000 state property tax increase, a circuit breaker/renters' credit available to households with incomes lower than \$67,000 per year, a 6.5% excise tax on capital gains in excess of \$20,000 per year (\$10,000 for singles) and funding the Working Families Tax Rebate at 10% of the EITC.

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SOMETHING NEW



Next Target For Reform: The Sales Tax



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FLAWED SALES TAXES



- **Losing adequacy**
- **Lacks transparency**
- **Costly for businesses**
- **Harms people with lower incomes**

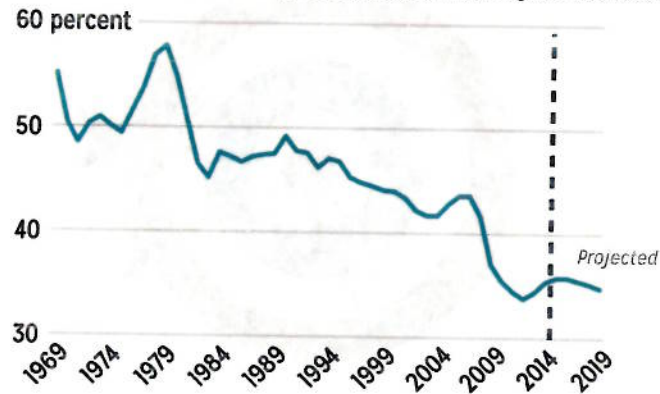
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FLAWED SALES TAX



A Lousy Consumption Tax: Consumption Covered By The Sales Tax Is A Shrinking Share Of The Economy

Taxable retail sales as a share of total personal income in Washington state, 1969-2019



Source: Economic and Revenue Forecast Council

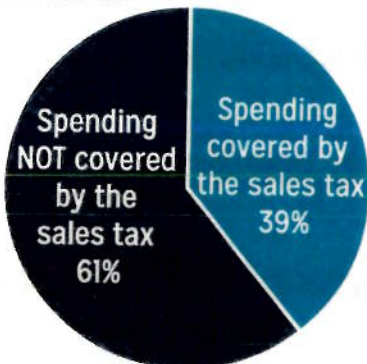
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FLAWED SALES TAX



Nearly Two-Thirds of Consumer Spending is NOT Subject to the Sales Tax

Taxable retail sales as a share of total personal consumption expenditures in Washington state in 2012



Source: Budget & Policy Center Calculations; data from ERFC, BEA

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BENEFITS OF TAXING CONSUMPTION BROADLY



A Broader Consumption Tax Would Be More Stable And Dependable

Total U.S. personal consumption expenditures as a share of total personal income, 1969-2013



Source: Budget & Policy Center Calculations; data from the BEA

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PROGRESSIVE CONSUMPTION TAX



Appeal:

- **More dependable & reliable tax system**
- **Reduce costs for most Washingtonians**
- **Reduce taxes on businesses**
- **Simple**
- **Promote savings**
- **Bipartisan**
- **Unique**

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CONSUMPTION TAXATION



What is a consumption tax?

- How *savings* are treated is key.

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A PROGRESSIVE CONSUMPTION TAX



A Common Consumption Tax With An Equitable Washingtonian Twist

Replace the sales tax and B&O tax with:

- **A value-added tax (VAT)**
- **Modified to ensure equity**

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A PROGRESSIVE CONSUMPTION TAX



What is a VAT?

- Most common consumption tax outside the US.
- Broad, reliable, dependable.
- Inequitable

A PROGRESSIVE CONSUMPTION TAX



The unique, equitable twist:

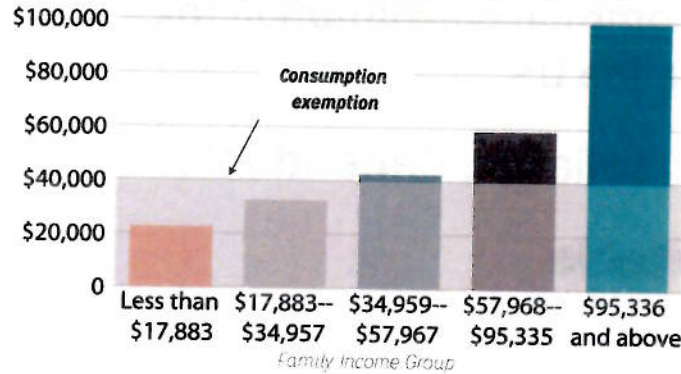
- Eliminate wages from the VAT.
- Replace with an equitable payroll tax.

A PROGRESSIVE CONSUMPTION TAX



Exempting the First \$40,000 of Consumption Would Greatly Reduce Taxes for Households With Lower and Moderate Incomes

Average consumer spending by family income group in the United States in 2013



SOURCE: Bureau of Labor Statistics

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ADVANTAGES



Appeal:

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PROGRESSIVE CONSUMPTION TAX



Remaining Research:

- Polling/messaging
- Distributional/revenue analysis
- Industry/sectoral analysis
- Admin/compliance issues

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THANK YOU!

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