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

ANDREW NICHOLAS
ASSOCIATE DIRECTOR OF FISCAL POLICY
WASHINGTON STATE BUDGET & POLICY CENTER
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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

- Education: 55%
- Health People & Environment: 27%
- Economic Security: 3%
- Community Development & Trust: 15%

Source: Budget & Policy Center analysis of LEAP data
Note: This funding measures the Washington state base 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).

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.
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


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

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
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
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Next Target For Reform: The Sales Tax

FLAWED SALES TAXES

- Losing adequacy
- Lacks transparency
- Costly for businesses
- Harms people with lower incomes
**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, 1959-2019

Source: Economic and Revenue Forecast Council

**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

Spending NOT covered by the sales tax: 61%

Spending covered by the sales tax: 39%

Source: Budget & Policy Center Calculations; data from ERI/C. BSA
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

85 percent
82
80
79
76
73
70

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

PROGRESSIVE CONSUMPTION TAX

Appeal:
• More dependable & reliable tax system
• Reduce costs for most Washingtonians
• Reduce taxes on businesses
• Simple
• Promote savings
• Bipartisan
• Unique
CONSUMPTION TAXATION

What is a consumption tax?
• How savings are treated is key.

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
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 2015

$100,000
$80,000
$60,000
$40,000
$20,000
0

Less than $17,883
$17,883–$34,957
$34,959–$57,967
$57,968–$95,335
$95,336 and above

Family Income Group

SOURCE: Bureau of Labor Statistics

ADVANTAGES

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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!

Andy Nicholas, Associate Director of Fiscal Policy
Washington State Budget & Policy Center
Email: andyn@budgetandpolicy.org
Phone: 206.262.0973 x 225