

**TAX ADJUSTMENT ALTERNATIVES**  
**Administrative and Policy Adjustments**

*These alternatives were developed by the Department of Revenue at the request of the Tax Structure Study.*

*These alternatives describe adjustments to the existing tax system to align the tax system with administrative and policy simplification goals*

	<b>Annual Estimated Impact</b>	<b>Advantages</b>	<b>Disadvantages</b>	<b>Tax Principles Most Advanced By Tax</b>	<b>Tax Principles Most Eroded By Tax</b>	<b>Administrative Issues</b>
<b>User Fees &amp; Dedicated Taxes</b>						
1	<b>Eliminate dedicated product-based taxes</b> Remove certain taxes based on products (HST, Oil Spill, litter) except "sin taxes," replace with mainstream surtax	<ul style="list-style-type: none"> <li>Improved compliance</li> <li>Fewer legal challenges</li> <li>Less complex, reduces administrative burden on taxpayers and DOR</li> <li>Broad-based tax</li> </ul>	<ul style="list-style-type: none"> <li>Taxes would no longer adhere to "polluter pays" principle.</li> </ul>	<ul style="list-style-type: none"> <li>Stability</li> <li>L-T Adequacy</li> <li>Simplicity</li> </ul>		
<b>Business Taxes</b>						
2	<b>Reduce number of B&amp;O rates and classifications</b> Create one selling class and rate, one manufacturing rate, and one service rate	<ul style="list-style-type: none"> <li>Fewer disagreements about classifications</li> <li>More flexible, keeps pace with new technology</li> </ul>	<ul style="list-style-type: none"> <li>There may be competitive reasons for lower tax rates, different classes.</li> </ul>	<ul style="list-style-type: none"> <li>Simplicity</li> </ul>	<ul style="list-style-type: none"> <li>Competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Start-up education of newly reclassified taxpayers</li> </ul>
3	<b>Reform B&amp;O apportionment</b> Develop formulary apportionment for all B&O categories	<ul style="list-style-type: none"> <li>Fair to all businesses with activity in WA</li> <li>Less litigation re: apportionment</li> <li>Most other states apportion business taxes</li> </ul>	<ul style="list-style-type: none"> <li>May be a fiscal loss</li> </ul>	<ul style="list-style-type: none"> <li>Competitiveness</li> <li>Harmony with other states</li> <li>Neutrality</li> </ul>	<ul style="list-style-type: none"> <li>L-T Adequacy</li> </ul>	<ul style="list-style-type: none"> <li>Start-up education of new apportionment method</li> </ul>

	Annual Estimated Impact	Advantages	Disadvantages	Tax Principles Most Advanced By Tax	Tax Principles Most Eroded By Tax	Administrative Issues
<b>Business Taxes and Incentives (continued)</b>						
4 <b>Eliminate the PUT</b> Shift all PUT taxpayers into appropriate B&O classifications		<ul style="list-style-type: none"> <li>Removes 2 different privilege systems of taxation</li> <li>The reason for the PUT is no longer viable - most utilities are no longer regulated</li> </ul>	<ul style="list-style-type: none"> <li>May be complex to assign B&amp;O classifications</li> <li>Initially complex for taxpayers to comply</li> <li>May result in fiscal loss.</li> </ul>	<ul style="list-style-type: none"> <li>Long-run simplicity of administration</li> </ul>		<ul style="list-style-type: none"> <li>Start-up education of newly reclassified taxpayers</li> </ul>
<b>Sales/Use Tax</b>						
5 <b>Remove sales tax from construction contracts</b> Contractors pay sales tax on materials purchased. Sales tax is not paid on construction labor.	<ul style="list-style-type: none"> <li>\$400 million loss</li> </ul>	<ul style="list-style-type: none"> <li>Encourages business investment</li> <li>Encourages homeownership (lower home costs)</li> <li>Most states do not tax construction labor</li> <li>Increased compliance with RST</li> </ul>	<ul style="list-style-type: none"> <li>Increases up-front costs for contractors</li> <li>May risk federal contracting revenue</li> </ul>	<ul style="list-style-type: none"> <li>Competitiveness</li> <li>Harmony with other states</li> <li>Simplicity</li> </ul>	<ul style="list-style-type: none"> <li>L-T Adequacy</li> </ul>	<ul style="list-style-type: none"> <li>Requires choice of B&amp;O classification for contractors</li> <li>Substantial taxpayer education necessary</li> </ul>
6 <b>Simplify exemptions and credits</b> Qualifying requirements for both RST and B&O credits would be simplified. Switch to exemptions and deductions where possible.		<ul style="list-style-type: none"> <li>Reduce confusion for taxpayers</li> <li>Simpler to administer for both DOR and taxpayers</li> <li>Retains incentives and business competitiveness</li> <li>Could be revenue neutral</li> </ul>	<ul style="list-style-type: none"> <li>Harder to target a particular business activity</li> </ul>	<ul style="list-style-type: none"> <li>Competitiveness</li> <li>Simplicity</li> </ul>		<ul style="list-style-type: none"> <li>Taxpayer education necessary</li> </ul>

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