December 2021 Meeting

Date	December 22, 2021
Attendees	The following people attended the meeting via Microsoft Teams or on the phone: **Technical Advisory Group** Doug Conrad Lucy Dadayan Patrick Jones Rachel Knutson Steve Lerch Jeff Mitchell Mike Nelson Andy Nicholas Pete Parcells Rick Peterson Kriss Sjoblom Sharon Kioko **Department of Revenue** Richard Dadzie Melissa Howes Sara del Moral Braden Fraser Steven Lee Valerie Torres
Employer Compensation Tax Model	Presenter: Sara del Moral Question: Is this tax modeled after the JumpStart tax proposed in Seattle? Response: Yes, the language in the bill closely mirrors Seattle's JumpStart tax. Question: Are employee benefits for e.g., health insurance benefits included as taxable in this model? Response: No, they are not. Policy comment: There is good empirical evidence to suggest that a tax like this on employee's compensation can have unintended consequences including but not limited to employers cutting benefits and other non-wage compensation to their workers to avoid or shift the burden of the tax.
Wealth Tax Model	Presenter: Richard Dadzie Comment: [Regarding taxpayer behavioral response and efforts to reduce tax liability,] it is not so much that they move away – they can arrange their assets so they do not have a residence or tax domicile in Washington. Question: Are the capitalization factors based on risk adjusted expected returns? What are the sources of these risk adjusted returns? E.g., the risk adjusted return is 18 percent debt to equity… Response: Fixed income wealth and its capitalization is relatively straight forward. We use the 10-year treasury yield. Specifically, we look at 1/r where r is the average yield on the 10-year note to generate the capitalization factor.

	Other capitalization factors rely on composites and weights of different factors (e.g., dividends etc.) to identify the amount of assets that equate to certain reported fiscal income flows. Another issue is whether all financial assets have equal returns. The easiest thing is to assume all are equal, but we know different categories of wealth do not grow at the same rates (i.e., there is likely unequal returns). The model is sensitive to these assumptions about returns and relies on advances in the literature to ensure that we have accounted for this important nuance. <u>Question/Comment:</u> Here is a situation to consider – a wealthy individual with $10B in stocks, $10B in real estate, then debt of $10B, so net worth is $10B. But $20B in assets, half are exempt. How is it taxed, and how do you deal with the debt? <u>Response:</u> A challenge in the model is accounting for debt obligations, especially government-issued bonds. We intend to have a carve out in the model to capture the debt issue. This will allow us to be true to the language in the bill as well as the point that you raise.
BNO Tax Projections	<u>Presenter:</u> Valerie Torres There were no questions or comments from participants.
Personal Income Tax Projections	<u>Presenter:</u> Sara del Moral <u>Question:</u> Are there some other assumptions besides past trends that are being used to project amounts forward? <u>Response:</u> No. We rely on data from the published forecasts, primarily from the Economic & Revenue Forecast Council. Also, with regards to business income, are B&O revenues or net income used as the proxy for business income? <u>Response:</u> We use the Economic & Revenue Forecast Council forecast for B&O taxable to project business income amounts.
Business Tax Projections	<u>Presenter:</u> Richard Dadzie <u>General comment:</u> There is a significant amount of uncertainty regarding forecasts in the post-recession period. It is important to acknowledge the lagged nature of data, and the difficulty in generating forecast parameters when there has been a large random shock (such as COVID).
General Comments	<u>Participants:</u> The rigor and thoughtfulness evident in the work done on all these models is an improvement over past work. RFA has been thorough in bringing in the latest thoughts and methodologies from the economic literature and this is apparent.
Next Meeting	TBD – possibly in May <u>Topics:</u> Long-term implications of TSWG tax models.