

May Meeting

Date May 14, 2020

Attendees The following people attended the meeting via WebEx or on the phone:

Technical Advisory Group

Katie Baird
 Doug Conrad
 Dick Conway (present)
 Lucy Dadayan
 Rachelle Harris (WebEx)
 Robert Heller
 Hart Hodges
 Gary Holcomb
 Sharon Kioko
 Ashley Kittrell
 Jeff Mitchell (phone in)
 Andy Nicholas
 Pete Parcels
 Rick Peterson
 Jim Schmidt
 Grant Shaver
 Nick Turner

Department of Revenue

Kris Bitney
 Preston Brasher
 Laura Chartoff
 Sara del Moral
 Ian Doyle
 Braden Fraser
 Melissa Howes
 Steven Lee
 Kathy Oline
 Valerie Torres

**Washington State
 and Local Tax
 System: Dysfunction
 & Reform**

Presenter: Dick Conway, retired.

Speaking notes posted on Website for this talk

Question:

Idea on flat personal income tax and deductions, possibly credits to make it more taxes more progressive?

Dick C – response:

You can do some relatively simple tests of using standard deduction, what I did was (in another paper) if you gave every household \$15,000 standard deduction then people at lowest end don't pay anything at all and for those at the upper end doesn't dent their income. So you can shift taxes from low income to high income households.

Question:

Followed work with interest, simple question: you talked about keeping a system fair, adequate, ... and keep track with personal income. Do services keep track with personal income? We may have to go there as a state to keep these five

areatracking. The Tax Structure Workgroup will need to make the case for taxes growing with public income.

Dick C – response:

The issue for Washington is that we are a low tax state, so that's the first issue. We've been short changing schools over a 20 year period and largely this is because of the inadequacy of our sales based system. The dragging of the sales tax down and the unwillingness to raise taxes is the other issue. We didn't buck the 2/3 vote for raising taxes, but would like us to get back to where we can adequately fund our schools and our services.

Additional Comment:

To analyze with these five criteria and the work of the tax structure workgroup needs to look at these.

Question:

We worked together on the Gates Commission and each one of the efforts of tax reform bad times have made the need for a study, this study doesn't follow the past. The aspects you pointed out of our system makes it look like now going to happen. How much will the effective tax rate be (down) once this is over? (as in a couple years)?

Dick C – response:

I wrote an article on the Great Recession and the effective tax rate. We dropped to 10.3% and if we dropped down to 9.3% - if we have that type of drop and a recession that is 2 to 3 times as deep. If the rate drops 10% and the economy drops 30% - well where do you go from there?

Additional Comment:

If you look at the early 80's and by the time they got done working on that then the sales tax rate rose to 6.5%. What is really driving our drop in drop in effective tax rate is that the sales tax rate stays the same and the tax base declines. Do you think the current situation will cause the Legislature to raise taxes?

Dick C – response:

If you are up against cutting the number of teachers or reducing fire, or whatever. If you put that against raising taxes, then taxes may raise with a lot of apologies. Which puts the pressure on the poor – and that's why we need to move away from sales to income taxes.

**Washington Tax
Changes Since 2002**

Presenter: Braden Fraser

Braden covered the changes to Sourcing of Sales, Nexus changes, and Property tax changes. His presentation is available on the website.

Question:

What have been the changes in rate – I mean the state sales tax rate has not changed, but B&O rates have changed a lot over time. More recently, additional classification added and revamped as rates have changed?

Answer:

The state has stayed away from changing state sales tax rate, but rates changes because of allowed local sales tax rate changes. B&O rates have changed for a variety of reasons. We did not include a description of all the B&O rate changes in this presentation

Question:

The \$100,000 threshold is it services in Washington or general operating income?

Answer:

The \$100,000 is specific to \$100,000 sales or services in Washington.

Question:

How many remote sellers have registered with Washington since January 1, 2018?

Answer:

We can email that to you after the meeting. (Email sent: About 7,400 remote sellers have registered with Department of Revenue because of the retailing economic nexus changes.)

Question:

What was the reason to impose budget based and versus rate based. What is the rationale for a budget based property tax system over a rate based system.

Answer:

Why budget base – Assessors were not always doing the valuation of property the same across the state – and in the past, Washington taxed only a portion of the value. As Washington transitioned to taxing 100% of the assessed value, without a cap on the levy, the taxes would have gone up a lot – so the levy was limited to a 6% increase over the prior year. The purpose was to prevent the tax bills from going up by the total amount of the increase in values. In a budget based system, when values go up the tax bill does not go up as much as the value has gone up.

Questions from Tax Structure Workgroup

The Tax Structure Workgroup is preparing the agenda for the July meeting. They are looking for presenters on the following sub-topics. The primary topic of the July meeting is Modernization & Innovative Taxation. If you would like to present on any of the following topics, please let Valerie know:

- The taxation of data,
- The taxation of robots – see attached article,
- How a Value-Added Tax would modernize the Washington tax structure, or
- Other topics that modernize the Washington tax structure.

Suggestions:

Neil Bruce – the work did for the Gates Study (did work on VAT – UW lead economic department)

Kathy – Co-chair Frame – very interested in using the July 17 to talk about modernization and innovation in taxation. She is open to other suggestions, we just want to start the conversation and look at options of where to go in the future. We appreciate any expertise, or the ability and time to research & present on those or other topics.

Next Meeting

June 15, 2020 from 1 to 4 PM (WebEx)

Property Tax Modeling:

- State Levy & Integrated Property Tax models
 - Household Burden Model – Property Tax modeling
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