

RECOMMENDATIONS OF PREVIOUS TAX STUDY GROUPS

As far back as the 1920s, special tax study groups have met to examine Washington's tax structure. A recommendation of the 1921 Tax Investigation Commission resulted in establishment of the State Tax Commission (predecessor to the Department of Revenue). It also called for improvements in state budgeting, changes to property and inheritance tax laws, a constitutional amendment to allow a flat tax on intangibles and repeal of the poll tax. In 1929 another Tax Investigation Commission formulated a tax proposal which included a graduated personal income tax and a corporate net income tax.

This short paper looks at "modern" efforts to review the tax system during the past 45 years. Six different groups have met and formulated recommendations, ranging from administrative changes for the tax administering agency to major tax reform proposals featuring a state income tax. Only the principle recommendations of these groups are included here. Those items which were subsequently enacted, at least partially, are indicated with an asterisk.

1957 Tax Advisory Council

Background:

Appointed by Gov. Rosellini pursuant to Chapter 43.38 RCW which was adopted in 1957 to facilitate such a tax study (this statute was repealed in 1999). The 15 member group and its eight subcommittees met from May, 1957 through September, 1958 to address a projected shortfall in state revenues.

Recommendations:

FISCAL ADMINISTRATION:

- Better coordination among the tax-collecting agencies of the state.
- Improved personnel administration within the Tax Commission.*
- Improved audit program within the Tax Commission including a taxpayer information program.*
- Consolidation of the property tax functions within the Tax Commission.*
- Abolishment of the State Board of Equalization.*
- Establishment of a merit system for state employment.*
- Improved state program and budgetary management, including performance budgeting.*
- Improved cash management within the State Treasury.*
- Creation of separate Council to study state expenditures.*
- Greater flexibility for local government finance and increasing local fiscal capacity.*

TAX CHANGES:

- Rehabilitation of the property tax to improve uniformity of tax burdens and make revenues more responsive to the needs of local govts.*
- Extension of sales tax to most personal and business services.
- Extension of B&O tax to agriculture and rental of real estate.
- Increase in the state sales tax rate from 3.33% to 4.0%.*

Outcome:

Recommendations in the area of fiscal management led toward improvements in state budgeting and expenditure controls. For example, an expenditure advisory council was created and issued a comprehensive report in 1960. The state's first performance budget can be traced to the TAC recommendation. In 1959, the Legislature extended the B&O tax to the rental of real estate, as proposed by the TAC; however, this was overturned by the State Supreme Court. Further, in 1959 the following Legislature increased the rate of the sales tax from 3.33% to 4.0% as recommended by the Council and began a series of base extensions to various selected services (although not to all services as proposed by the Council).

1966 Tax Advisory Council

Background:

Appointed by Gov. Evans pursuant to Chapter 43.38 RCW. The 15 member group met from December, 1965 through December, 1966.

Recommendations:

INCOME AND EXCISE TAXES:

- Single rate personal and corporate net income tax.
- B&O tax reduced from 0.44% to 0.20%.
- B&O tax modified with the addition of a formula that considers the firm's profit.
- Sales tax rate reduced from 4.5% to 3.5%
- Sales tax exemptions for food and prescription drugs.*
- The two mill state property tax levy returned to local govt.
- Excess revenue produced by the income tax to be devoted to reducing special school levies.
- Repeal of the 1965 manufacturer's tax credit.*
- B&O minimum increased to \$10,000.*
- B&O tax extended to agricultural production.
- B&O tax extended to radio & TV broadcasting.*
- Repeal B&O deduction for processing horticultural products.
- Review of the differential public utility tax rates.

PROPERTY TAXES:

- Constitutional amendment to reduce the assessment level from 50% to 25% of true and fair value and to increase the limit on regular levies from 40 mills to 50 mills (effective rate of 1.25%).
- Special levies to be allowed for two years and subject to approval by simple majority.
- State to improve the uniformity of assessments and have the power to equalize property valuations among counties.*

- State to assume greater responsibility for financing basic education.*
- The 1965 property tax "freeze" law to be modified.

TAX ADMINISTRATION:

- Establishment of a Department of Revenue with a single Director to replace the three-member Tax Commission.*
- Establishment of a State Board of Tax Appeals to hear taxpayer appeals.*
- Establishment of a Tax Court to consider tax-related litigation.
- Establishment of local tax appeals boards to replace county boards of equalization.
- Calculation of a single property assessment ratio for each county with publication of the results.
- Notice to property owners of any increase in assessed values in excess of \$200.*
- Adoption of a constitutional amendment permitting current use assessment of open space, farm and timber lands.*
- A variety of miscellaneous property and excise tax recommendations.
- Creation of a permanent tax study body to report to the Governor.

Outcome:

Several of the administrative recommendations were adopted by the 1967 Legislature, including establishment of the Dept. of Revenue and the Board of Tax Appeals. None of the proposals involving major tax changes were enacted and nothing was submitted to the voters, except the proposal regarding allow current use assessment which was adopted as the 53rd Amendment in 1968.

1968 Tax Advisory Council

Background:

Appointed by Gov. Evans pursuant to Chapter 43.38 RCW to continue the study begun by the 1966 Council. Most of the same 15 members from the 1966 group returned to review their earlier recommendations and formulate several new proposals. The group met from July, 1967 through December, 1968.

Recommendations:

Most of the 1966 recommendations were continued. One major change was to allow the single rate income tax to apply different rates to individuals and corporations. Another was to call for the total repeal of the B&O tax. Instead of outright exemption of food products from sales tax, the 1968 Council recommended a credit against the income tax equivalent to the average sales tax expenditure on food. The property tax limit was lowered to 40 mills at 25% assessment level (effective rate of 1.0%). Finally, the degree of reduction in the state sales tax was not specified, except the Council did state that the sales tax rate should not exceed the rate of the personal income tax.

Outcome:

The Council did not formulate a specific tax package complete with proposed tax rates. However, the 1969 Legislature, acting upon the Council's general recommendations, did develop legislation for submission to the voters. HJR 42 and the implementing bill SHB 582 contained the following major provisions:

- Personal income tax, 3.5% single rate tax on A.G.I. less \$1,000 personal exemptions.
- Corporate net income tax of 3.5%.
- Per capita credit (or refund) of \$15 offsetting sales tax on food.
- Sales tax exemption of prescription drugs.
- Reduction in state sales tax rate to 3.5%.
- B&O tax rates reduced by 50%.

HJR 42 was defeated at the November, 1970 election by more than a two to one margin (309,882, yes; 672,446, no).

1971 Committee for New Tax Policy

Background:

In the wake of the failure of HJR 42, Gov. Evans appointed a large 73 member citizens group to consider the future of tax reform in Washington and develop a proposal for the 1972 Legislature. The Committee met from October to December, 1971 and held a series of public meetings throughout the state.

Recommendations:

- Eliminate special M&O school levies.* (significant reduction later achieved)
- Exempt food and prescription drugs from sales tax.*
- Eliminate property tax on business inventories.*
- Reduce major B&O tax rates from 0.44% to 0.25%.
- Impose personal income tax with graduated rates from 2.0% - 6.5%
- Impose corporate net income tax of 10%.

Outcome:

The committee's proposal became HJR 82 in the 1972 session. It was modified slightly by a Legislative Ad Hoc Committee on Tax Reform during 1972 to become HJR 37 which was submitted to the voters in 1973. HJR 37 was defeated at the polls by more than a three to one margin (228,823 yes; 770,033 no) in November, 1973.

1982 Tax Advisory Council

Background:

Appointed by Gov. Spellman pursuant to Chapter 43.38 RCW. The 15 member group met from June through December of 1982 during the period of Washington's most severe recession in recent decades.

Recommendations:

- Single rate personal income tax based on federal A.G.I. with substantial personal exemptions.
- Single rate corporate net income tax with credit for remaining B&O tax liability.
- Revenue neutral with income tax revenues used to reduce existing taxes.
- Maximum income tax rates to be specified in the Constitution.
- Ratio of taxes paid by individuals and businesses to remain the same.

- Food exempt from sales tax.*
- Business with gross receipts less than \$2,000 to be exempt from B&O tax.*
- Manufacturers & wholesalers with no employees or place of business in Wash. to be taxed at 50% of prevailing B&O tax rates.
- The 106% property tax limit on taxing district levy growth to be modified to allow all districts a minimum of 2/3rd of the statutory millage rate.
- Noncommercial boats and aircraft to be exempt from property taxes but subject to a 1.0% excise tax.*
- Senior citizen property tax exemption to be increased and a circuit-breaker linking property taxes to household income should be considered.
- The state to assist County Assessors with annual revaluation of property.*

Outcome:

Presented to the 1983 Legislature, but no bill was adopted or referred to the voters.

1988 Governor's Committee on Washington's Financial Future

Background:

Gov. Gardner appointed the 19 member group which met from April through November of 1988. In addition to examining the state tax structure, subcommittees looked at the adequacy of funding for transportation and local government finance. Also, the committee studied ways to limit state expenditures. A series of focus groups met throughout the state to obtain input from local officials, businesses and citizens.

Tax Recommendations:

OPTION #1 (no income tax):

- Sales tax exemption for construction labor incurred by businesses.
- Exemption of 1st \$96,000 of gross receipts for small businesses.*
- Increase B&O tax rate on services from 1.5% to 2.0%.*

OPTION #2 (with income tax):

- Reduce state sales tax rate from 6.5% to 3.75%.
- Impose a personal income tax of 3.75% based on federal A.G.I. with large personal exemptions.
- Exemption of 1st \$96,000 of gross receipts for small businesses.*

Outcome:

Presented to the 1989 Legislature, but no bill was adopted or referred to the voters. However, some of the analysis in the area of state expenditures may have been instrumental in subsequent adoption of certain programs, such as the rainy day fund and the tax limitation mechanism (Initiative 601) which was approved by the voters in 1993.

* subsequently the proposal was at least partially implemented.

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