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# **TSWG Engagement Survey**

## **Survey Technical Summary**

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# 1. Engagement Survey Introduction

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## Background

In 2021, the Tax Structure Work Group (TSWG) established a set of tax scenarios that included different combinations of tax types to make Washington’s state tax structure more fair, stable, adequate, and transparent. The tax scenarios were not proposed policies; rather they were ideas intended to generate dialogue and feedback as part of a larger effort to improve Washington state’s tax structure. The TSWG conducted engagement in fall 2021 with individual taxpayers as well as businesses across Washington to gather feedback about the tax scenarios.

To support a discussion around a series of tax ideas, the Tax Structure Work Group conducted a broad set of public engagement activities in 2021 that included:

- Tax Town Halls
- Presentations at existing community and business meetings (“We Go to You Presentations”)
- Multilingual Focus Groups
- Email Listserv
- Website Communications

A description of these engagement activities and the results are summarized in the December 2021 report of [Tax Structure Work Group 2021 Interim Engagement Report](#). At the same time, these public engagement activities also directed individuals to a TSWG survey. The survey directed individuals to answer questions regarding a series of tax principles and tax scenarios that are described in the section below.

This technical report summarizes the results of this survey.

## Tax Principles and Tax Scenarios

### Tax Principles

The 2021 budget proviso directed the TSWG to guide its work based on four principles for a well-designed tax system: equity, adequacy, stability, and transparency. The TSWG co-chairs agreed to use “fairness” instead of “equity” to avoid confusion with financial equity (i.e., equity in real estate). The TSWG defined these four principles as follows:

- **Stability:** A stable tax system provides a reliable amount of money, even with ups and downs in the economy.
- **Transparency:** Under a transparent tax system, taxpayers know when to pay taxes, the amount they need to pay, and how to make payments.

- **Adequacy:** An adequate tax system collects enough tax revenue to pay for established public services.
- **Fairness:** A fair or equitable tax system is one that is fair to people and to businesses. A fair tax structure must consider different viewpoints of fairness - consistency and capacity.
  - **Capacity:** One view of fairness is that those individual and businesses with higher incomes or revenue should pay a higher percent of their income or revenue in taxes, and those with lower incomes or revenue should pay a lesser percentage through graduated or progressive rates, targeted tax credits or exemptions, etc. This view of fairness considers the capacity of a taxpayer to pay the tax.
  - **Consistency:** Another view of fairness is that all individual and business taxpayers should pay the same percent of their income or revenue on taxes, regardless of their income through flat taxes or the same tax rates applied to all individuals and the same rates for all businesses. This view of fairness considers the consistency of the tax structure.

## Tax Scenarios

### Scenario A - Change Property Tax Limit Factor

Scenario A addresses the adequacy (or the ability to collect enough tax revenue) of the tax system by increasing the property tax limit factor, which allows property tax to keep pace with inflation and population growth. Current law caps the growth of Washington's property tax revenue at 1% growth plus additional value for new construction. This scenario would replace the limit factor with a new inflation factor tied to the cumulative rates of population growth and inflation. Because of this change, this scenario, unlike the others, is not revenue neutral over time. The TSWG made this a stand-alone scenario to call attention to how changing the growth limit may not be revenue neutral over time and allow taxpayers to react to this specific change.

### Scenario B - Update Property Tax and Tax Personal Wealth

Scenario B addresses the fairness of the tax system by adding a wealth tax and a primary residence property tax exemption. The wealth tax would be a 1% tax on financial property (such as stocks and bonds), with the first \$1 billion exempt. The property tax exemption would reduce the tax burden on most property taxpayers, especially residential payers, who would receive a state property tax exemption for the first \$250,000 of value on their primary residence.

### Scenario C - Replace B&O Tax with Value Added Tax and Employer Compensation Tax

Scenario C addresses fairness by eliminating the business and occupation (B&O) tax, adding a subtraction-method value added tax (VAT), and adding an employer compensation tax. The VAT is a tax on the value a business adds to goods or services it sells. Businesses would pay this tax on their gross receipts minus the purchase of goods and services from other businesses. It would include an exemption of the first \$1 million in gross receipts (but would slowly phase out at \$2 million). The employer compensation tax would be a new business tax. It is a tax on

employers on compensation paid to employees in Washington over \$150,000 per employee. Businesses with total worldwide payroll over \$7 million a year would pay this tax.

#### Scenario D - Replace B&O Tax with Margins Tax and Employer Compensation Tax

Scenario D addresses fairness by eliminating the B&O tax, adding a margins tax, and adding an employer compensation tax. The margins tax would be a tax on the gross receipts of businesses, minus certain deductions (either 30% of taxable income, cost of goods sold, total compensation paid, or \$1 million in gross receipts). The employer compensation tax would be a new business tax. It is a tax on employers on compensation paid to employees in Washington over \$150,000 per employee. Businesses with total worldwide payroll over \$7 million a year would pay this tax.

#### Scenario E - Tax Personal Income and Corporate Income at a Flat Rate

Scenario E addresses stability and fairness by reducing the state sales tax, reducing the state property tax, eliminating the B&O tax, adding a corporate income tax, and adding a personal income tax. Under this scenario, the corporate and personal income taxes would be flat taxes, meaning all income would be taxed at the same flat rate regardless of income.

#### Scenario F - Tax Personal Income and Corporate Income at a Progressive Rate

Scenario F addresses stability and fairness by reducing the state sales tax, reducing the state property tax, eliminating the B&O tax, adding a corporate income tax, and adding a personal income tax. Under this scenario, the corporate and personal income taxes would be progressive taxes, meaning as a person's or business's income increases, their tax rate also increases.

## 2. Survey Methods

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### Survey Sampling

The survey uses a “convenience sample”. This type of sampling focuses on gaining information from participants (the sample) who are “convenient” respondents to answer the survey. This approach means the sample is not a random selection of participants based on any set of criteria (like demographic factors designed to represent the make-up of Washington residents). This type of sampling was done as a practical matter to get the sentiments of individuals engaged on tax issues and interfacing with the TSWG.

These individuals were noticed through the following methods:

- TSWG website
- Emails
- Social media posts
- Flyers
- Presentations
- Advertisements on social media
- Advertisements in ethnic media

Outside of direct engagement with TSWG activities, respondents were also engaged via other outreach partners including:

- Washington State Legislators
- Community-based organizations
- Faith-based organizations
- Business organizations
- Statewide community and economic development organizations

However, this type of convenience sampling can have the following limitations:

- **Sampling and selection bias:** Only those people who are willing to take the survey are included in the sample.
- **Representation of the data:** The survey sample will be unrepresentative of the total Washington state population. This might lead to under-representation or over-representation in some population subgroups.

### Survey Administration

The TSWG survey was administered via the website and available as a paper version when requested. The survey was available in the following languages:

- English
- Spanish
- Chinese (simplified and traditional)
- Korean
- Russian
- Vietnamese
- Ukrainian

The English survey was available starting on September 22, 2021 and closing on January 31, 2022. The multilingual surveys opened November 9, 2021 and closed January 31, 2022.

The survey is attached to this summary as Attachment A. The survey was also available in a short version that asked a subset of questions. This shorter version was available to respondents in multiple languages and was designed to reduce response fatigue.

### *Qualitative Analysis*

The long version of the Tax Structure Work Group survey included opportunities for respondents to provide free responses regarding the tax structure scenarios. In total, respondents provided over 15,000 comments. The project team translated any in-language comments received.

To capture top themes and concepts that emerged from the data, the project team conducted an in-depth content analysis for this qualitative data. The project team's methodology consisted of comprehensively coding this qualitative data. To do this, the project team read through the data and identified emergent themes. Then, the team created a coding library that organized the themes and subthemes into 39 codes. Next, the team went back and coded each of the approximately 15,000 comments. To ensure data quality, the team went through a data validation process to account for data accuracy and integrity.

Once the project team completed coding the qualitative data, the team created pivot tables to see the frequency of codes for each of the survey questions. The team extracted any code that occurred in more than 10% of the responses for that question. The team also looked for any natural breaks in the data in case the "top" codes were slightly outside the 10% cutoff. These top themes (i.e., codes) for each survey question are described in this chapter.



# 3. Survey Findings

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## Survey Responses

The survey had a total of 2,582 responses. 1,693 respondents took the long survey and 1,159 took the shorter version of the survey.

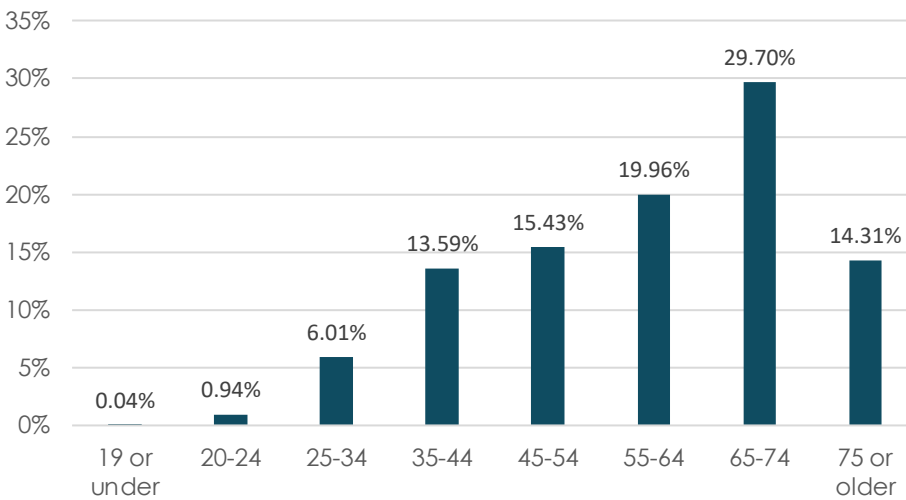
## Respondent Demographics

What was the age breakdown of respondents?

Respondents were more likely to be older individuals relative to the state population. However, the survey respondents more accurately represented individuals in the 35-54 age group range relative to the state population.

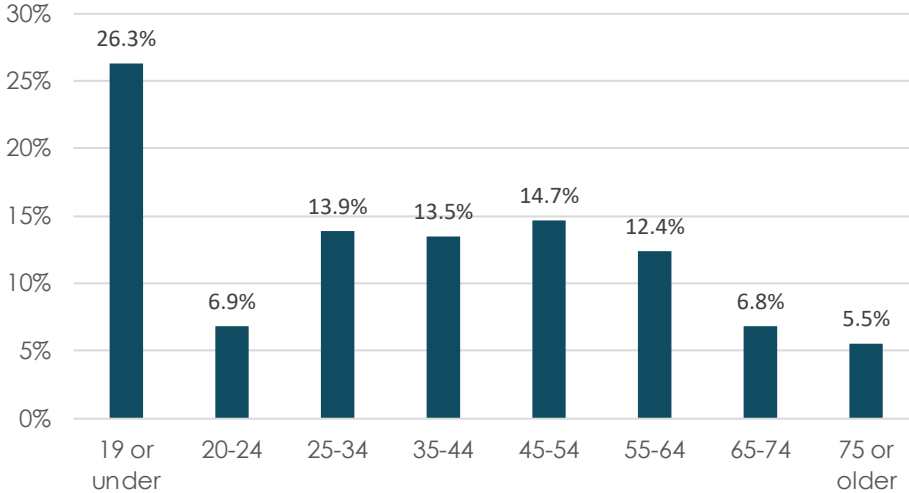
### Exhibit 1: Age Composition of Survey Respondents

Source: TSWG Survey, 2022.



## Exhibit 2: Age Composition of Washington Residents (2020)

Source: Washington State Office of Financial Management, 2022.

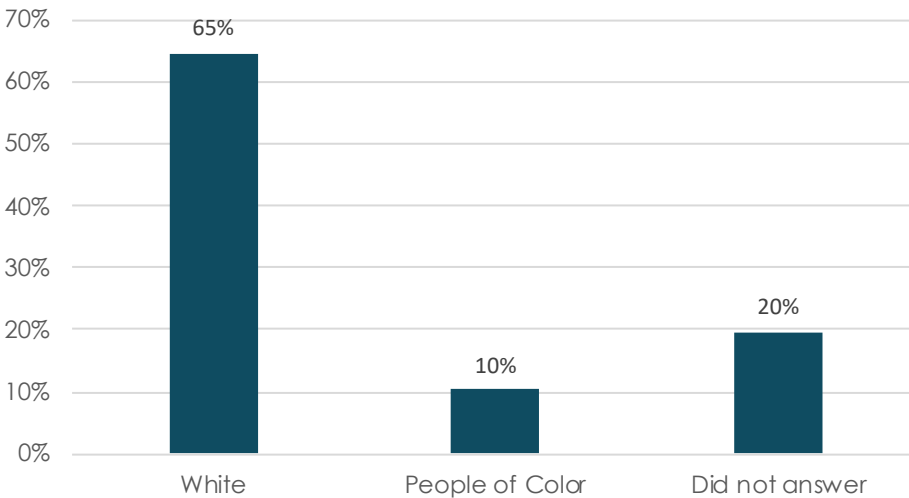


## What was the race and ethnicity breakdown of survey respondents?

The survey respondents were less likely to identify as a person of color relative to white when compared to the state population (defined as American Indian and/or Alaska Native, Asian and/or Asian American, Black and/or African American, Hispanic, Latino, and/or Spanish origin, Native Hawaiian and/or Pacific Islander).

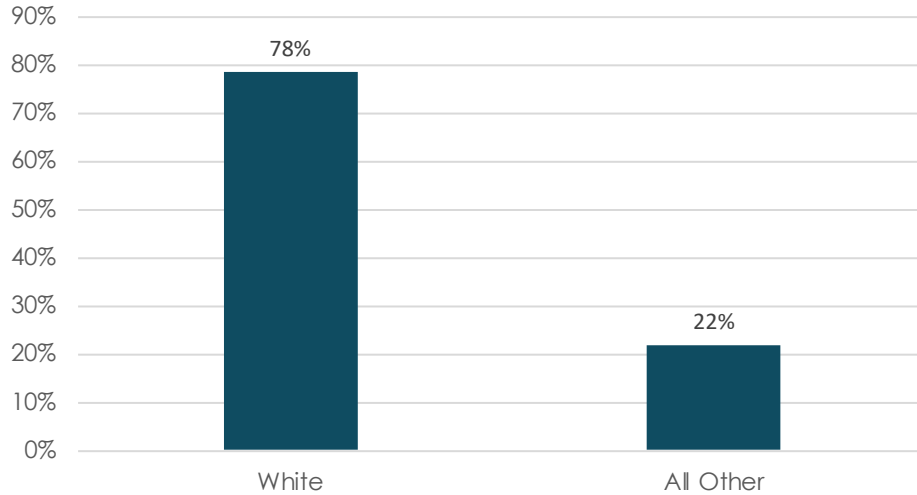
## Exhibit 3: Race and Ethnicity Composition of Survey Respondents

Source: TSWG Survey, 2022.



**Exhibit 4: Race and Ethnicity Composition of Washington Residents (2020)**

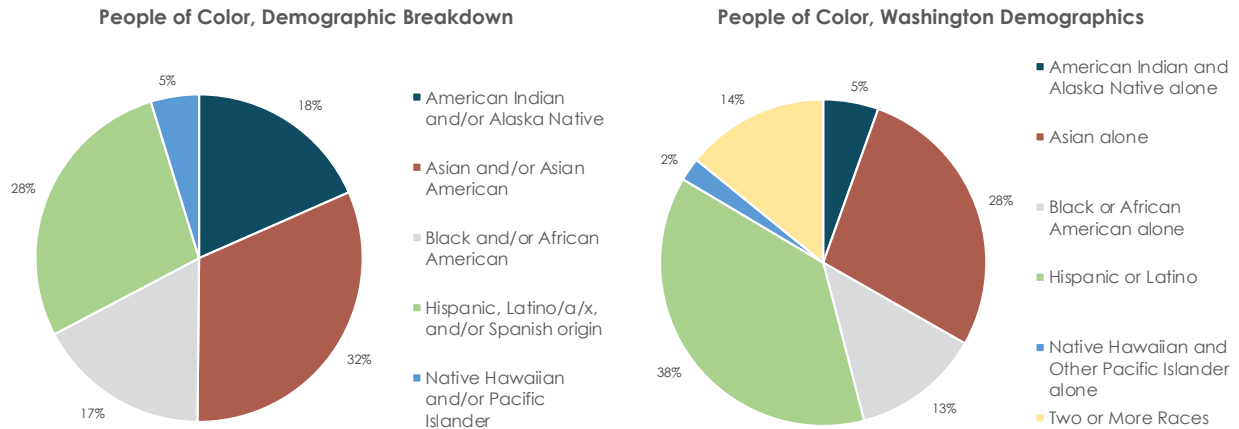
Source: Washington State Office of Financial Management, 2022.



Of the 10% of people of color respondents, they were more likely to be Asian and/or Asian-American, American Indian and/or Alaska Native or Black or African American

**Exhibit 5: Comparison of Race and Ethnicity Composition of Survey Respondents**

Source: TSWG Survey, 2020 US Census, 2022.

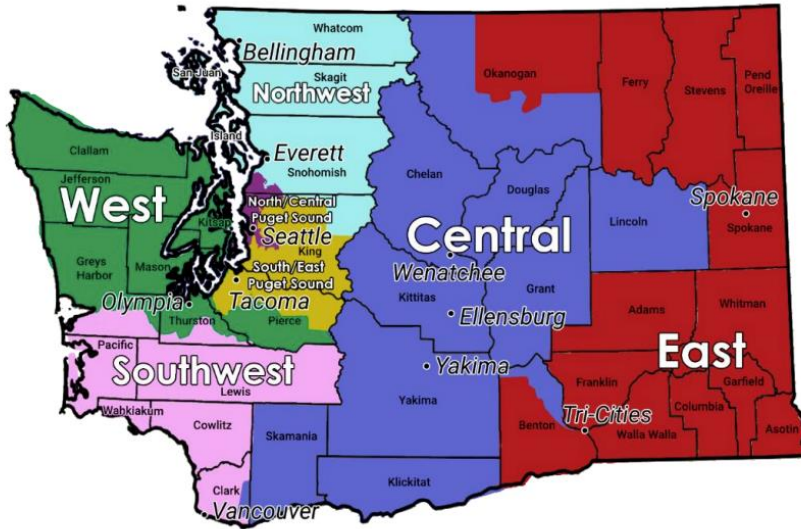


What region did respondents live in?

Survey respondents were asked to identify what zip code they lived in. This data was transposed to counties and administrative electoral regions that also formed the basis of the Tax Town Halls. Like the state’s population, most respondents resided in the Puget Sound region.

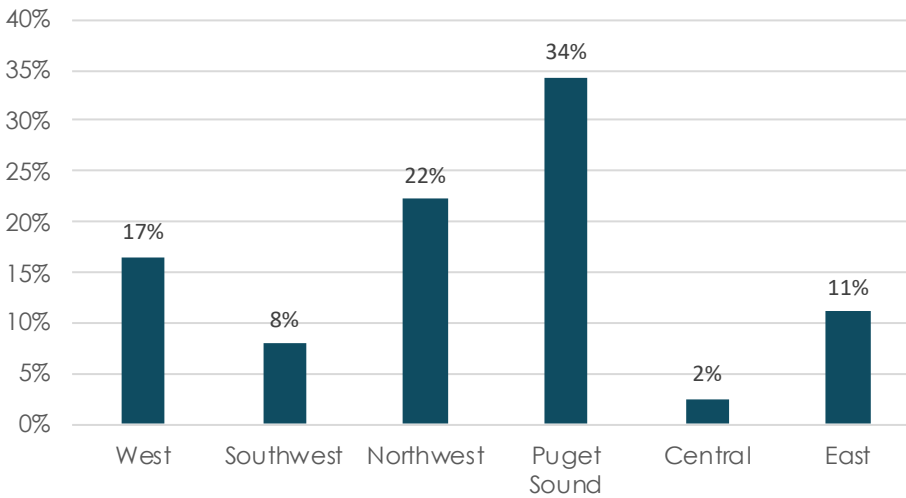
### Exhibit 6: Geographic Regions Map

Source: TSWG Survey, 2022.



### Exhibit 7: Geographic Distribution of Respondents

Source: TSWG Survey, 2022.

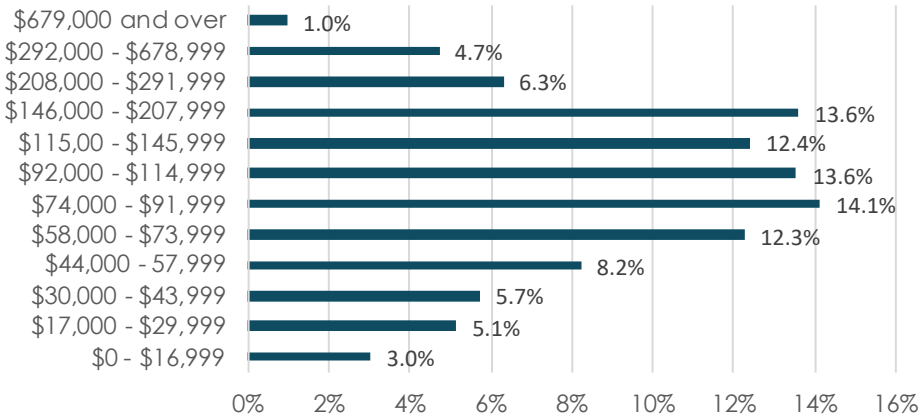


### What were the incomes of respondents?

Survey respondents reported annual household incomes slightly higher than Washington residents. Direct income comparisons are difficult given the data sources, however, there were fewer survey respondents from those earning less than \$44,000 a year.

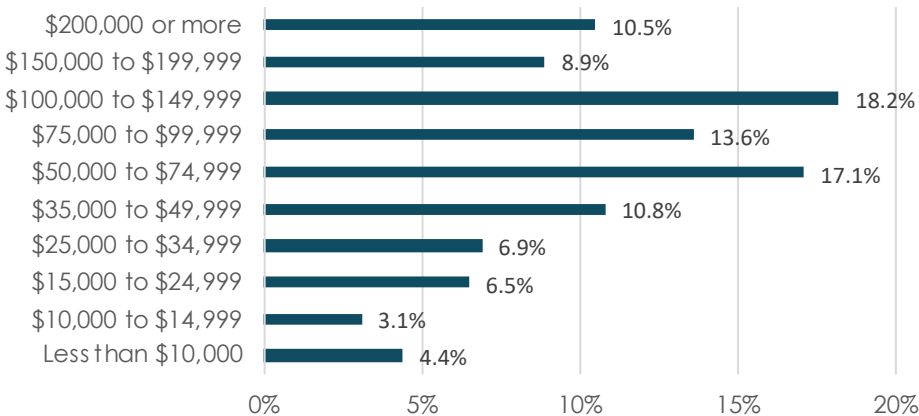
### Exhibit 8: Household Income of Respondents

Source: TSWG Survey, 2022.



### Exhibit 9: Household Income of Washington Residents (2020)

Source: US Census, 2020

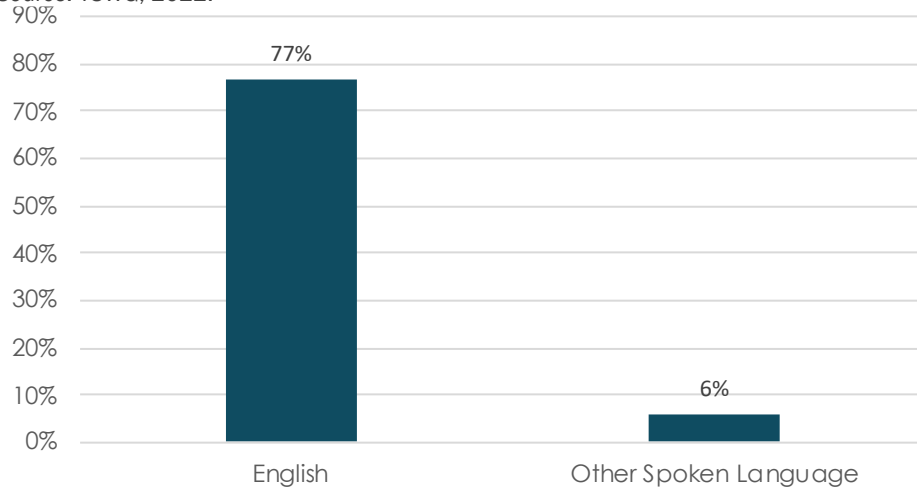


### What was the primary language spoken at home?

The majority of respondents spoke English at home. According to the US Census (ACS 5-Year, 2020), approximately 80% of Washington residents spoke English at home as their primary language. For those that spoke a language other than English, Spanish was most often cited in roughly the same proportion as the state as a whole (43%).

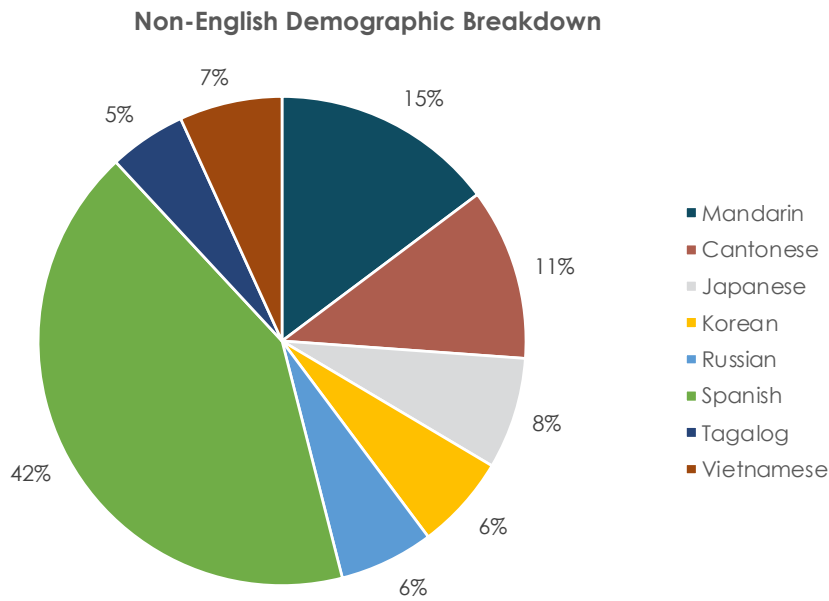
### Exhibit 10: Primary Language Spoken at Home

Source: TSWG, 2022.



### Exhibit 11: Break Down of Non-English Language of Spoken at Home

Source: TSWG, 2022.

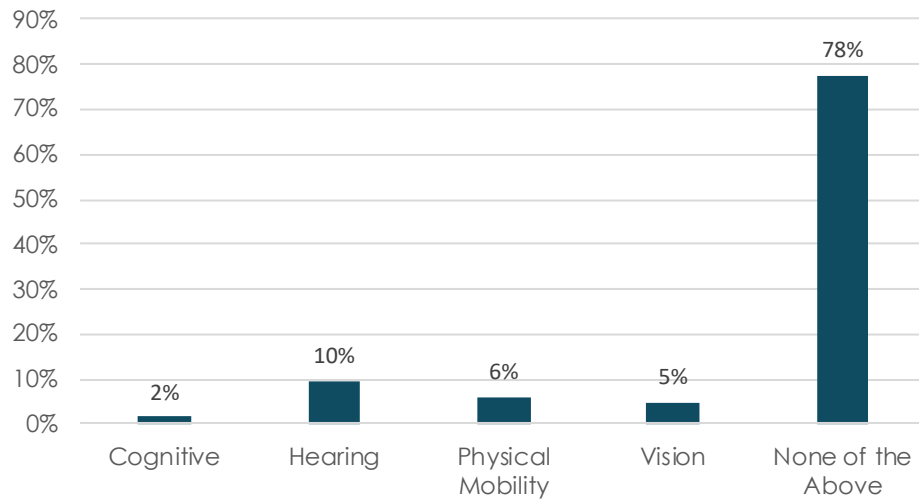


### What were the disability status of respondents?

The most common disability status cited was a hearing impairment. Roughly 22% of respondents identified as having a disability compared to 12% for the state (US Census ACS 5-Year, 2020).

### Exhibit 12: Disability Status of Respondents

Source: TSWG, 2022.

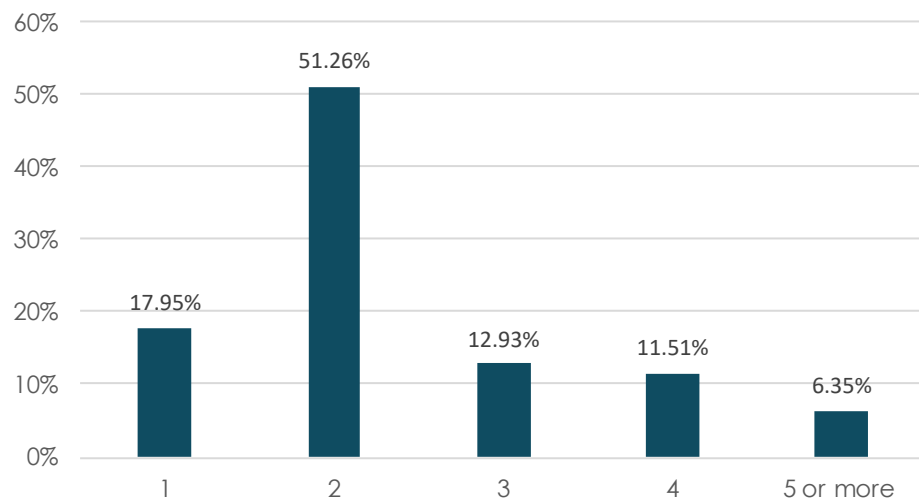


### How many people in respondent households?

Respondents cited that they reside within multiple person households. Compared to the state, 26.7% of households have 1 person structures (US Census ACS 5-Year, 2020), whereas only 18% of respondents were living within 1-person households.

### Exhibit 13: Respondent Persons per Household

Source: TSWG Survey, 2022.

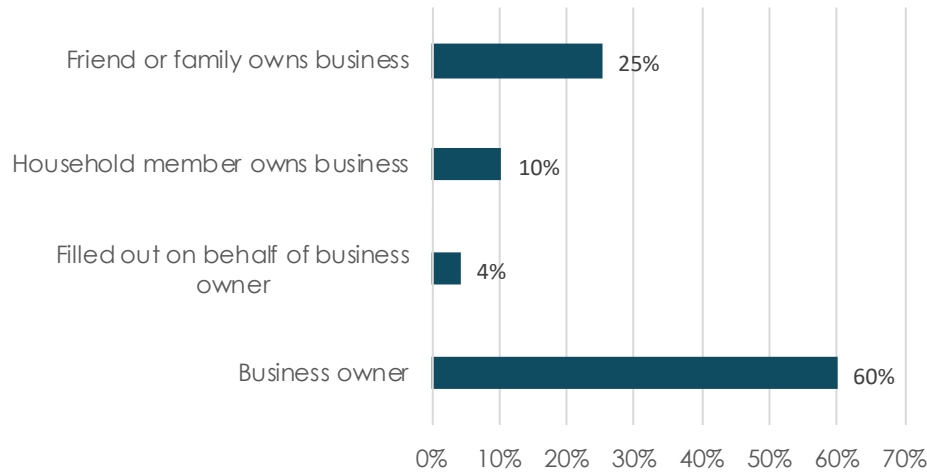


### How many respondents identified as affiliated with a business?

Four hundred and forty respondents identified as being closely affiliated with a business with respect to their interest in business taxes (17% of all respondents). Most of these respondents were business owners.

### Exhibit 14: Relationship of Respondents of Strong Interest in Business Taxes

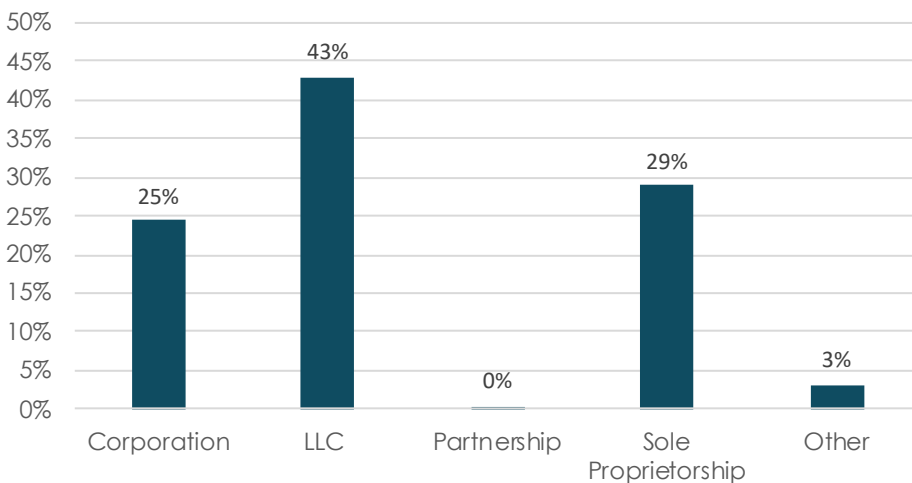
Source: TSWG Survey, 2022.



Most of the business owners represented businesses organized as some type to pass through enterprise (also known as “flow-through” enterprises, these are legal business entities that pass all their income on to the owners or investors of the business to avoid double taxation on earnings).

### Exhibit 15: Organization of Business Owners

Source: TSWG Survey, 2022.

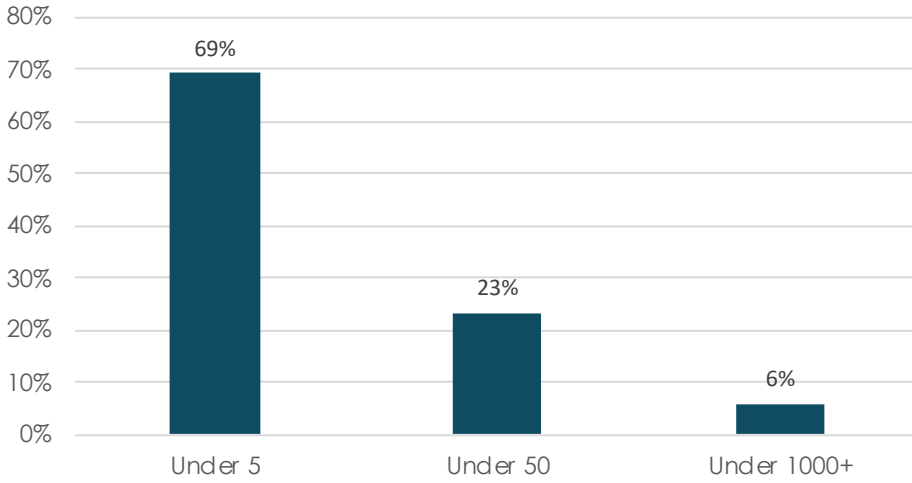


Given the nature of these pass-through entities, most of these businesses are small, having less than five employees.



**Exhibit 16: Typical Number of Employee (2014-2019)**

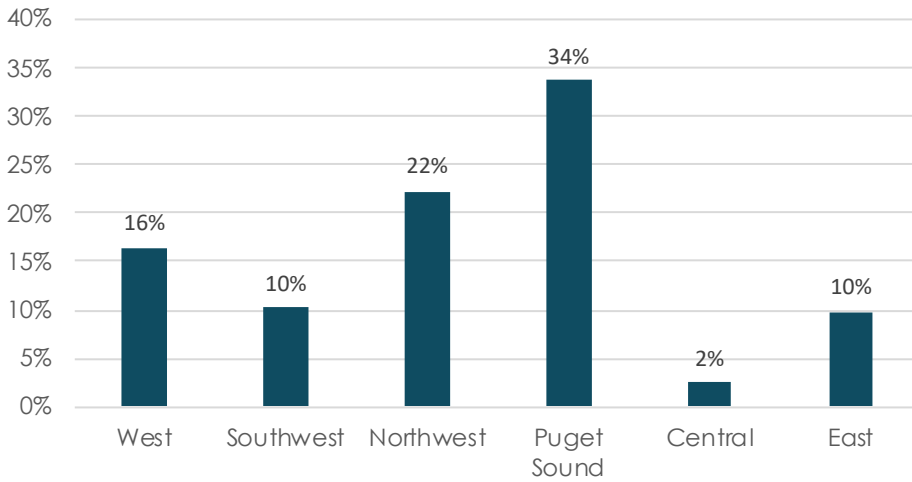
Source: TSWG Survey, 2022.



Most of the businesses are in the Puget Sound region.

**Exhibit 17: Location of Businesses**

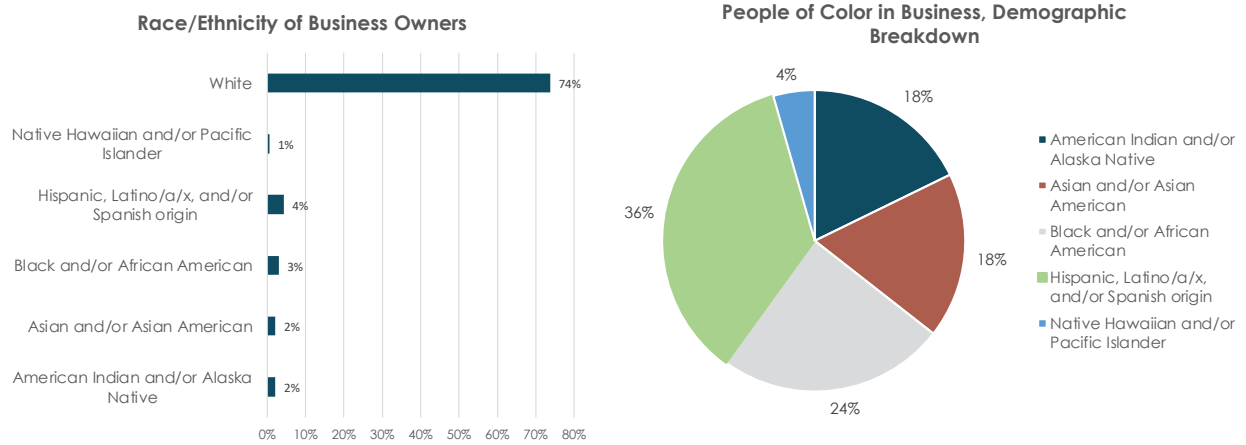
Source: TSWG Survey, 2022.



Most business owners identified as white with the Hispanic/Latino owners making up the largest share of non-white business owners.

### Exhibit 18: Race and Ethnicity Composition of Business Owners

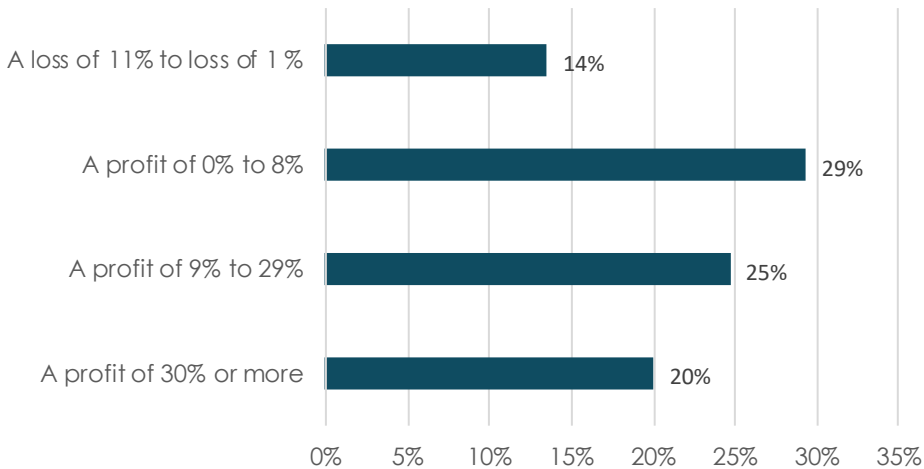
Source: TSWG Survey, 2022.



Most of these businesses report profitability, however, 14% reported having average losses between 2014-2019.

### Exhibit 19: Average Profits After Expenses

Source: TSWG Survey, 2022.



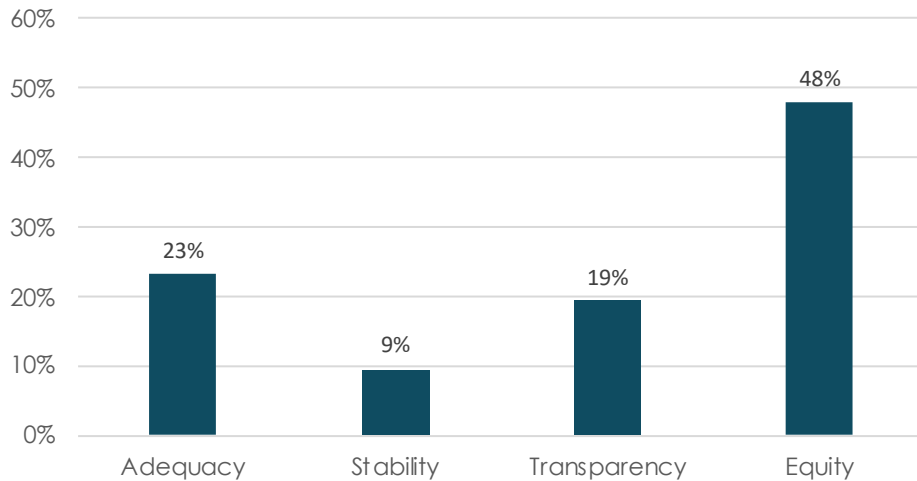
# Tax Principles and Preferences

## What is the most important tax principle?

Equity was selected most often as the most important tax principle among all demographics, with small, but similar, differentiation with respect to race, age, income, or region.

### Exhibit 20: Most Important Tax Principle

Source: TSWG Survey, 2022.

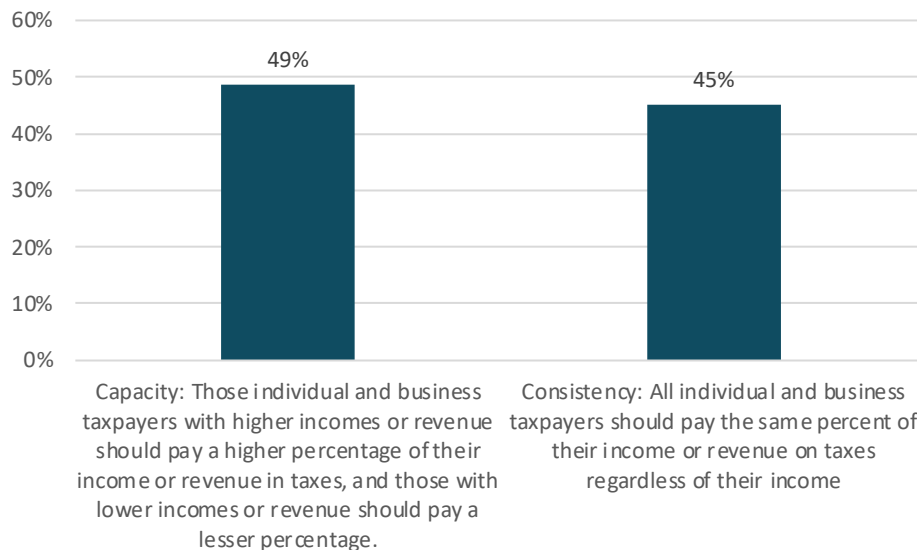


## What would a fair tax system look like?

Respondents were asked what a fair tax system would look like with respect to the two concepts of fairness: Capacity and Consistency. Slightly more respondents identified the capacity definition of fairness as being preferred (49% to 45%). Younger people and people with lower incomes also responded similarly with preferring Capacity as fairer system.

### Exhibit 21: Preference for a Fair Tax System: All respondents

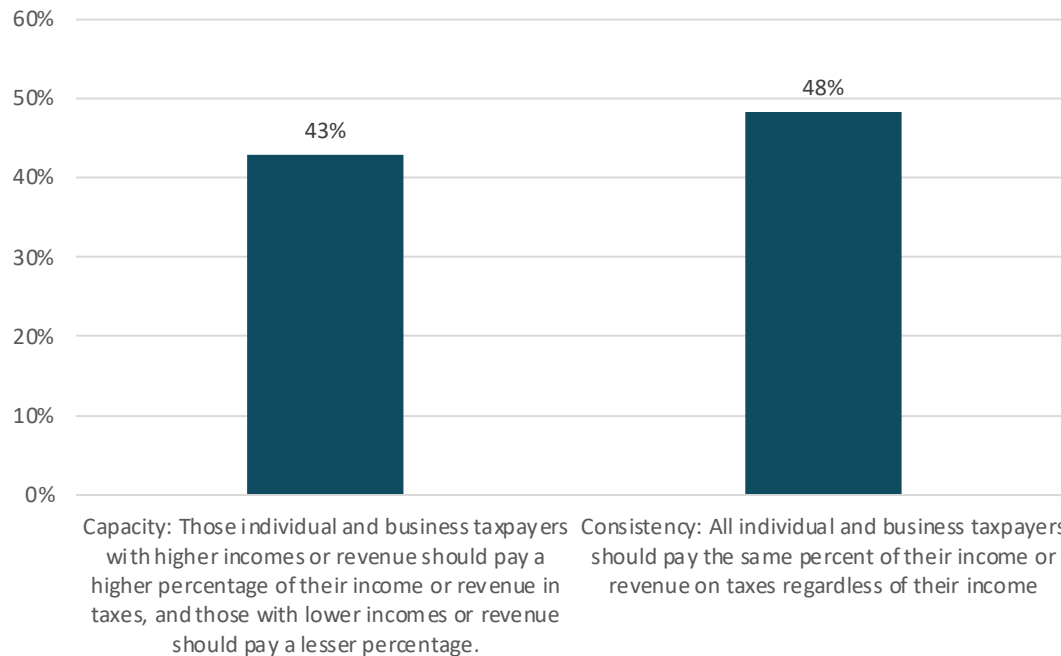
Source: TSWG Survey, 2022.



In contrast, people of color responded with preferring Consistency as fairer system.

### Exhibit 22: Preference for a Fair Tax System: People of Color (non-white)

Source: TSWG Survey, 2022.



#### Results from Survey Comments

Among respondents who prioritized consistency, the most common themes heard were:

- Simplicity is important
- A consistent tax structure allows all taxpayers to contribute in an equal way (everyone has “skin in the game”)

#### Quotes from survey respondents

*“Everyone should have a stake in responsible spending.”*

*“It is less complex to pay a set percentage.”*

Among respondents who prioritized capacity, the most common themes heard were:

- A system based on capacity supports “progressive” tax policies in which wealthier individuals and more profitable businesses pay a greater share in taxes than poorer individuals and less profitable businesses
- Relief for people on fixed incomes and low-income people

*“The economy and government have built in disadvantages to the less wealthy, and advantages for the wealthy. The tax code can compensate for those a little.”*

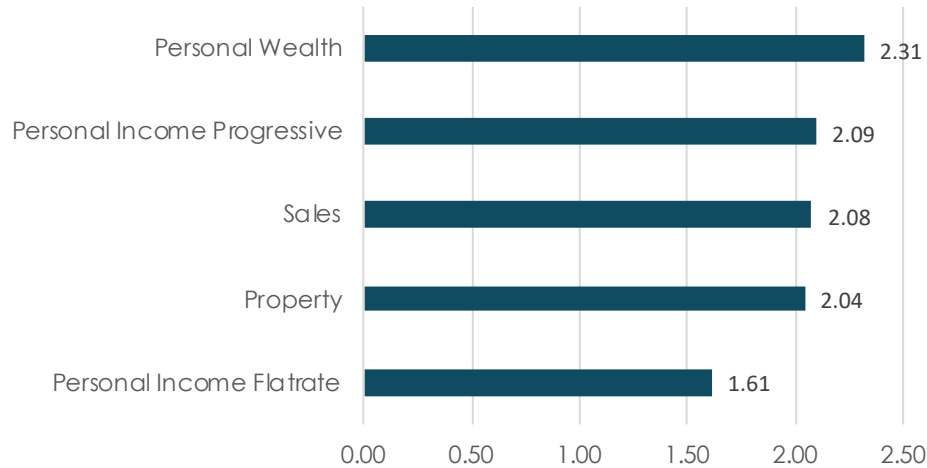
*“I think accounting for capacity best offers a remedy to the racial wealth gap.”*

## What are tax preferences for personal taxes?

Respondents were also asked to rank their most preferred type of personal taxes (5 being most preferred and 1 being least preferred). The wealth tax received the highest average ranking. However, most respondents preferred the sales tax as their most common highest preferred tax.

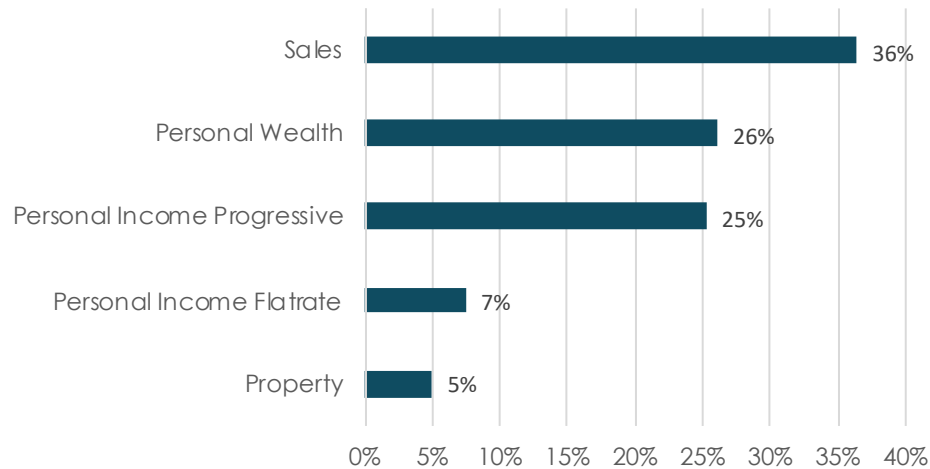
### Exhibit 23: Average Ranking of Preferred Tax

Source: TSWG Survey, 2022.



### Exhibit 24: Most Common Most Preferred Tax

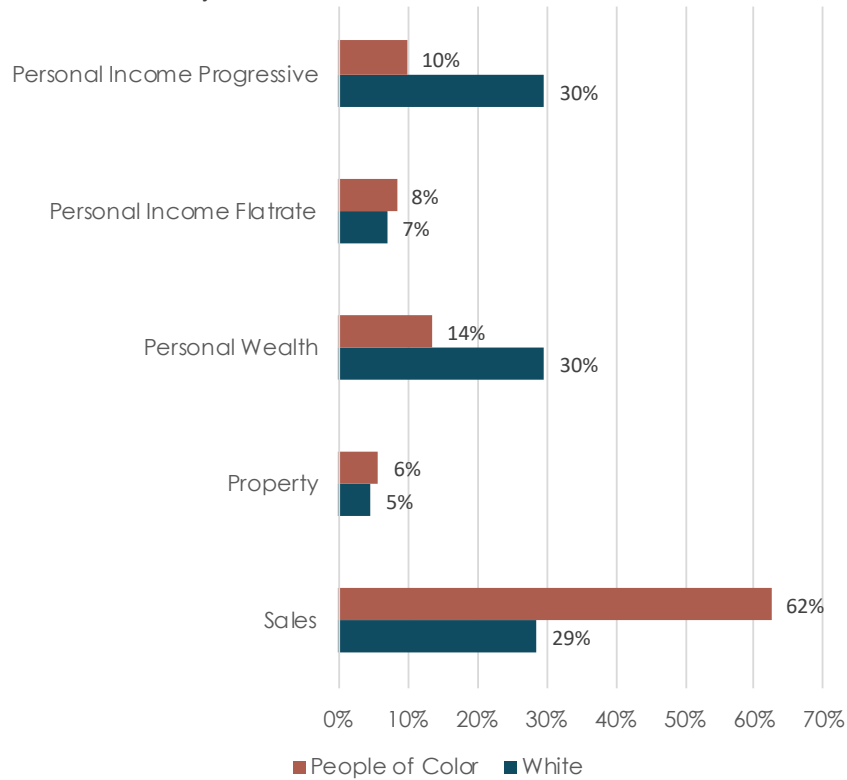
Source: TSWG Survey, 2022.



People of color had a strong preference for the sale tax relative to their white counterparts. People with middle incomes more strongly preferred the sales tax over younger and older individuals. People from the Puget Sound region more strongly favored a progressive personal income tax.

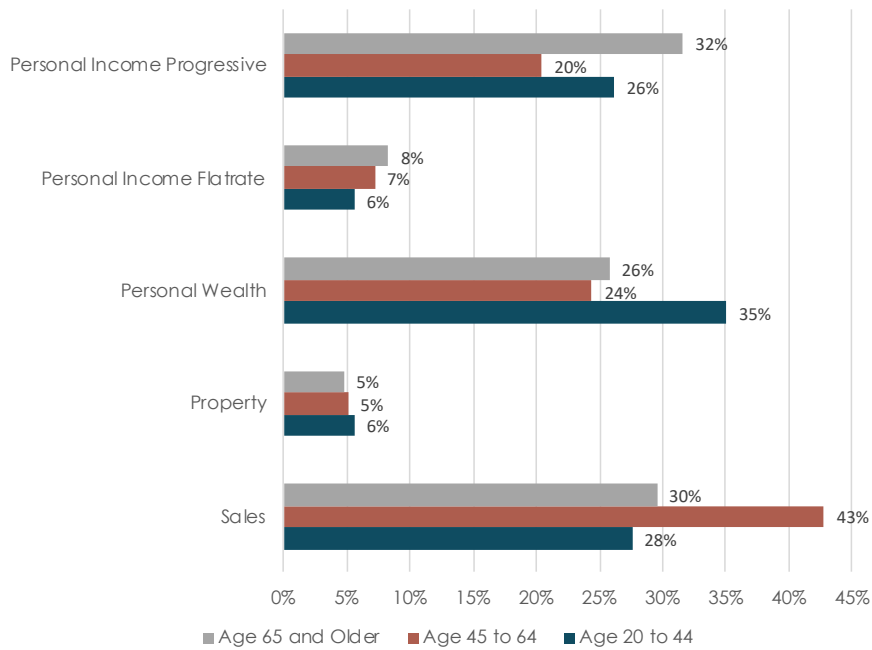
### Exhibit 25: Most Common Most Preferred Tax by Race/Ethnicity

Source: TSWG Survey, 2022.



### Exhibit 26: Most Common Most Preferred Tax by Age Cohort

Source: TSWG Survey, 2022.



### Exhibit 27: Most Common Most Preferred Tax

Source: TSWG Survey, 2022.

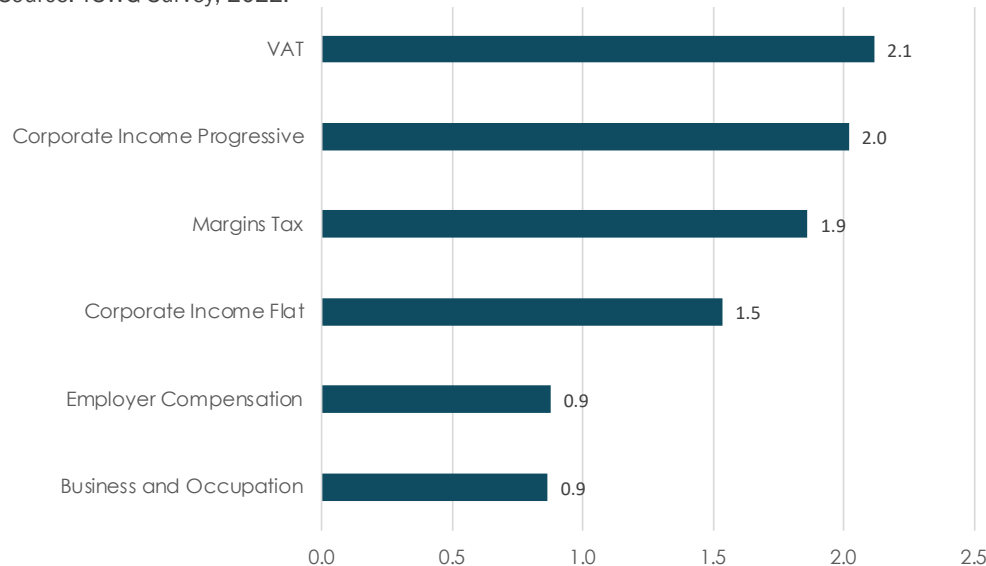


### What are tax preferences for business taxes?

Respondents were asked to rank their most preferred type of business taxes (5 being most preferred and 1 being least preferred). The VAT received the highest average ranking. However, most respondents preferred the corporate income tax in its progressive rate structure as their most commonly preferred tax.

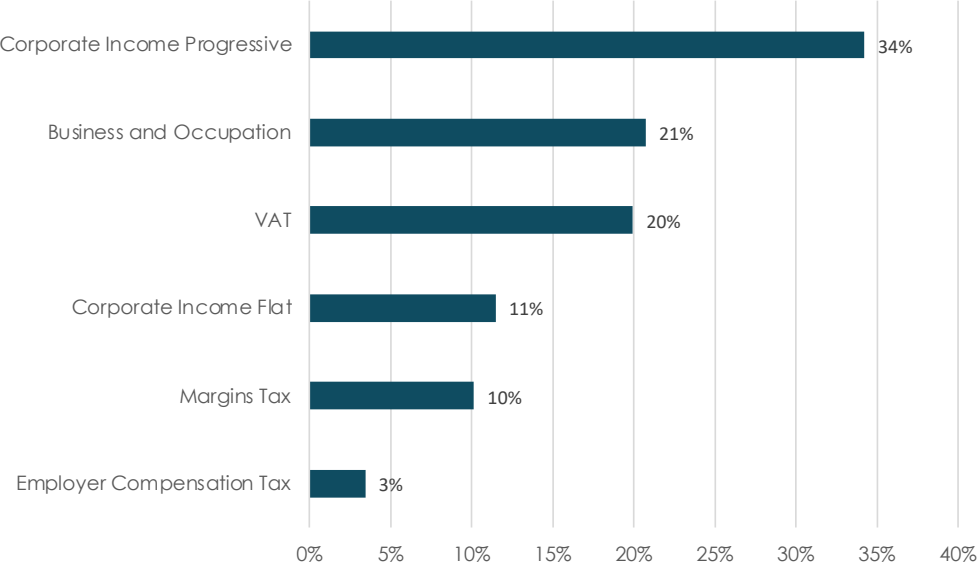
### Exhibit 28: Average Ranking of Preferred Tax

Source: TSWG Survey, 2022.



**Exhibit 29: Most Common Most Preferred Tax**

Source: TSWG Survey, 2022.





# Responses on Taxation Scenarios

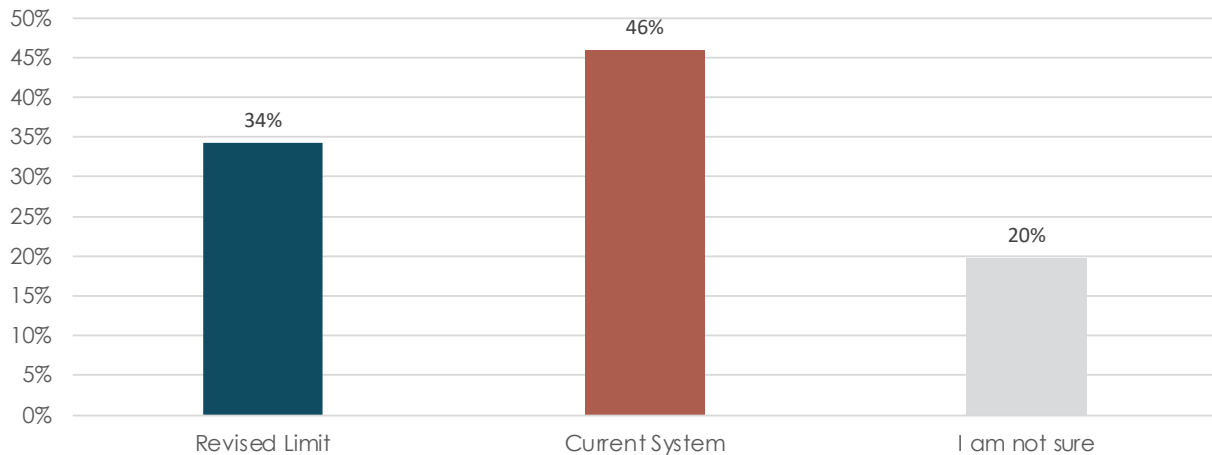
## Scenario A - Change Property Tax Limit Factor

### Should the State change the property tax limit factor?

Most respondents preferred to keep the current property tax limit factor. However, there was support for a revised limit in respondents who are white and among respondents who are younger.

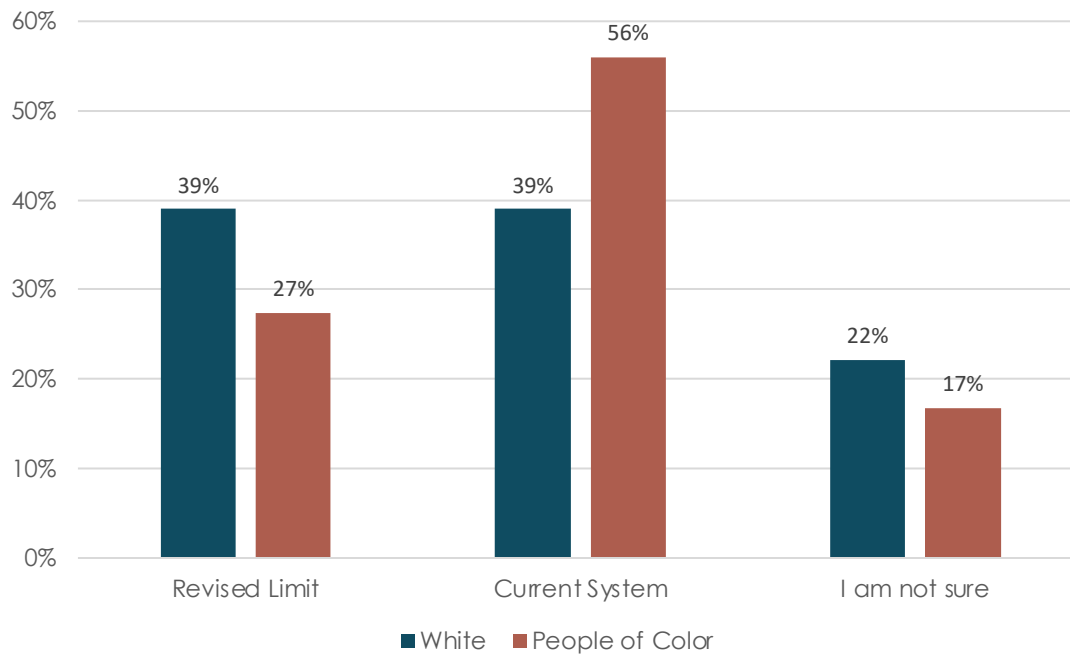
#### **Exhibit 30: Support for the Change in the Limit Factor: All Respondents**

Source: TSWG, 2022.



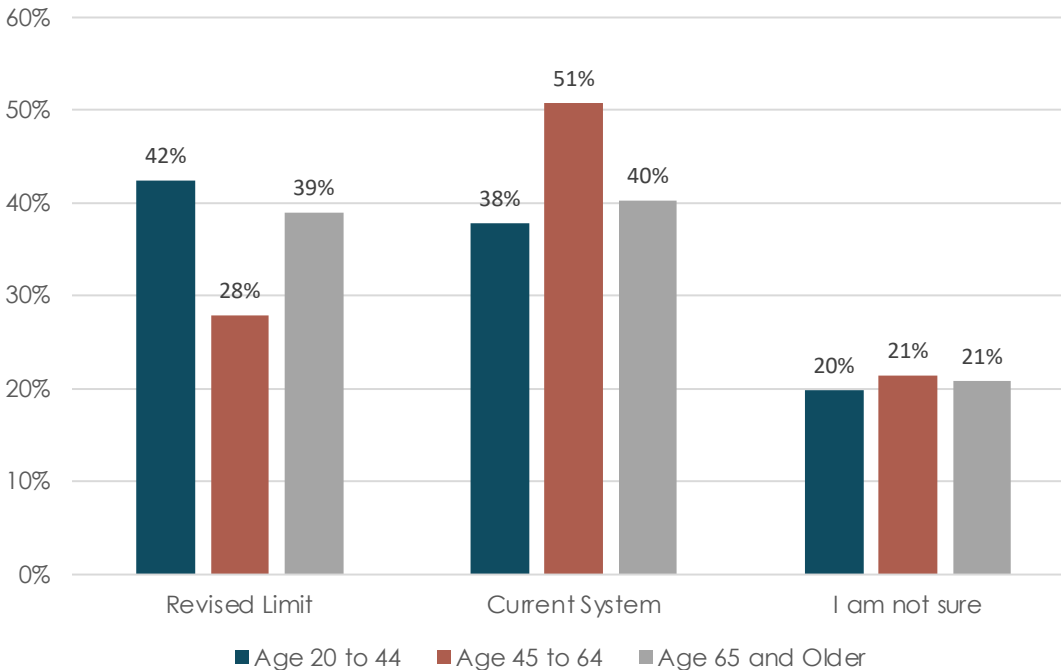
#### **Exhibit 31: Support for the Change in the Limit Factor: White Only**

Source: TSWG, 2022.



### Exhibit 32: Support for the Change in the Limit Factor: Age

Source: TSWG, 2022.



#### Results from Survey Comments

In response to Scenario A, the most common benefit heard was support for stability in revenue for government services and programs.

The most common concern heard about Scenario A was increasing revenue for the state when respondents believed that is important for government to reduce spending before receiving more money.

*"[A revised limit would] prevent slow erosion of revenue raising capabilities."*

*"1% limit factor keeps the state in line without over-spending."*

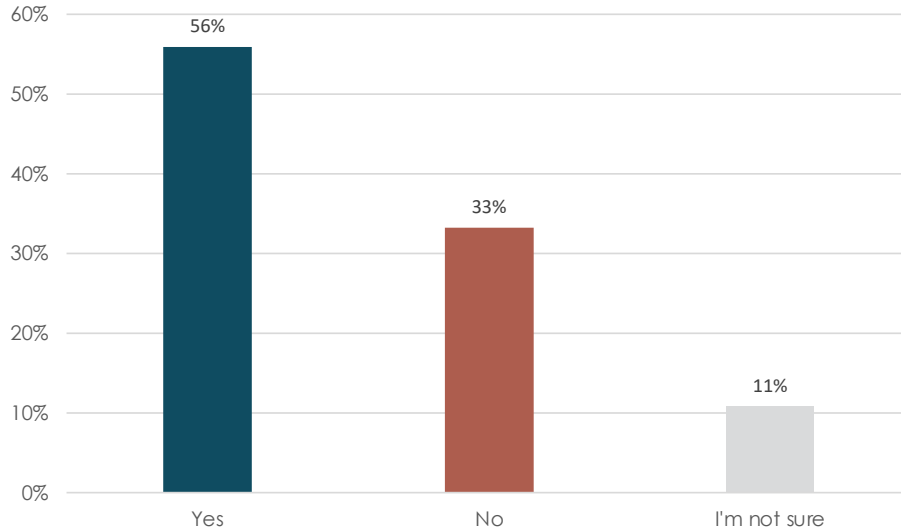
### Scenario B - Update Property Tax and Tax Personal Wealth

#### Should the state add a wealth tax and offer a property tax exemption?

In both the long and short surveys (similar but slightly different question design), there was support for decreasing the property tax and taxing wealth. Response rates are relatively similar with respect to age, income, and geographic region.

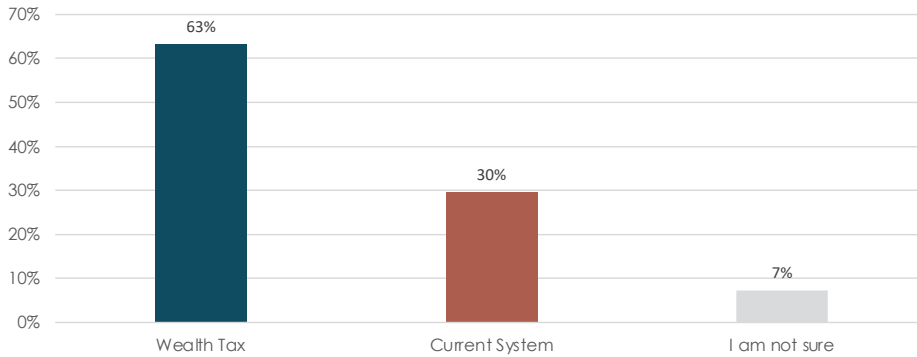
### Exhibit 33: Support for Reducing the Property Tax and Adding a Wealth Tax

Source: TSWG, 2022.



### Exhibit 34: Support for Adding a Wealth Tax

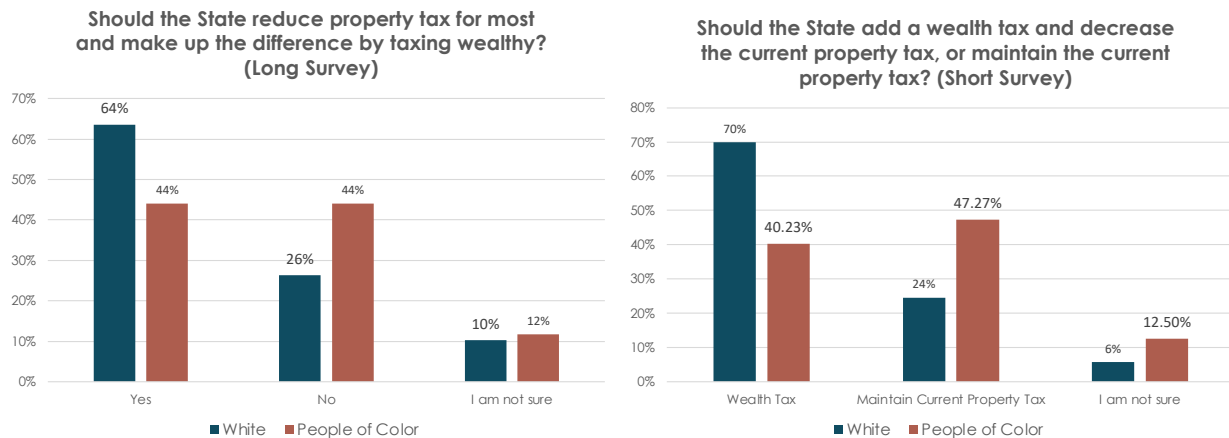
Source: TSWG, 2022.



However, people of color respondents preferred maintaining the current property tax.

### Exhibit 35: Support for Adding a Wealth Tax: People of Color (non-white)

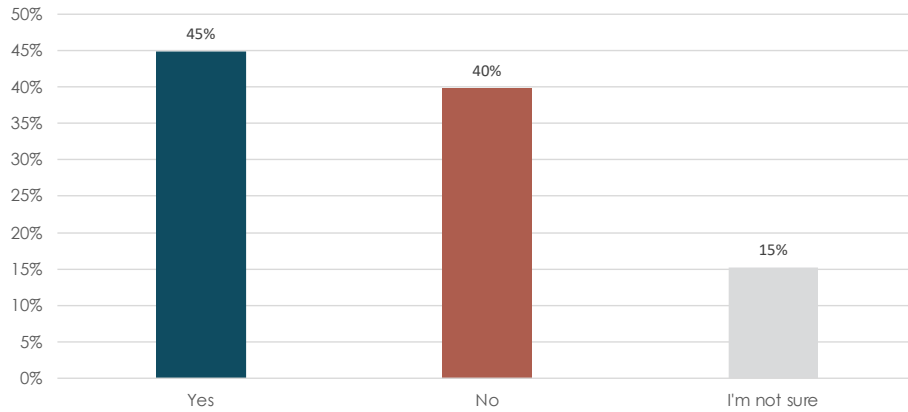
Source: TSWG, 2022.



Overall, respondents felt that taxing financial property would create a more consistent tax system. Response rates are relatively similar with respect to age, income, and geographic region. People of color respondents did not feel that taxing financial property would create a more consistent tax system.

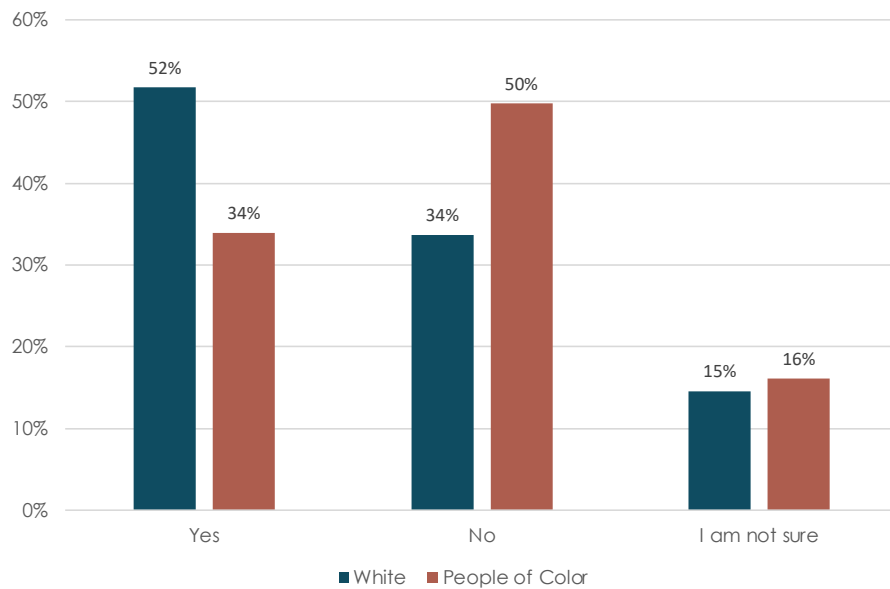
### Exhibit 36: Agreement with Taxing Wealth Makes for a More Consistent Tax System: All Respondents

Source: TSWG, 2022.



### Exhibit 37: Agreement with Taxing Wealth Makes for a More Consistent Tax System: People of Color (non-white)

Source: TSWG, 2022.



### Results from Survey Comments

In response to Scenario B, the most common benefit heard was support for “progressive” tax policies in which wealthier individuals pay a greater share in taxes than poorer individuals.

*“I am a retired homeowner on limited income whose property taxes continue to escalate annually. Billionaires can afford to pay more and should.”*

The most common concerns heard were:

- A wealth tax is economically risky since it could discourage economic growth, and people/businesses may leave Washington.
- Wealthy individuals/large businesses can easily leave Washington or find loopholes to paying the wealth tax.

*“I fear the limit could be changed. This would only apply to a few individuals who could easily circumvent this by moving out of state. I think it’s wrong to target a sub-group in this way when it doesn’t affect me.”*

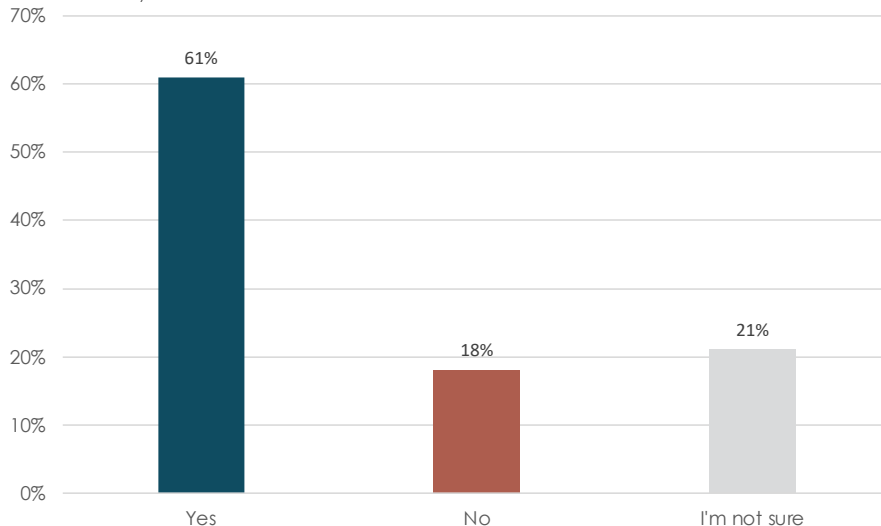
## Scenario C - Replace B&O Tax with Value Added Tax and Employer Compensation Tax

### Is the VAT fairer than the B&O tax?

A VAT is seen as fairer than the B&O. The inclusion of an employer compensation is viewed as less fair. There is a consistent view on both measures between owners and non-owners, business size, and business profitability.

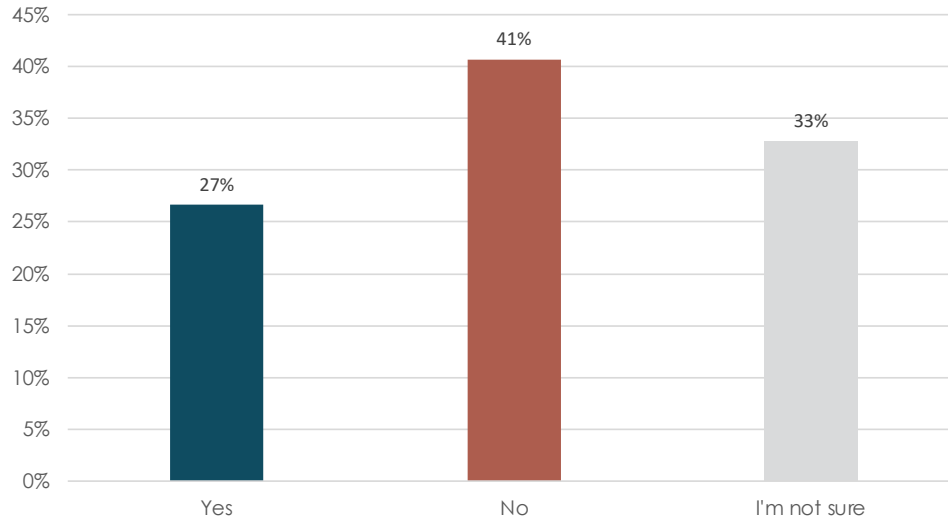
#### Exhibit 38: Fairness of a VAT Relative to the B&O

Source: TSWG, 2022.



### Exhibit 39: Fairness of an Employer Compensation Tax and Lower VAT Rates

Source: TSWG, 2022.



#### Results from Survey Comments

In response to Scenario C, the most common benefits heard were:

- A VAT and employer compensation tax are in line with “progressive” tax policies in which more profitable businesses pay a greater share in taxes than less profitable businesses
- A VAT and employer compensation tax could provide relief for low-margin and small businesses.

*“[VAT] considers how much profit a business makes and how much it costs to make a product. It’s a more specific tax based on a company’s ability to pay.”*

The most common concerns respondents shared about Scenario C were:

- A VAT would be too complicated for the taxpayer.
- An Employer Compensation Tax could result in large businesses leaving Washington or finding loopholes.

*“An employer compensation tax may encourage high-paying businesses to move out of state. We need to keep them here, not give them reasons to leave. Or they will find work-arounds.”*

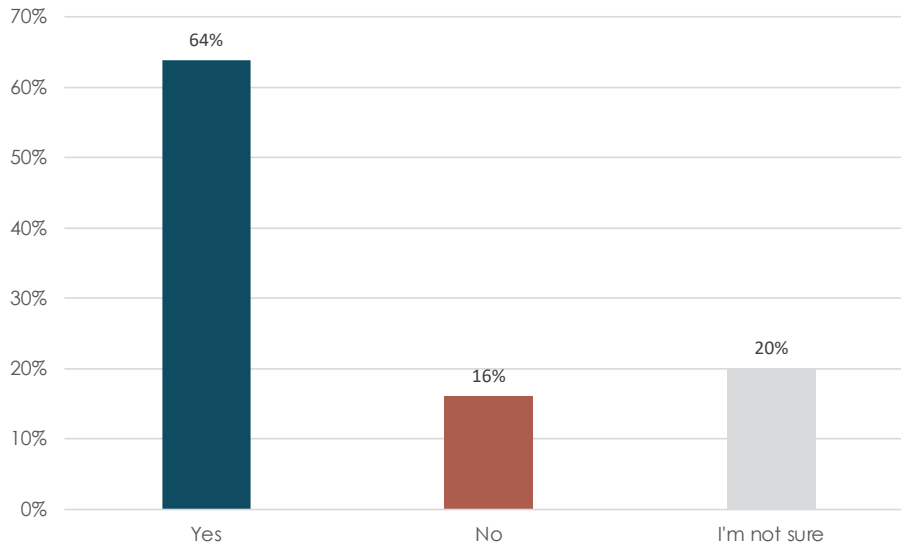
### Scenario D - Replace B&O Tax with Margins Tax and Employer Compensation Tax

#### Is the Margins Tax fairer than the B&O tax?

A Margins Tax is seen as fairer than the B&O. The inclusion of an employer compensation tax is viewed as less fair. There is a consistent view on both measures between owners and non-owners, business size, and business profitability.

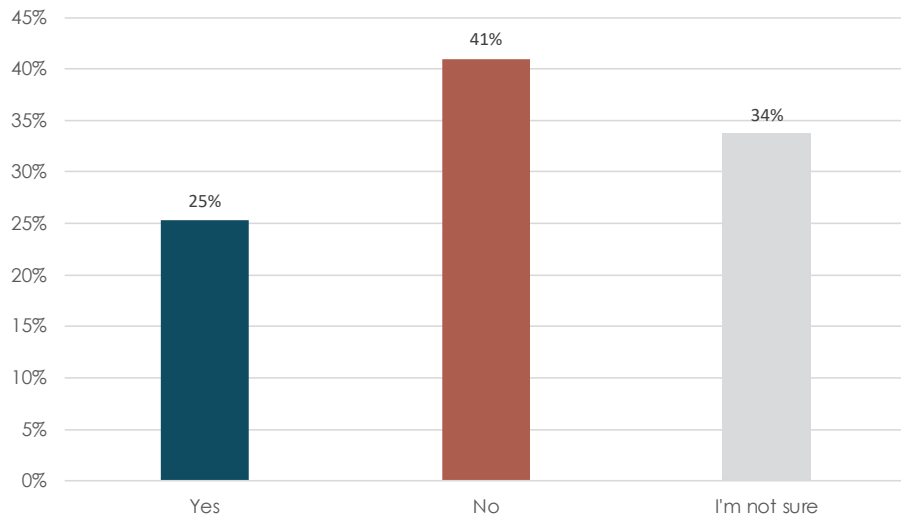
#### Exhibit 40: Fairness of a Margins Tax Relative to the B&O

Source: TSWG, 2022.



#### Exhibit 41: Fairness of an Employer Compensation Tax and Lower Margin Tax Rates

Source: TSWG, 2022.



#### Results from Survey Comments

In response to Scenario D, the most common benefits heard were:

- A Margins Tax could provide relief for low-margin and small businesses.
- A Margins Tax is in line with “progressive” tax policies in which more profitable businesses pay a greater share in taxes than less profitable businesses.

*“Low-margin companies are heavily penalized by the current B&O tax, whereas high margin companies benefit. Low margins generally results in better prices for consumers.”*

The most common concerns heard were:

- A Margins Tax could be economically risky since it could discourage economic growth, and businesses may leave Washington.
- A Margins Tax could be too complicated for taxpayer.
- Rich people/large business can easily leave Washington or find loopholes to paying the Margins Tax.

*“This seems too easy to game and I’m sure accountants can find a way for large companies to not pay their fair share.”*

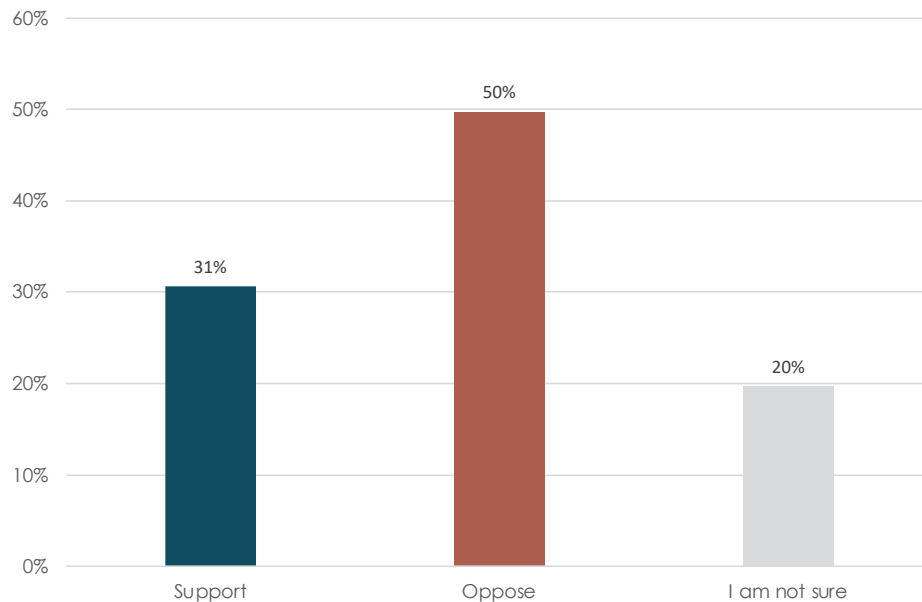
## Scenario E - Tax Personal Income and Corporate Income at a Flat Rate

### Do respondents support Scenario E’s Approach?

About 50% of respondents oppose Scenario E’s overall approach. Similar responses are recorded between owners and non-owners, business size, and business profitability.

#### **Exhibit 42: Support for Scenario E’s Approach**

Source: TSWG, 2022.



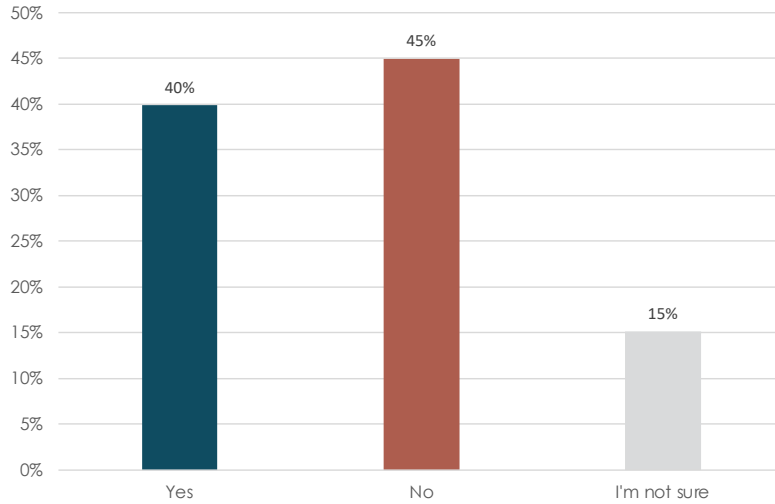
### Is taxing personal income seen as more fair?

Overall, respondents did not feel that taxing income would be fairer than solely taxing retail spending and home value. Responses are relatively similar with respect to age, income, and geographic region.



### Exhibit 43: Fairness of Taxing Personal Income

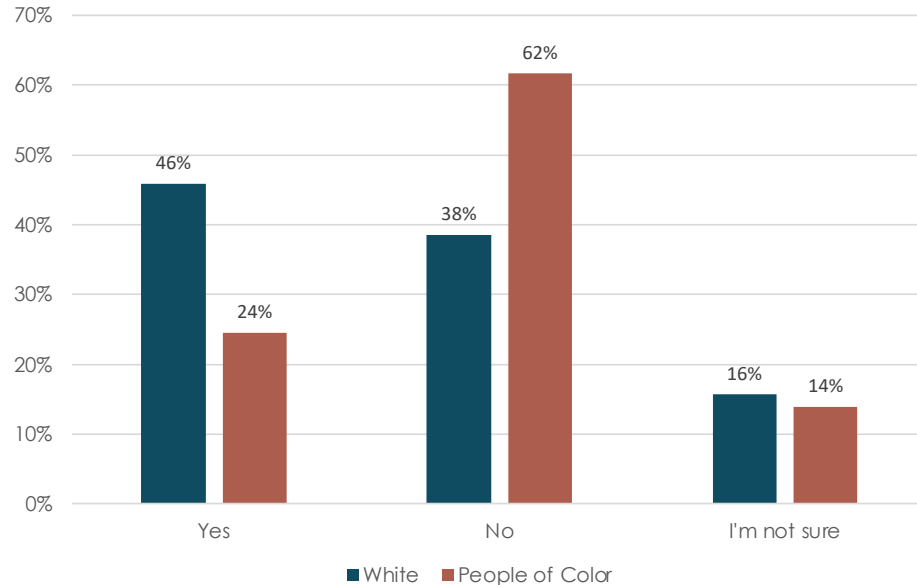
Source: TSWG, 2022.



People of color respondents more felt that this Scenario would not be fairer compared to their white respondents.

### Exhibit 44: Fairness of Taxing Personal Income: People of Color

Source: TSWG, 2022.

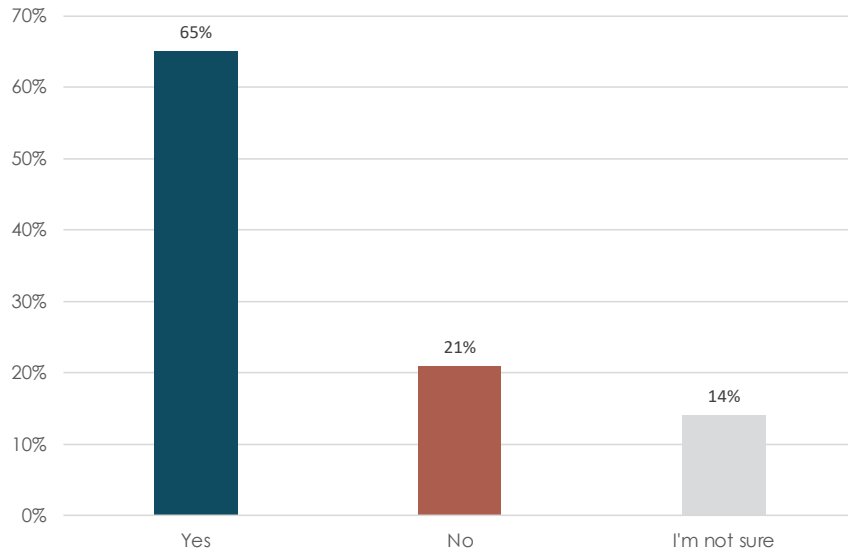


### Is taxing business on net income seen as more fair?

Taxing businesses on net income is seen as fairer than all revenue. Similar responses are recorded between owners and non-owners, business size, and business profitability.

## Exhibit 45: Fairness of Taxing Business Net Income

Source: TSWG, 2022.



### Results from Survey Comments

In response to Scenario E, the most common benefits heard were:

- A flat Corporate Income Tax could provide relief for low-margin and small businesses.
- A flat Corporate Income Tax and flat Personal Income Tax could be in line with “progressive” tax policies in which wealthier individuals and more profitable businesses pay a greater share in taxes than poorer individuals and less profitable businesses

*“[A flat income tax is] Less regressive, but a graduated income tax would be better.”*

The most common concerns heard were:

- Wealthy individuals/large businesses can easily leave Washington or find loopholes to paying income taxes.
- Fears around the tax rate or base potentially increasing in the future.
- Flat income taxes could negatively affect low-income people and people on fixed incomes.
- A flat corporate income tax could be economically risky by discouraging economic growth or resulting in people/businesses leaving Washington.
- There would likely be WA State constitutional challenges with a flat income tax.

*“One competitive advantage WA has is not having a state income tax, and we should keep it that way!”*

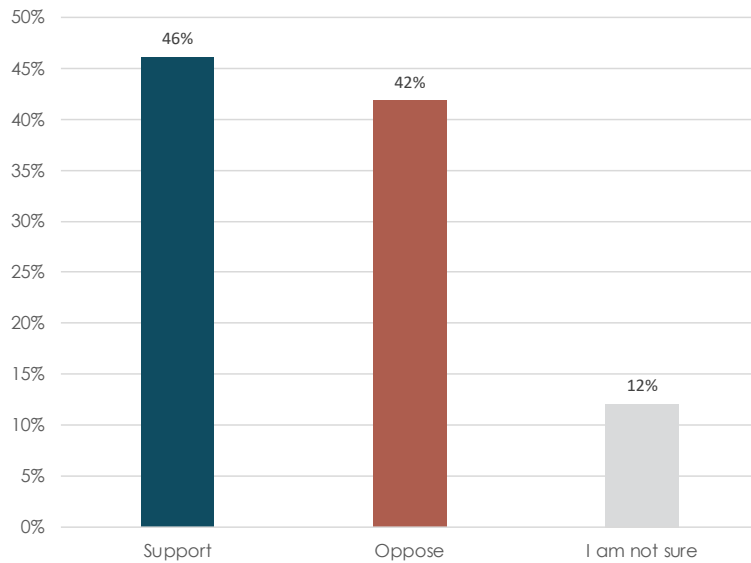
## Scenario F - Tax Personal Income and Corporate Income at a Progressive Rate

### Do respondents support Scenario F's Approach?

Overall, most respondents support the approach in Scenario F. Just over 45% of respondents think a progressive income taxation is a fairer approach. Young adults and seniors are slightly more supportive of a progressive income and Scenario F than are middle-aged adults. The Puget Sound region is slightly more supportive of the progressive income tax of Scenario F than other regions are.

#### **Exhibit 46: Support for Scenario F's Approach**

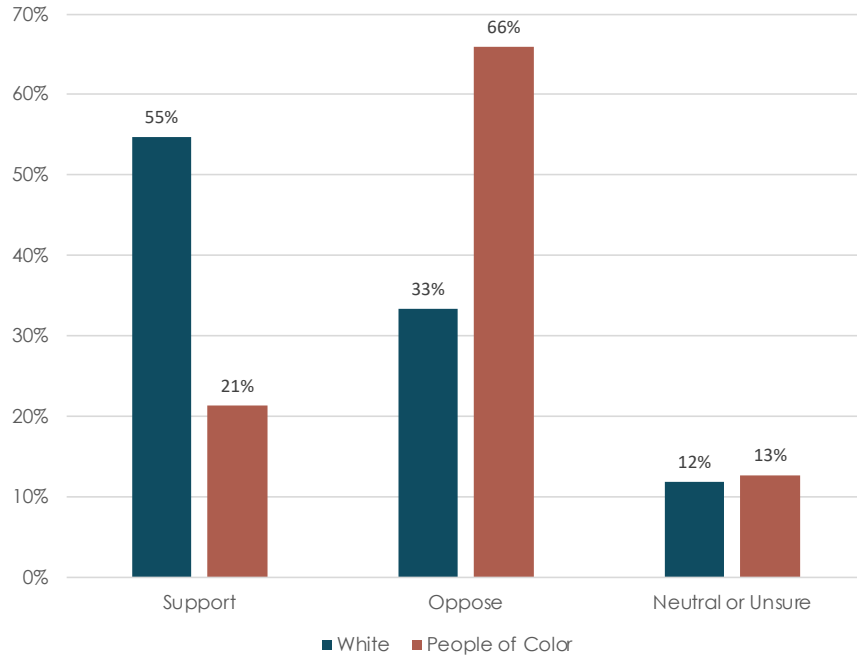
Source: TSWG, 2022.



Over 60% of people of color oppose the progressive tax rates and Scenario F; 55% of white respondents support it.

### Exhibit 47: Support for Scenario F's Approach: Race/Ethnicity

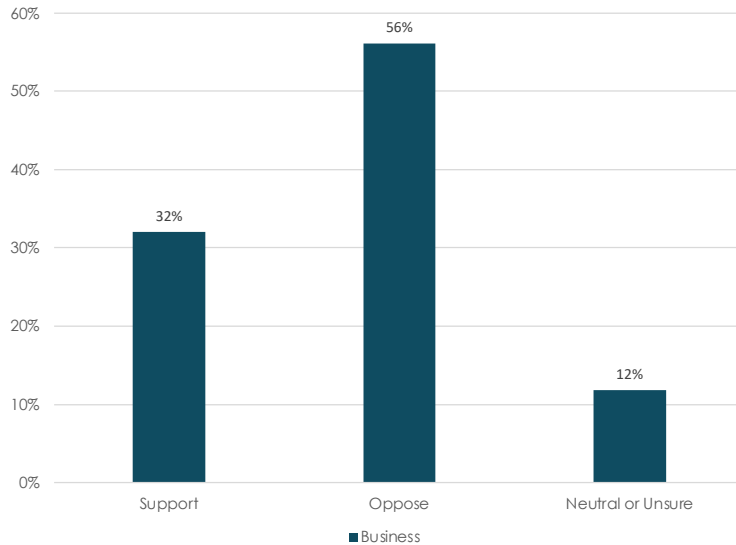
Source: TSWG, 2022.



Business owners do not support this Scenario (smaller firms support this Scenario, mid to large firms do not support it).

### Exhibit 48: Support for Scenario F's Approach: Business Owners

Source: TSWG, 2022.

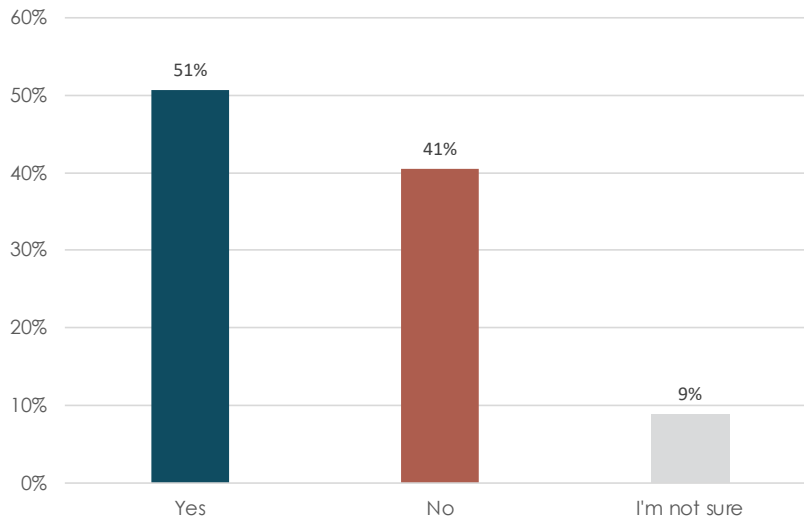


### Is taxing personal income seen as more fair?

Overall, respondents did not feel that taxing income would be fairer than solely taxing retail spending and home value. Responses are relatively similar with respect to age, income, and geographic region.

### Exhibit 49: Fairness of Taxing Personal Income

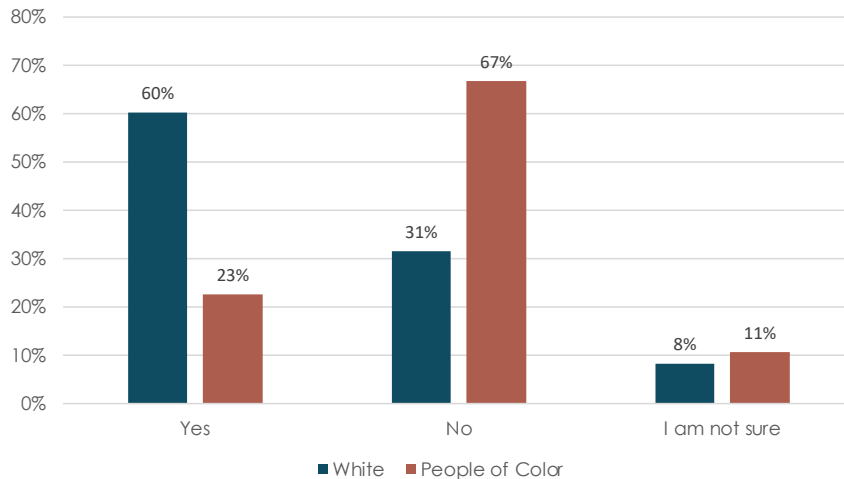
Source: TSWG, 2022.



People of color respondents more felt that this Scenario would not be fairer compared to their white respondents.

### Exhibit 50: Fairness of Taxing Personal Income: People of Color

Source: TSWG, 2022.

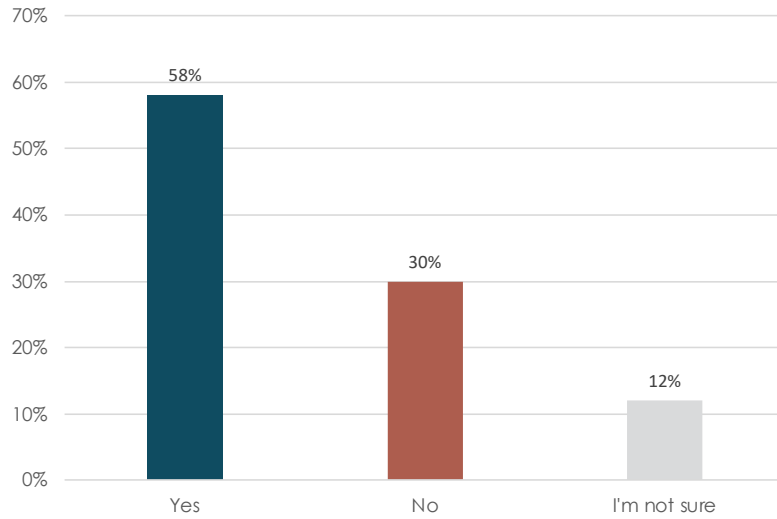


### Is taxing business net income progressively seen as more fair?

Taxing businesses progressively on net income is seen as fairer than taxing all revenue. Business owners and non-business owners have similar responses.

### Exhibit 51: Fairness of Taxing Business Net Income Progressively

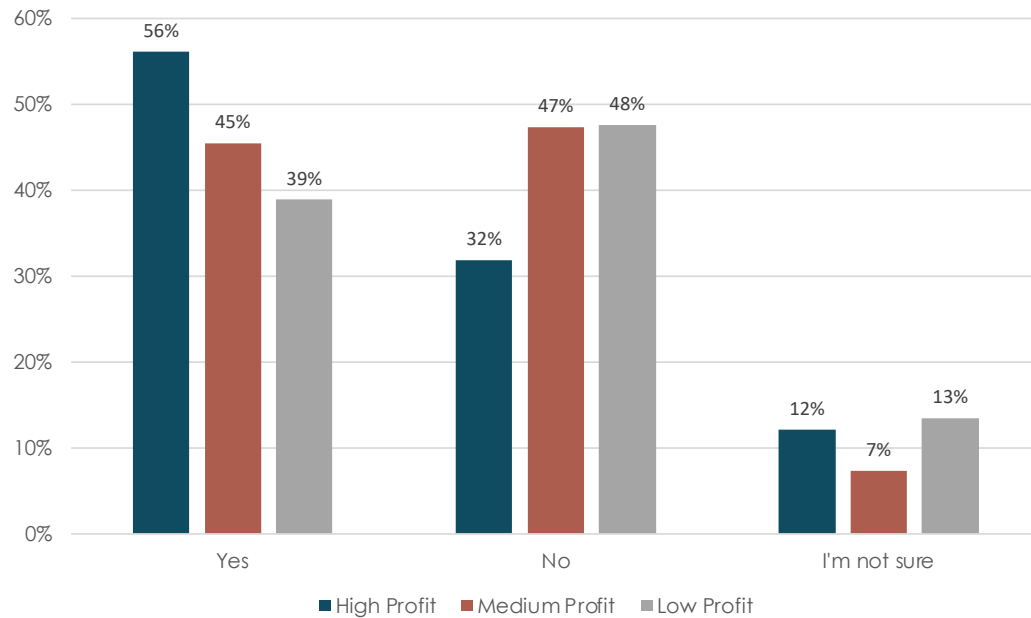
Source: TSWG, 2022.



Middle and lower profit businesses view taxing businesses progressively on net income as less fair than taxing all revenue. A similar response is seen in business size with smaller businesses also seeing it as less fair.

### Exhibit 52: Fairness of Taxing Business Net Income Progressively by Profitability

Source: TSWG, 2022.



### Results from Survey Comments

In response to Scenario F, the most common benefits heard were:

- Graduated corporate and personal income taxes are in line with “progressive” tax policies in which wealthier individuals and more profitable businesses pay a greater share in taxes than poorer individuals and less profitable businesses.

*“The unfairness of the current system has a disproportionate negative impact on Black, Indigenous and people of color. A progressive tax system is one way to reduce this impact.”*

The most common concerns heard were:

- Fears around the tax rate or base potentially increasing in the future.
- A progressive corporate income tax could be economically risky by discouraging economic growth or resulting in people/businesses leaving Washington.
- There would likely be WA State constitutional challenges with a progressive income tax.

*“I don’t trust the sales tax or property taxes will go down for my family.”*

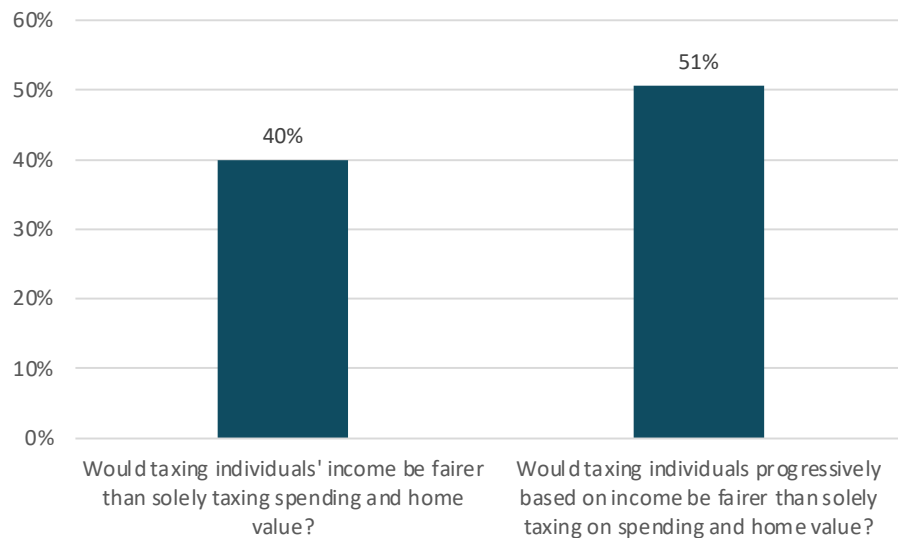
### Comparisons of Fairness in Scenarios E and F

#### Would taxing income be fairer?

Respondents were also asked what a fair tax system would look like with respect to taxing personal income (in a flat tax) and taxing that income more progressively. When asked about taxing personal income in lieu of taxing retail spending and home value, 40% of respondents thought that it would be fairer. However, when asked about taxing that income more progressively, 51% of respondents thought that it would be fairer.

#### **Exhibit 53: Preference on Fairness of Tax Approach: Personal Income Tax**

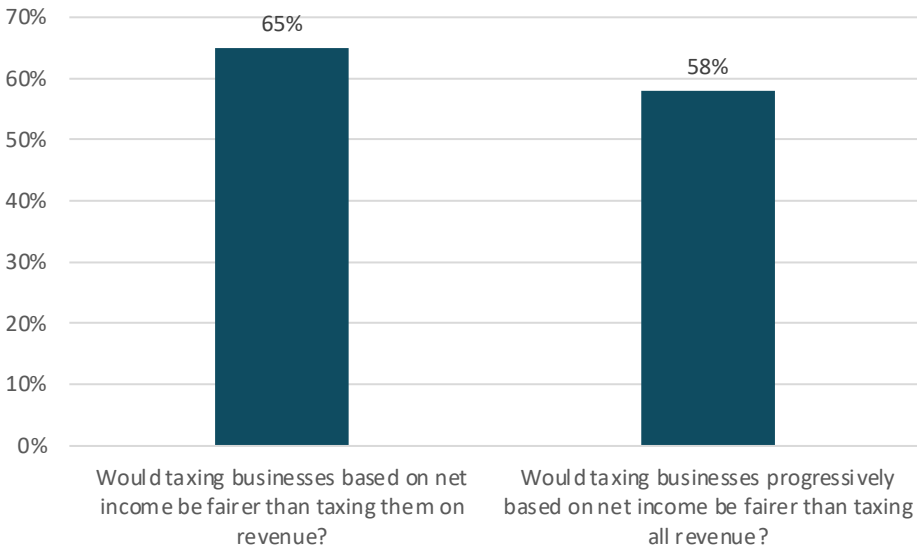
Source: TSWG Survey, 2022.



Respondents were asked what a fair tax system would look like with respect to taxing business income (in a flat tax) and taxing that income more progressively. When asked about taxing income in lieu of taxing gross revenue, 65% of respondents thought that it would be fairer. However, when asked about taxing that income more progressively, only 58% of respondents thought that it would be fairer.

**Exhibit 54: Preference on Fairness of Tax Approach: Business Income Tax**

Source: TSWG Survey, 2022.





# Attachment A: Survey Instrument

## I. Introduction

In 2019, the Washington State Legislature determined it was necessary to consider if the state's tax structure was unfair to taxpayers and if it fits our modern economy, since it has not been updated in over 80 years.

The [Tax Structure Work Group](#) (TSWG) is exploring changes to the way Washington state collects state taxes from both people and businesses. The goal is not to increase tax revenue to Washington state, but to create a new tax structure that considers these four principles:

- **Adequacy:** the tax system collects enough tax revenue to pay for established public services.
- **Stability:** the tax system collects a reliable amount of tax revenue resistant to short-term changes in the economy.
- **Transparency:** the tax system clarifies for taxpayers how much tax they need to pay, when to pay these taxes, and how to pay taxes.
- **Equity (Fairness):** the tax system considers both consistency of taxes among taxpayers and the capacity of individuals and business to pay taxes.

This survey asks a little about your point of view and then your preferences for different types of taxes.

## II. First, tell us about your point of view:

1. Please rank the principles as defined in order of most to least important where 1 is the most important to you and 4 is the least important:

\_\_\_\_ **Adequacy**: the tax system collects enough tax revenue to pay for established public services.

\_\_\_\_ **Stability**: the tax system collects a reliable amount of tax revenue resistant to short-term changes in the economy.

\_\_\_\_ **Transparency**: the tax system clarifies for taxpayers how much tax they need to pay, when to pay these taxes, and how to pay taxes.

\_\_\_\_ **Equity (Fairness)**: the tax system considers both consistency of taxes among taxpayers and the capacity of individuals and business to pay taxes.

2. **What would a fair tax system look like?** Which statement below best matches your sense of a fair tax for individuals and businesses?

- Those individual and business taxpayers with higher incomes or revenue should pay a higher percent of their income or revenue on taxes, and those with lower incomes or revenue should pay a lesser percentage through graduated or progressive rates, targeted tax credits or exemptions, etc. **(Prioritizes capacity)**
- All individual and business taxpayers should pay the same percent of their income or revenue on taxes regardless of their income through flat rates, no targeted tax credits or exemptions, etc. **(Prioritizes consistency)**
- I am not sure.

In a few words, why did you choose your answer above?

---

**3. This question explores changes to taxes on property owners as a way of collecting enough taxes as the state grows.**

Right now, the state's property tax collection can grow by a maximum of 1% annually, plus an additional amount based on several other factors including new construction.

This limit of a 1% rate increase does not consider inflation (money being worth less over time) or increased demand for government services driven by population increases.

The Tax Structure Work Group is interested in knowing your thoughts on changing the existing state property tax limit to a rate calculated on population and inflation changes from year to year.

What do you think is a better limit on how much property tax revenues can grow?

- The current system of 1% maximum growth per year.
- A revised limit based on growth of population and inflation.
- I am not sure

In a few words, why did you choose your answer above? (250 characters)

---

**4. These questions explore the fairness of the system by looking at:**

- the capacity of homeowners to pay their property tax
- the capacity of individuals with financial property in excess of \$1 billion to pay a wealth tax
- being consistent in the amount of property taxes collected from all homeowners
- being consistent in the application of taxes to property, including stocks, bonds, and other types of financial property.

The amount of property tax paid by some taxpayers could be lessened if the state expanded its definition of property tax to include financial property (over \$1 billion).

This new wealth tax would reduce the tax burden on most property taxpayers, especially residential payers, who would receive a tax exemption for the first \$250,000 of value on their primary residence.

**4a.** Do you believe that reducing property taxes paid by most homeowners (through a primary residence property tax exemption) and making up the difference by taxing financial wealth over \$1B creates a fairer system?

- Yes
- No
- I'm not sure
- In a few words, why did you choose your answer above? (250 characters)

**4b.** Does adding financial property (such as stocks and bonds over \$1 billion) as a type of property that is taxed in Washington create a more consistent tax system?

- Yes
- No
- I'm not sure
- In a few words, why did you choose your answer above? (250 characters)

---

**5. These questions explore creating a fairer tax system by creating a more consistent approach for taxing businesses and consider the capacity of businesses to pay taxes.**

The state's main business tax is the Business & Occupation tax (B&O). The B&O tax is applied on a business's gross revenue. It does not consider elements such as how much profit a business makes, how much it pays its employees, or how much it spends to create its products.

In contrast, a **Value Added Tax (VAT)** is where a business pays tax on the difference between the value of their sales and how much it costs them to create their products.

In this scenario, the TSWG is exploring replacing the B&O tax with a combination of:

- A Value Added Tax (VAT) (with a small business VAT exemption of up to \$1 million included), and/or
- An Employer Compensation Tax (applied to businesses with annual worldwide compensation to employees totaling more than \$7 million).

**Consider this example:**

A laptop maker buys electronic parts to make 100 laptops. The total cost of the parts for each laptop is \$400.

The laptop maker then sells the laptops she made for \$500 dollars each.

**The laptop maker increased the value of the parts by making it into a laptop. The value of the laptop went from \$400 in parts to a \$500 laptop.**

**5a.** Under the current tax system, the business owner must pay the Business and Occupation (B&O) tax on the \$500 for each laptop sold.

Replacing the Business and Occupation tax (B&O) with a Value Added Tax (VAT) would change the system so that it is only collecting tax on the increased value of the laptop. In this story, the increased value of each laptop is \$100.

Would taxing the \$100 in increased value be fairer than taxing the \$500 the laptop maker sold it for?

- Yes
- No
- I'm not sure

In a few words, why did you choose your answer above? (250 characters)

**Employer Compensation Tax:** The state could also pair the Value Added Tax (VAT) with an "Employer Compensation Tax", a tax that a business would pay on total employee compensation (salary, commission, bonuses) greater than \$150,000 per year. This would only apply to businesses with annual worldwide compensation payments to employees totaling

more than \$7 million. The Employer Compensation Tax would reduce the Value Added Tax (VAT) for all business taxpayers.

**5b.** Does reducing the Value Added Tax (VAT) paid by all businesses by adding an employer compensation tax paid by a few businesses create a fairer system for all?

- Yes
- No
- I'm not sure

In a few words, why did you choose your answer above? (250 characters)

**5c.** In a few words, why do you support or oppose this scenario of pairing the Value Added Tax with an Employer Compensation tax to replace the Business and Occupation (B&O) tax? Or why you are not sure?

---

**6. These questions explore creating a fairer tax system by creating a consistent approach for taxing businesses and considers the capacity of businesses to pay the tax.**

As described in question 5, the state's main business tax is the Business & Occupation (B&O) tax. The B&O tax is levied on a business's gross revenue. It does not consider important elements such as how much profit a business makes, how much it pays its employees, or how much it spends to create its products.

In contrast, a **Margins Tax** allows a business to deduct certain expenses (cost of goods sold, wages, 30% of revenue) from its gross revenue and only pays the tax on that remaining amount.

**Consider this example:**

ACME Home Goods had \$1.6 million in sales within the state. Of that \$1.6 million, the company's costs of goods sold came to \$900,000. Under the Margins Tax, they could deduct the \$900,000 and the company will be taxed on \$700,000 of its total sales for the year.

**6a.** Under the current tax system, ACME Home Goods must pay the Business and Occupation (B&O) tax on the \$1.6 million in sales. An alternative option, the Margins Tax, changes the system and only collects tax on the \$700,000.

Would taxing the \$700,000 in the Margins Tax be fairer than taxing the full \$1.6 million?

- Yes
- No
- I'm not sure

In a few words, why did you choose your answer above? (250 characters)

The state could pair the Margins Tax with an employer compensation tax. In this scenario, a business would pay tax on compensation (salary, commission, bonuses) greater than \$150,000 per year that employees receive. This would apply only to businesses with annual

worldwide compensation to employees totaling in excess of \$7 million. The employer compensation tax would reduce the Margins Tax for all business taxpayers.

**6b.** Does reducing the Margins Tax paid by all businesses through an employer compensation tax paid by few businesses create a fairer system for all?

- Yes
- No
- I'm not sure

In a few words, why did you choose your answer above? (250 characters)

**6c.** In a few words, why do you support or oppose this scenario of pairing the Margins Tax with an Employer Compensation tax to replace the Business and Occupation (B&O) tax? Or why you are not sure?

---

Both questions 7 and 8 look into similar types of taxes. However, Question 7 asks about introducing a Corporate and Personal Income taxes at a flat rate, and Question 8 is at a progressive rate.

**7.** This question explores creating a fairer tax system by creating a consistent approach for taxing individuals and businesses, and by considering their capacity to pay taxes (on a flat-rate basis) by creating a tax on income while shifting away from the sales and property taxes.

The state's current tax system does not tax the income of individuals or the net income of businesses. Instead, the state's primary taxes are the sales tax, property tax, and B&O tax. In this scenario the B&O tax would be eliminated, sales and property taxes would be reduced, and a new personal income tax and corporate income tax would be created.

**7a.** The state's main business tax is the Business and Occupation tax (B&O). The B&O tax is levied on a business's gross revenue (income before expenses). It does not consider important elements such as a business's expenses. In contrast, a corporate income tax would be based on how much income a business made after expenses. All business income would be taxed at the same flat rate.

Would taxing businesses based on their net income be fairer than taxing them on all revenue they took in?

- Yes
- No
- I'm not sure

In a few words, why did you choose your answer above? (250 characters)

**7b.** The state's main individual taxes are the property tax and sales tax. A flat personal income tax would offset reductions to the state property tax and sales tax. All personal income would

be taxed at a flat rate (everyone pays the same percentage).

Would taxing individuals' income and reducing sales and property tax be fairer than solely taxing their spending on retail goods and services and the value of their home?

- Yes
- No
- I'm not sure

In a few words, why did you choose your answer above? (250 characters)

**7c.** Overall, do you support this scenario's approach of **replacing the B&O tax, reducing the sales and property taxes, and adding a flat corporate income tax and a flat personal income tax?**

- I strongly support
- I support
- Neither support nor oppose
- I oppose
- I strongly oppose
- I'm not sure, I need more information.

**7d.** In a few words, why did you choose your answer above? (250 characters)

**8. This question explores creating a fairer tax system by creating a consistent approach for taxing individuals and businesses, and by considering their capacity to pay taxes on a progressive (increasing percentage for increased income) basis.**

The state's current tax system does not tax the income of individuals or the net income of businesses. Instead, the state's primary taxes are the property tax, sales tax, and B&O tax. In this scenario the B&O tax would be eliminated, sales and property taxes would be reduced, and a new personal income tax and corporate income tax would be created.

**8a.** The state's main business tax is the Business & Occupation tax (B&O). The B&O tax is levied on a business's gross revenue. It does not consider important elements such as a business's profitability. In contrast, a corporate income tax would be based on how much income a business made. Businesses would be taxed progressively, meaning as their income increased their tax rate would also increase.

Would taxing businesses progressively based on their net income be fairer taxing them on all revenue they took in?

- Yes
- No
- I'm not sure

In a few words, why did you choose your answer above? (250 characters)



**8b.** The state's main individual taxes are the property tax and sales tax. A progressive personal income tax would offset reductions to the state property tax and sales tax. Individuals would be taxed progressively, meaning as their income increased their tax rate would also increase.

Would taxing individuals progressively based on their income, and reducing sales and property tax, be fairer than solely taxing their spending on retail goods and services or the value of their home?

- Yes
- No
- I'm not sure

In a few words, why did you choose your answer above? (250 characters)

**8c.** Overall, do you support this scenario's approach of **replacing the B&O tax, reducing the sales and property taxes, adding a progressive corporate income tax, and a progressive personal income tax?**

- I strongly support
- I support
- Neither support nor oppose
- I oppose
- I strongly oppose
- I'm not sure, I need more information.

In a few words, why did you choose your answer above? (250 characters)

**9.** Do you have any other input or comments for the TSWG on any of the scenarios in this survey?

### III. Ranking Preferences

In this section we are interested in your preferences for different types of taxes:

#### 1. Personal Taxes:

Please rank the following personal taxes in order of most preferred to least preferred.

- Sales Tax (*current tax*)
- Property Tax (*current tax*)
- Personal Wealth Tax (*proposed alternative tax*)
- Personal Income Tax (flat) (*proposed alternative tax*)
- Personal Income Tax (progressive) (*proposed alternative tax*)
- I'm not sure, I need more information

#### 2. Business Taxes:

Please rank the following business taxes in order of most preferred to least preferred.

- Business & Occupation (B&O) Tax (*current tax*)
- Value Added Tax (VAT) (*proposed alternative tax*)
- Margins Tax (*proposed alternative tax*)
- Employer Compensation Tax (*proposed alternative tax*)
- Corporate Income Net Receipts Tax (flat) (*proposed alternative tax*)
- Corporate Income Net Receipts Tax (progressive) (*proposed alternative tax*)
- I'm not sure, I need more information

### IV. Demographics (optional)

Thank you for taking the time to complete the questions above. The following questions ask about you and your household, and they are all optional. All your responses are confidential. These questions help make sure we have heard from a representative group of people in Washington.

#### 1. Where and how did you take this survey?

- I took it online after reading/watching background information on the Tax Structure Work Group website
- I took it online without reading/watching any background information
- At a meeting hosted by an organization that I am part of
- At a Regional Tax Town Hall
- At a listening session in a language other than English

#### 2. What county do you live in? [Drop down list]

#### 3. How old are you?

- 19 or under
- 20-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65-74

- 75 or older
4. Between 2014-2019, what was your typical annual household income before taxes? Your best guess is fine.
- \$0 - \$16,999
  - \$17,000 - \$29,999
  - \$30,000 - \$43,999
  - \$44,000 - \$57,999
  - \$58,000 - \$73,999
  - \$74,000 - \$91,999
  - \$92,000 - \$114,999
  - \$115,000 - \$145,999
  - \$146,000 - \$207,999
  - \$208,000 - \$291,999
  - \$292,000 - \$678,999
  - \$679,000 & over
5. How many people live in your household?
- 1
  - 2
  - 3
  - 4
  - 5 or more
6. What languages do you speak at home? Select all that apply.
- English
  - Mandarin
  - Cantonese
  - Japanese
  - Korean
  - Russian
  - Spanish
  - Tagalog
  - Vietnamese
  - Other \_\_\_\_\_
7. How do you identify? Select all that apply.
- American Indian and/or Alaska Native
  - Asian and/or Asian American
  - Black and/or African American
  - Hispanic, Latino/a/x, and/or Spanish origin
  - Native Hawaiian and/or Pacific Islander
  - White
  - Race(s) or ethnicity not listed here \_\_\_\_\_
8. Do you have any disabilities? Select all that apply.
- Physical Mobility
  - Hearing

- Vision
- Cognitive
- Disability not listed here
- None of these

9. What is your interest in taxes on businesses?
- I own a business
  - I'm filling this out on behalf of a business owner
  - A member of my household owns a business
  - A friend or family member owns a business
  - I'm a customer/consumer
  - None of these

### **Business Taxes**

**Please tell us more about your business (if applicable). Your best guess answer for these questions will work.**

1. What county is your business licensed in? Choose all that apply [Drop down list]

2. What sector is your business in?

- Health care and social services
- Real estate and rental and leasing
- Utilities
- Educational services
- Administrative support and waste management
- Finance and insurance
- Arts, entertainment, and recreation
- Professional, scientific, and technical services
- Information
- Transportation and warehousing
- Management of companies
- Retail trade
- Accommodation and food services
- Mining, oil
- Construction
- Agriculture, forestry, hunting, and fishing
- Wholesale trade
- Other services: \_\_\_\_\_

3. What type of business organization best describes your business?

- Sole proprietorship
- LLC
- Corporation
- Partnership

k. Other: \_\_\_\_\_

4. Between 2014-2019, approximately how many people did your business employ on average?

- Under 5
- Under 50
- Under 250
- Under 500
- Under 1000
- 1000+
- Not sure

5. Between 2014-2019, approximately what was your business's average annual income (gross revenue) in total (total amount of money coming into the business, without subtracting expenses)?

- Under \$25,000
- \$25,000 to under \$100,000
- \$100,000 to under \$250,000
- \$250,000 to under \$500,000
- \$500,000 to under \$1,000,000
- \$1,000,000 to under \$2,500,000
- \$2,500,000 to under \$5,000,000
- \$5,000,000 to under \$10,000,000
- \$10,000,000 to under \$50,000,000
- \$50,000,000 to under \$100,000,000
- \$100,000,000 to under \$250,000,000
- Not sure

6. Between 2014-2019, approximately what percent of your business's average annual income (gross revenue) was profit after paying expenses?

- A loss of 11%
- A loss of 10% to 9%
- A loss of 8% to 6%
- A loss of 5% to 3%
- A loss of 3% to 1%
- A profit of 0% to 2%
- A profit of 3% to 5%
- A profit of 6% to 8%
- A profit of 9% to 10%
- A profit of 11% to 13%
- A profit of 14% to 15%
- A profit of 16% to 20%
- A profit of 21% to 25%
- A profit of 26% to 29%
- A profit of 30% or more

- Not sure

## V. Survey Feedback and Staying in Touch (optional)

1. Do you have any other feedback that you'd like the Tax Structure Work Group to consider?

2. Would you like to be added to the Tax Structure Work Group's email list to receive updates about upcoming public meetings, opportunities for engagement, or reports released?

No

Yes, here's my email address: \_\_\_\_\_