



## **Rational Steps #4: The Tax Relief & Reform Act of 2022**

*Welcome to the fourth installment of my policy series, where we identify and explore important issues facing our state and recommend workable policy solutions. I intend it to be informative, educational, and an example of how to constructively take rational steps toward a better Washington for all.*

- **Issue:** Washingtonians pay nearly \$1,000 more per capita in state/local taxes than the national average. This tax burden has greatly increased in the past three years (with 22 new taxes or tax increases passed). Inflation is also at the highest level in 40 years, placing further burdens on residents' finances. Against this backdrop, as the Legislature convenes for the 2022 session, the state budget has a projected surplus exceeding \$10 billion.
- **Rational Step Toward a Better Washington:** The Tax Relief & Reform Act of 2022 (SB 5769) would provide much-needed tax relief to Washingtonians (property, payroll, manufacturing, plus repeal 2021's entrée into having a state income tax), using only a portion of the projected surplus.

## Four Facts & Four Reforms

### Four Facts:

#### **1. Washingtonians have a comparatively high tax burden**

Washingtonians have the 12th highest per capita state & local tax burden in the country (\$5,900 vs. \$5,150 national average).<sup>1</sup> This data is as of FY 2018, which, as seen below, likely understates the extent of Washingtonians' comparative tax burden, due to significant increases in recent years.

#### **2. Taxes have been raised significantly in recent years**

Since FY 2018, the tax burden has only risen:

- 22 new tax increases enacted during the past three legislative sessions (including property, gas, manufacturing, business, and cell phones)<sup>2</sup>
- These increases total \$40 billion over 10 years, all told<sup>3</sup>
- Three largest increases?
  - Local school property tax levy hike (passed 2019) - \$8.7 billion
  - Payroll tax for long-term care (2019, took effect Jan. 1, 2022) - \$8 billion
  - Capital gains income tax (2021) - \$5.7 billion

*A Washington resident with a median valued home and median household income will see their tax burden go up \$1,052 a year from just the top 2 tax increases (local school property tax hike & payroll tax).<sup>4</sup>*

#### **3. Budget growth has been robust, far outpacing inflation & wage growth**

The state budget has grown:

- 90% in the decade from 2011-13 to 2021-23<sup>5</sup>
  - i. Roughly 4 times faster than inflation
  - ii. More than twice as fast as median private-sector wage growth
- It took 120 years of statehood for the operating budget to reach \$30 billion, but only 10 more years for the budget to nearly double (\$59.5 billion).

The present two-year budget represents a hearty \$7 billion increase over the prior budget.

#### **4. Budget has huge surplus**

Since the Legislature's 2021 session ended, revenues have come in higher than forecast, resulting in nearly \$8 billion in unexpected revenue.<sup>6</sup> In addition, caseloads are down a projected \$2 billion, resulting in a \$10 billion surplus.<sup>7</sup> This does not count available federal funds or non-general fund reserves, both of which exceed \$1 billion each in available resources.

## Four Reforms:

SB 5769 would provide tax relief in four parts:

- **Part 1: Provides a property tax “homestead” exemption**, which exempts the first \$250,000 of a primary residence from the state property tax. This is an anti-shift exemption, meaning the tax burden is not shifted onto others, but it is simply a reduction in state property tax collections.
- **Part 2: Eliminates the manufacturing B&O tax**, as this is a sector of the economy that has lost over 75,000 jobs since the turn of the 21st century.
- **Part 3: Eliminates the capital gains income tax**, as Washington voters have rejected an income tax 11 straight times.
- **Part 4: Eliminates the Long-Term Care payroll tax and program**, as it is financially unsound – and voters have twice rejected measures related to the tax.

## Tax Reform of a Different Kind

All too often in recent years, “reform” has been code for raising taxes.

Yet the reform in SB 5769 is starkly different. It is intended to provide tax relief to countless people across Washington; reinvigorate a sector of the economy that is vital to our state's well-being; and protect and build upon Washington’s competitive advantages. As provided in the bill:

*“(1) The legislature intends with this act to reform Washington state's tax system to provide tax relief to residents and businesses. This tax relief is intended to reduce the property tax burden for homeowners by providing over \$1,000,000,000 a year in progressive property tax relief; improve the competitiveness of Washington's manufacturing industry, which has suffered over 70,000 job losses during the 21st century; keep Washington income tax free, in accordance with long-standing court precedent and voter preferences, by eliminating the capital gains income tax; and eliminate the flawed and financially unsound long-term care payroll tax and program.*

*...  
(3) The tax relief and reform in this act is intended to benefit both residents and businesses, and it is thematically designed to help protect, and build upon, Washington's competitive advantages that have helped it thrive.”<sup>8</sup>*

## Reform & Relief Can Be Done Without Harming Any Existing Services

The passage of SB 5769 would result in about **\$9 billion of tax relief** for Washington residents, employees, and employers over the four-year outlook time frame.<sup>9</sup> But **only about \$4 billion would affect the actual four-year outlook balance**, as the \$5 billion of LTC payroll tax relief is not tax relief that affects the underlying general-fund budget revenues or surplus.

In short, for **less than half of the state's projected budget surplus**, legislators can:

- Provide the largest homeowner property-tax relief in state history and do so in a progressive manner.
  - The owner of a \$250,000 residence would pay no state property tax, while the owner of a \$1 million residence would still owe tax on \$750,000 of its value.
- Eliminate the manufacturing B&O tax, helping to spur a sector of the economy that pays family wages far exceeding the state's average, but has been the one area of the economy to see a major decline in employment in the 21st century.<sup>10</sup>
- Eliminate the LTC payroll tax, a tax that is projected to annually take over \$1.3 billion from workers' wages, and which voters have twice rejected.<sup>11</sup>
- Keep Washington's competitive advantage as a state without an income tax, a position that voters have unerringly supported 11 separate times in the past 80 years.

These are transformative reform measures.

**And they can be accomplished using less than half of the state's projected surplus.**

### **Conclusion**

***The people of Washington are faced with a comparatively high tax burden, which has only risen in recent years.***

***Faced with a surplus of over \$10 billion, should the Legislature pass the Tax Relief & Reform Act of 2022, and use a portion of the surplus to provide significant tax relief and reforms that will benefit all Washingtonians?***

## Footnotes

1. Department of Revenue Comparative State & Local Taxes, Table 7:

[https://dor.wa.gov/sites/default/files/legacy/Docs/Reports/Comparative/Comparative\\_2018.pdf](https://dor.wa.gov/sites/default/files/legacy/Docs/Reports/Comparative/Comparative_2018.pdf)

2.

Tally of 2019-21 Tax Increases					
Bill	Year	Advisory Vote #	Topic	10 yr taxes (in millions)	Uphold Tax?
1873	2019	23	<u>Vape</u>	\$207	67.0%
6016	2019	31	<u>Int. Investment Services</u>	\$367	56.9%
5997	2019	28	<u>Non-Residents</u>	\$313	55.4%
1477	2021	36	<u>Cell Phone Tax</u>	\$432	46.1%
5581	2019	26	<u>Wayfair</u>	\$1,051	44.9%
2167	2019	25	<u>B&amp;O on Financial Institutions</u>	\$1,036	44.8%
6004	2019	30	<u>Travel Agents</u>	\$28	44.3%
5315	2021	38	<u>Captive Insurers</u>	\$53	42.8%
5628	2020	33	<u>Heavy Equipment Rentals</u>	\$103	40.4%
5993	2019	27	<u>Hazardous Substance Tax (MTCA)</u>	\$2,760	39.3%
5096	2021	37	<u>Capital Gains Income Tax</u>	\$5,736	38.9%
1652	2019	22	<u>Paint Stewardship</u>	\$6	38.0%
6492	2020	34	<u>B&amp;O Tax on Certain Businesses</u>	\$843	38.0%
2158	2019	24	<u>B&amp;O Tax on Services</u>	\$2,253	37.5%
1087	2019	20	<u>Payroll tax (Long-Term Care)</u>	\$8,036	37.1%
5998	2019	29	<u>Graduated Real Estate Excise Tax</u>	\$1,747	35.3%

Tax Increases Not Subject to Advisory Vote					
5313	2019		<u>Property Tax (Local School Levy Increase)</u>	\$8,661	
1277	2021		<u>Document Recording Fee</u>	\$1,460	
5126	2021		<u>Climate Commitment Act (aka "Cap &amp; Tax")</u>	\$3,947	

3. Id.

4. Median home value of \$578,000, as of 3rd quarter 2021. <https://wcrer.be.uw.edu/wp-content/uploads/sites/60/2021/11/2021Q3Snapshot.pdf>

Median household income of \$81,668.

[https://ofm.wa.gov/sites/default/files/public/dataresearch/economy/median\\_household\\_income\\_estimates.pdf](https://ofm.wa.gov/sites/default/files/public/dataresearch/economy/median_household_income_estimates.pdf) The \$1 levy authority increase translates to a \$578 yearly tax hike on median home value, and the 0.58% payroll tax translates to a \$474 tax on median household income.

5. Budget in 2011-13 was \$31.2 billion. Budget passed for 2021-23 was \$59.5 billion.

6. Economic & Revenue forecast revenue change from March thru November 2021 (4 yr timeframe)

7. Ways & Means staff estimate, largest declines are in K-12 and Department of Corrections inmates

8. SB 5769, sec. 2 <https://lawfilesexternal.wa.gov/biennium/2021-22/Pdf/Bills/Senate%20Bills/5769.pdf?q=20220111093414>

9. Tax relief breakout (based on past fiscal notes):

- Property tax - \$1.8 billion over 4 yr outlook (assumes passage by voters of const. amendment in November 2022 & tax relief beginning CY 2024 - long term, tax relief exceeding \$1 billion annually)
- Eliminating B&O tax on manufacturing - \$600 million
- Eliminating capital gains income tax - \$1.3 billion
- Eliminating LTC payroll tax - no operating budget impact, but \$5.2 billion in tax relief for workers.

10. Avg. manufacturing wage in Washington (2019): \$95,800 <https://www.nam.org/state-manufacturing-data/2021-washington-manufacturing-facts/>

In January 2000, there were 338,000 manufacturing jobs in state; In October 2021, there were 261,000 manufacturing jobs in the state.

11. Additionally, there is no opting out once payment of the LTC tax begins.