# Washington State and Local Tax System Dysfunction \& Reform 

## Dick Conway

Dick Conway \& Associates

The Puget Sound Economic Forecaster www.economicforecaster.com

## Characteristics of State and Local Tax Systems

## Fairness

Adequacy

- Stability
- Transparency

Economic vitality

## Regressive State and Local Tax Systems, 2015 <br> Taxes as Percent of Family Income

| Rank | State ${ }^{20}$ | 0 Percent Lowest Incomes | 0 Percent Middle Incomes | 1 Percent Highest Incomes | Ratio of Lowest to Highest |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | United States | 10.9 | 9.2 | 5.4 | 2.0 |
| 1 | Washington | 16.8 | 10.1 | 2.4 | 7.0 |
| 2 | Hawaii | 13.4 | 11.2 | 7.0 | 1.9 |
| 3 | Illinois | 13.2 | 10.9 | 4.6 | 2.9 |
| 4 | Florida | 12.9 | 8.3 | 1.9 | 6.7 |
| 47 | South Carolina | na 7.5 | 7.4 | 4.5 | 1.7 |
| 48 | Alaska | 7.0 | 4.3 | 2.5 | 2.8 |
| 49 | Montana | 6.1 | 6.2 | 4.7 | 1.3 |
| 50 | Delaware | 5.5 | 5.3 | 4.8 | 1.1 |

## U.S. State and Local Tax Revenue



# Washington and U.S. State and Local Effective Tax Rate, FY 1995-FY 2014 Percent of Personal Income 

Washington

| FY 1995 | 11.4 |
| :--- | ---: |
| FY 2000 | 9.9 |
| FY 2005 | 9.8 |
| FY 2006 | 10.2 |
| FY 2007 | 10.3 |
| FY 2008 | 9.9 |
| FY 2009 | 9.5 |
| FY 2010 | 9.7 |
| FY 2011 | 9.8 |
| FY 2012 | 9.4 |
| FY 2013 | 9.3 |
| FY 2014 | 9.4 |

Rank 11
37
37
38
31
38
37
37
33
36
38 36

United States
10.8
10.5
10.6
10.9
11.0
10.8
10.4
10.5
10.4
10.2
10.4
10.4

## Washington Taxable Retail Sales



# Washington State and Local Tax Revenue Forfeited, FY 2005-FY 2014 

 Billions of Dollars|  | Personal <br> Income | Tax <br> Revenue <br> (actual) | Tax <br> Revenue <br> $(10.5 \%$ rate) | Tax <br> Revenue <br> Forfeited |
| :--- | ---: | ---: | ---: | ---: |
| FY 2005 | 233.5 | 23.0 | 24.5 | 1.5 |
| FY 2006 | 246.8 | 25.1 | 25.9 | 0.8 |
| FY 2007 | 267.2 | 27.5 | 28.1 | 0.6 |
| FY 2008 | 289.6 | 28.6 | 30.4 | 1.8 |
| FY 2009 | 286.8 | 27.2 | 30.1 | 2.9 |
| FY 2010 | 279.6 | 27.1 | 29.4 | 2.3 |
| FY 2011 | 292.8 | 28.8 | 30.7 | 1.9 |
| FY 2012 | 313.2 | 29.4 | 32.9 | 3.5 |
| FY 2013 | 330.6 | 30.8 | 34.7 | 3.9 |
| FY 2014 | 343.2 | 32.2 | 36.0 | 3.8 |
| Total | --- | 279.7 | 302.7 | 23.0 |

## Elementary and Secondary School Spending Per \$1,000 of Personal Income, FY 2014

 Dollars| Rank | State | Spending |
| :---: | :--- | ---: |
|  | United States | 38.46 |
| 1 | Alaska | 63.61 |
| 2 | Vermont | 55.35 |
| 3 | New York | 53.72 |
| 4 | New Jersey | 50.76 |
| 42 | Washington | 32.60 |
| 47 | Colorado | 31.57 |
| 48 | South Dakota | 30.94 |
| 49 | Arizona | 29.33 |
| 50 | Florida | 29.28 |

## Advantages of 10.5 Percent Income Tax

- Replaces all other taxes No need for sales tax, property tax, business and occupation tax, or any other tax.

Fairness No regressivity. Everyone works 5.5 weeks to pay state and local tax bill.

- Adequacy Ensures adequate tax revenue- 10.5 percent of personal income-every year.
- Maximum federal tax savings State and local income taxes are fully deductible.


## Washington State and Local Tax Burden, FY 2015

|  | Current Tax System | Personal Income Tax System |
| :---: | :---: | :---: |
| State and local taxes (bils. \$) | 34.1 | 38.3 |
| Households | 26.4 | 38.3 |
| Business, government, visitors | 7.7 | 0.0 |
| State and local effective tax rate (\%) | \%) 9.3 | 10.5 |
| Federal income tax offset (\%) | -0.3 | -1.5 |
| Net state and local tax rate (\%) | 9.0 | 9.0 |
| State and local taxes (bils. \$) | 34.1 | 38.3 |
| Federal income tax offset (bils. \$) | -1.1 | -5.6 |
| Net state and local taxes (bils. \$) | 33.0 | 32.7 |

## Washington State and Local Tax Burden on Households with Personal Income Tax System, FY 2015

|  | Lowest <br> 20 Percent | Middle <br> 60 <br> Percent | Highest <br> 20 Percent | Top <br> 1 Percent |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Average household income* (\$) | 19,090 | 88,380 | 377,290 | $2,434,860$ |
| State and local tax rate (\%) | 10.5 | 10.5 | 10.5 | 10.5 |
| State and local taxes (\$) | 2,004 | 9,280 | 39,615 | 255,660 |
| Personal income taxes (\$) | 2,004 | 9,280 | 39,615 | 255,660 |
| Federal offset (\% of income taxes) | 0.0 | 8.0 | 20.5 | 32.0 |
| Federal offset (\$) | 0 | 743 | 8,121 | 81,811 |
| Net state and local taxes (\$) | 2,004 | 8,537 | 31,494 | 173,849 |
| Net state and local tax rate (\%) | 10.5 | 9.7 | 8.3 | 7.1 |
| ITEP net state and local taxes (\$) | 3,207 | 8,926 | 17,921 | 58,437 |
| ITEP net state and local tax rate (\%) | 16.8 | 10.1 | 4.8 | 2.4 |
| Personal income per household. |  |  |  |  |

