

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

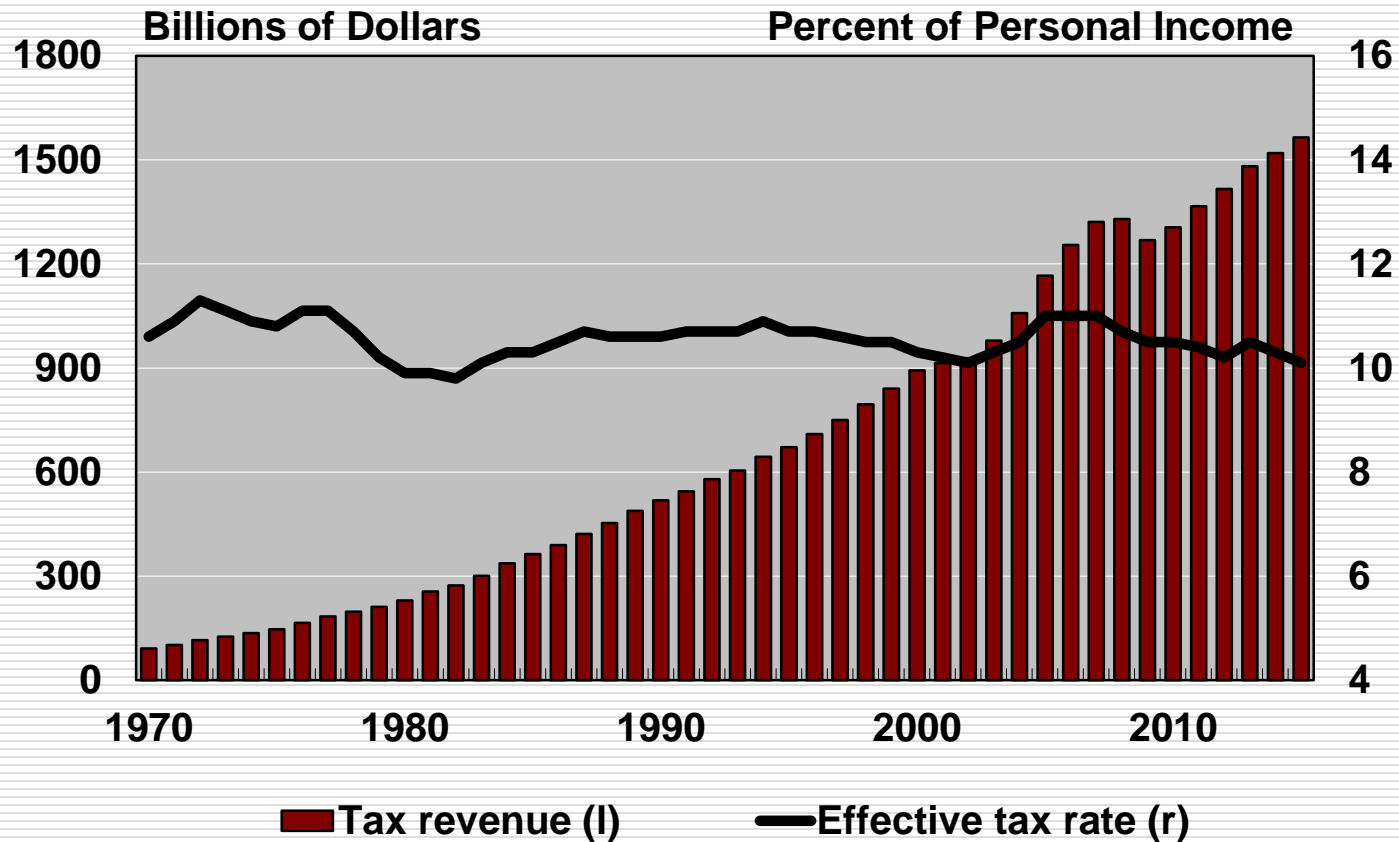
- **Fairness**
- **Adequacy**
- **Stability**
- **Transparency**
- **Economic vitality**

Regressive State and Local Tax Systems, 2015

Taxes as Percent of Family Income

| Rank | State | 20 Percent Lowest Incomes | 60 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 | 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 |

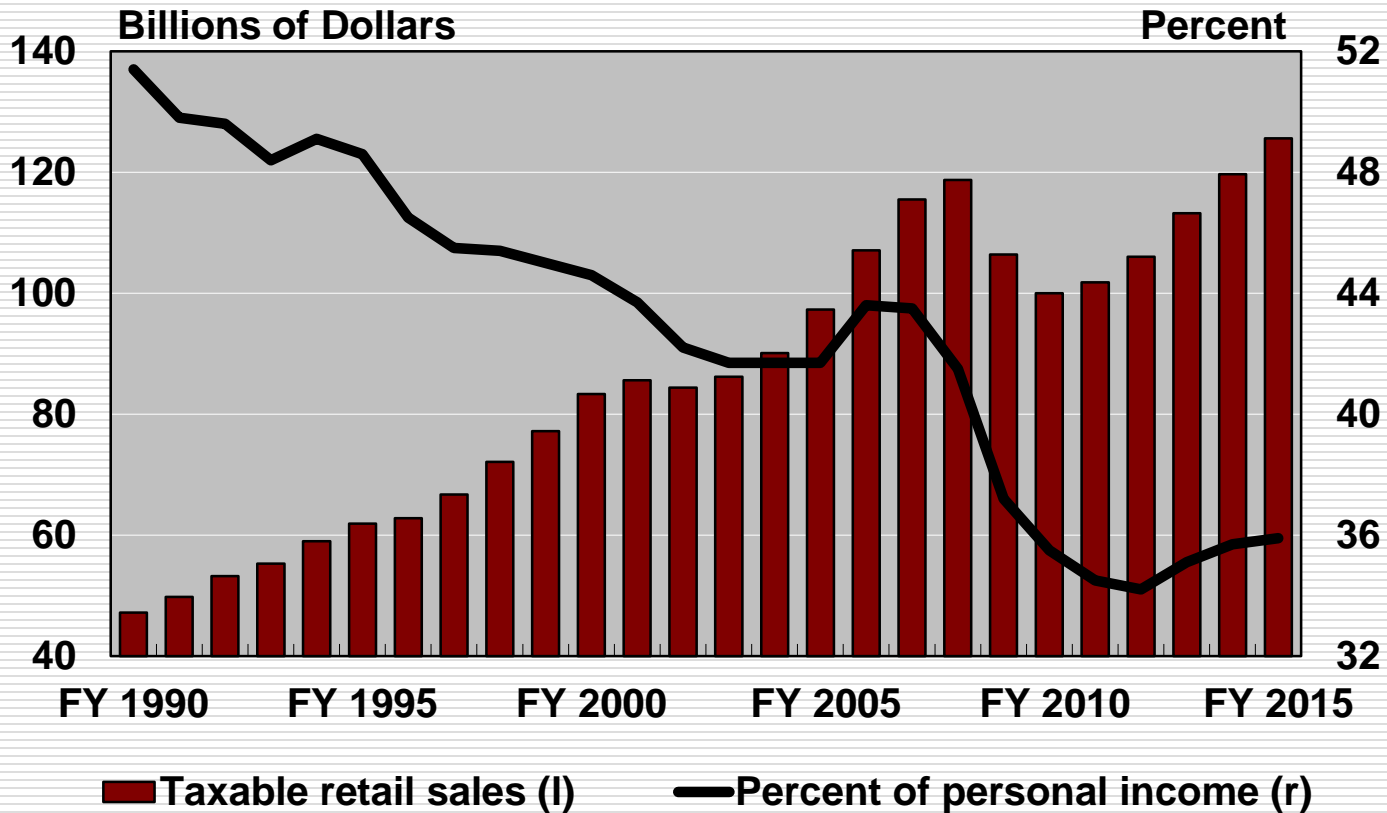
U.S. State and Local Tax Revenue



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

| | Washington | Rank | United States |
|----------------|-------------|-----------|---------------|
| FY 1995 | 11.4 | 11 | 10.8 |
| FY 2000 | 9.9 | 37 | 10.5 |
| FY 2005 | 9.8 | 37 | 10.6 |
| FY 2006 | 10.2 | 38 | 10.9 |
| FY 2007 | 10.3 | 31 | 11.0 |
| FY 2008 | 9.9 | 38 | 10.8 |
| FY 2009 | 9.5 | 37 | 10.4 |
| FY 2010 | 9.7 | 37 | 10.5 |
| FY 2011 | 9.8 | 33 | 10.4 |
| FY 2012 | 9.4 | 36 | 10.2 |
| FY 2013 | 9.3 | 38 | 10.4 |
| FY 2014 | 9.4 | 36 | 10.4 |

Washington Taxable Retail Sales



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

Billions of Dollars

| | Personal Income | Tax Revenue (actual) | Tax Revenue (10.5% rate) | Tax Revenue 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 20 Percent | Middle 60 Percent | Highest 20 Percent | Top 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.