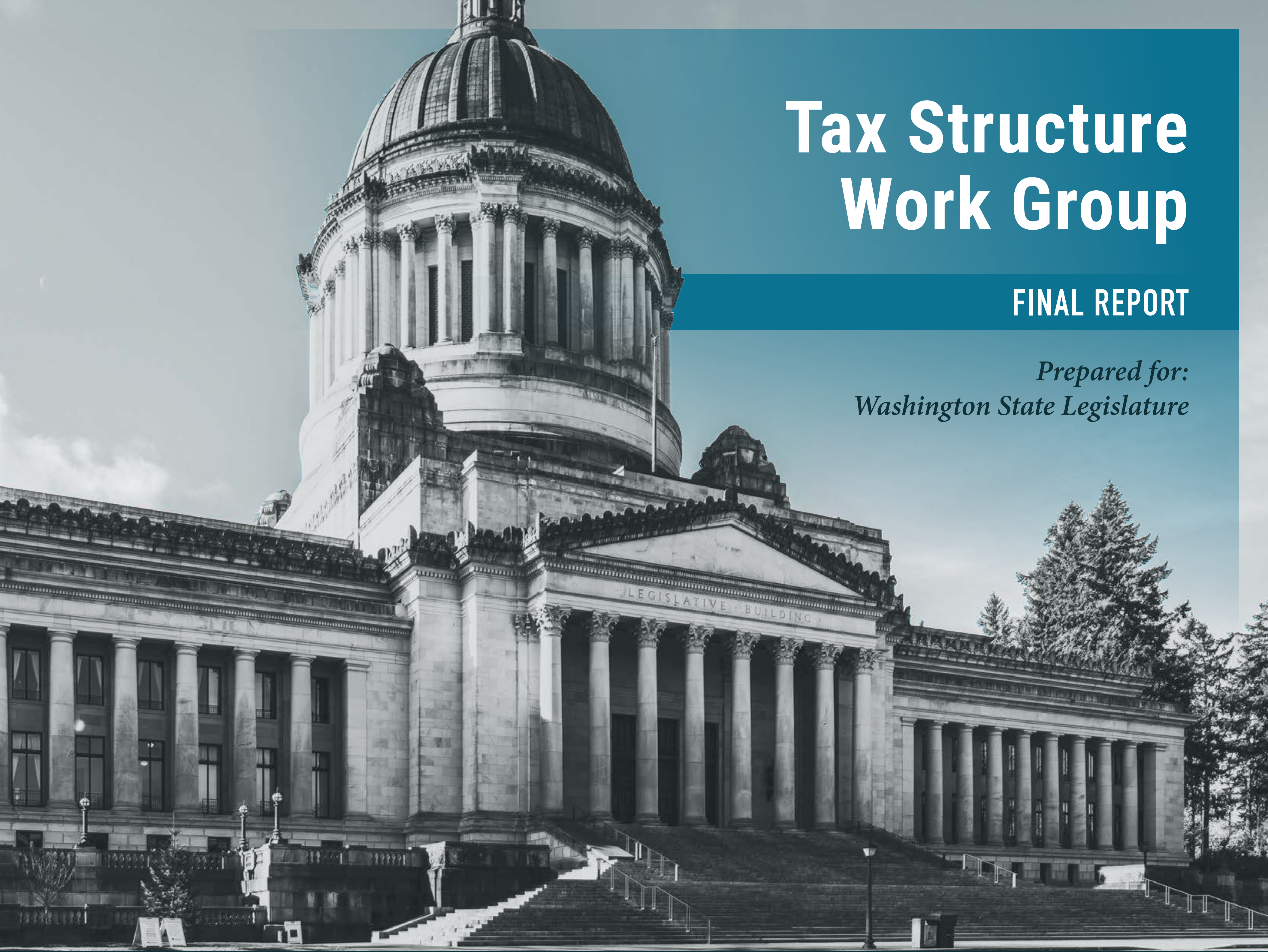

Tax Structure Work Group

FINAL REPORT

Prepared for:
Washington State Legislature

Letter of Submittal

JUNE 30, 2023

Honorable Members, Washington State Senate
Honorable Members, Washington State House of Representatives

The Tax Structure Work Group (TSWG) is a collection of policymakers working together to develop recommendations for making Washington's state tax structure more equitable, fair, stable, adequate, and transparent. The group has spent the past four years conducting economic research; meeting with taxpayers, voters, and businesses; and engaging in honest debate on how to improve Washington's tax structure.

In the 2019 legislative session, the legislature authorized the TSWG to expand its membership and redirect its scope of work toward updating previous economic research materials exploring changes to the state's tax structure. Upon completing this analysis and submitting a report to the state legislature in 2020, the 2021 state legislature further directed the TSWG to develop ideas for changing the state's tax structure and engage the state's constituents by:

- Holding at least five public meetings organized by geographic region.
- Participating in the meetings of at least 10 community organizations and at least 10 business organizations.
- Holding at least three listening sessions in languages other than English.

After completing this outreach in 2021 and documenting the public feedback, the TSWG spent 2022 deliberating proposals for changes to the state's tax structure and delivered two proposals to the 2023 state legislative session:

1. The replacement of the business and occupation tax with a margin tax.
2. A change to the limit factor for the local portion of the property tax.

Thank you for the opportunity to serve in this capacity for the people of the state of Washington.

Respectfully,

Senator Noel Frame, Cochair (Senate Democratic Caucus)
Senator Keith Wagoner, Cochair (Senate Republican Caucus)

Representative Amy Walen (House Democratic Caucus)
Representative Ed Orcutt (House Republican Caucus)
Representative April Berg (House Democratic Caucus)
Senator Lisa Wellman (Senate Democratic Caucus)

Scott Merriman (Legislative Liaison, Office of the Governor)
Dean Carlson (Senior Tax Policy Coordinator, Department of Revenue)
City of Vancouver Mayor Anne McEnerny-Ogle (Association of Washington Cities)
Commissioner Amanda McKinney (Yakima County)

Acknowledgments

The Tax Structure Work Group (TSWG) appreciates the contributions to this report from the Work Group members, the Department of Revenue staff members, and technical advisory group members. We would like to make a special acknowledgment of the contributions of the groups and people named on this page. The following reports and efforts culminated the development of this report:

2020 Tax Structure Work Group Preliminary Report: The employees from the Department of Revenue Research & Fiscal Analysis Division and Legislation & Policy Division were the principal staff contributors to the research and analysis of this study. A technical advisory group supported the department's technical work in this study and should be acknowledged for contributing their valuable time and expertise. Additionally, the department contracted through an interagency agreement with Western Washington University to complete economic analysis regarding Washington's economic competitiveness.

2021 Tax Structure Work Group Interim Engagement: The employees from the Department of Revenue Research & Fiscal Analysis Division and Legislation & Policy Division were deeply involved with developing and implementing the community and business engagement strategy.

2022 Study and Refinement of Tax Proposals: The technical advisory group supported the department's analysis of different tax proposals to assist in deciding on two different policy recommendations.

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Introduction

Tax Structure Work Group Overview

In 2017, the Washington State Legislature established the Tax Structure Work Group (TSWG) to identify options to make the Washington's state tax code more equitable, fair, adequate, stable, and transparent. The TSWG was intitially comprised of one member from each major caucus in the house of representatives and then expanded in 2019 to include representatives from the Governor's Office, the Washington State Department of Revenue (DOR), the Washington State Association of Counties, and the Association of Washington Cities.

2019 Budget Proviso

In the 2019 legislative session, the legislature reauthorized the TSWG to expand its membership through ESHB 1109, Section 137 (2) (c), which will be referred to as the Budget Proviso going forward. This Budget Proviso directed the TSWG to analyze and facilitate statewide public discussion about Washington's tax structure through a number of tasks, as outlined below.

Tax Structure Work Group Tasks

1. Update previous research exploring changes to the state's tax structure.
2. Facilitate a series of public meetings in geographically dispersed locations of the state and collect feedback from taxpayers about the tax structure and potential alternatives.
3. Make recommendations to the legislature for changes to the state tax structure.
4. Produce a final report by December 31, 2024, that compiles all other reports previously submitted since July 1, 2019.

TSWG 2023 Updates

The TSWG has since completed the first three Budget Proviso tasks. The TSWG conducted economic modeling and analysis of different tax policy options and facilitated public discussions throughout the state about the advantages and disadvantages of the state's current and potential tax structure. These discussions informed the TSWG 2023 recommendations to the Washington State Legislature to improve Washington's state tax structure to benefit individuals, families, and businesses in Washington state. Based on these recommendations, Washington state legislators introduced three bills during the 2023 legislative session related to converting the business and occupation tax to a margin tax and making adjustments to the property tax limit factor. None of the bills passed during the 2023 legislative session.

While the TSWG was prepared to advance the last remaining task of the Budget Proviso, the state legislature decided in 2023 not to fund the TSWG into the year 2024. **As such, this report shall serve as an expedited completion of a final report that reviews all other work of the TSWG completed to date.**

Research

Tax Principles

The 2019 Budget Proviso directed the TSWG to conduct economic modeling and analysis to identify tax options that could make the Washington tax code more fair, adequate, stable, and transparent and modernize the tax code to reflect a twenty-first-century economy. Other key tax principles were considered in the modeling and analysis as well, based on a 2002 Gates Study and are articulated below.[1]

Tax Principles Explained

Adequacy

The tax system should raise sufficient tax revenue to pay for established public services without the need to change the tax rates or the tax base. The tax revenue should grow at a rate similar to that of the overall economy.

Stability

The tax system should be able to withstand short-term fluctuations in the economy.

Vertical Equity

Taxpayers with a greater ability to pay should pay more taxes than taxpayers with a limited ability to pay.

Economic Vitality and Harmony with Other States

The tax system should not create reasons for businesses to selectively move taxable activities outside the state. It should harmonize with other tax systems to avoid double taxation and to minimize opportunities for firms and individuals to avoid taxation by shifting their taxable activities between states.

Horizontal Equity

Taxpayers, including businesses, with similar abilities to pay should pay a similar percentage of taxes. The tax system should avoid arbitrary distributions of tax burdens across taxpayers.

Economic Neutrality and Efficiency

To not distort economic decisions, the tax system should minimize opportunities and incentives to take advantage of differential tax treatment of economic activities. Taxpayers should make their decisions based on economic factors rather than tax advantages.

Transparency and Administrative Simplicity

Knowing how much tax to pay, when to pay, and when tax has already been paid should be clear and evident to the taxpayers. Simple rules, recordkeeping, and computation requirements make it easier for taxpayers to comply and for tax collection agencies to enforce.

1 None of these tax principles have been codified in state law or formally adopted by the TSWG.

Tax Modeling

To identify tax options that fulfill the tax principles outlined above, the TSWG examined the structure and possible impacts of three different business taxes (value-added tax [VAT], margin tax, and coporate income/net receipts [CINR] tax), a personal income tax (PIT), and an alternative property tax growth limitation. The TSWG compared the VAT, margin tax, and CINR tax to the current business and occupation (B&O) tax, assessing the impact of each business tax on tax incidence by business size and business sector.[2] The TSWG also assessed the potential impact of a PIT on household tax burden. Lastly, the TSWG compared an alternative property tax growth limitation to the current limitation to see the difference in revenue that would have been generated during the 2017-2019 biennium. The purpose and impact of these taxes are discussed in slightly more detail below and extensively in the *2020 Tax Structure Work Group Preliminary Report*.

Purpose and Impact of Potential Business and Household Taxes

BUSINESS TAX

	VALUE-ADDED TAX
Purpose	The purpose of analyzing the VAT was to examine whether the it could ease the administrative and financial burden for small and low-profit-margin businesses and increase transparency for consumers.
Comparison to B&O	The current B&O tax assesses taxes on the same goods and services multiple times as they move through the chain of production. This design has a disproportionate impact on low-profit-margin businesses and isn't transparent for consumers. Unlike the B&O, the VAT imposes a tax only on the incremental value a business adds to goods or services it sells, over and above the value of the goods and services it purchases as inputs.
Impact on Business Tax Burden	**Impact by Business Size:** Compared to the B&O tax, the VAT shifts tax incidence slightly toward moderate-sized businesses and away from small businesses. **Impact by Business Sector:** While Real Estate, Rental, and Leasing sectors would experience the largest decreases in tax incidence, the Health Care & Social Services and Accommodation & Food Services sectors would experience the largest increase in tax incidence with the VAT.

BUSINESS TAX

	MARGIN TAX
Purpose	The purpose of analyzing the margin tax was to examine whether the Margin tax could ease the administrative and financial burden for small and low-profit-margin businesses and increase transparency for consumers.
Comparison to B&O	The margin tax is similar to the subtraction method VAT. Businesses are taxed on their gross margin, or their gross receipts minus returns and allowances and minus cost of goods sold. This helps businesses avoid double taxation, which occurs under the B&O tax.
Impact on Business Tax Burden	**Impact by Business Size:** The margin tax shifts tax incidence away from small businesses. **Impact by Business Sector:** While Real Estate, Rental, and Leasing sectors would experience the largest decreases in tax incidence, the Health Care & Social Services and Accommodation & Food Services sectors would experience the largest increase in tax incidence with the margin tax.

Continued on next page...

2 Tax incidence measures the amount of direct tax or level of tax burden a business and/or household faces from a particular tax.

BUSINESS TAX

CORPORATE INCOME/NET RECEIPTS TAX	
Purpose	The purpose of analyzing the CINR tax was to examine whether the CINR tax could ease the administrative and financial burden for small and low-profit-margin businesses and increase transparency for consumers.
Comparison to B&O	Unlike the B&O tax, a CINR tax would allow businesses that pay the federal corporate income tax to deduct most of the expenses related to operating a business, such as cost of goods sold, salaries and wages, and rent. (Pass-through entities, such as sole proprietorships and S corporations taxable through the individual income tax, would not pay the CINR tax.)
Impact on Business Tax Burden	**Impact by Business Size:** If a CINR tax is implemented with a PIT, the tax incidence shifts from businesses to households. If a CINR tax is implemented without a PIT, the tax incidence shifts mostly to businesses earning more than $250 million in annual gross receipts. **Impact by Business Sector:** Across most sectors, business tax incidences would fall with a CINR tax. If the CINR tax were implemented with a PIT, tax incidence would shift mostly to the Management of Companies sector and Manufacturing and Information sector.

HOUSEHOLD TAX

PERSONAL INCOME TAX	
Purpose	The purpose of analyzing the PIT was to examine whether this tax could promote fairly distributed tax burden across income levels, as lower-income households currently bear disproportionately higher tax burden.
Comparison to Sales Tax	The PIT in Washington would work similarly to the federal individual income tax. Each taxpayer's taxable income would be based on the adjusted gross income (AGI) minus deductions and personal exemptions.
Impact on Household Tax Burden	**Graduated PIT:** In comparison to the sales tax, a graduated PIT tax that increases with household income could produce a sizable decrease in household tax burden for lower-income households depending on the tax rate used. **Flat PIT:** In comparison to the sales tax, a flat PIT rate would have little or no effect on regressivity of household tax burden.

HOUSEHOLD TAX

ALTERNATIVE PROPERTY TAX GROWTH LIMITATION	
Purpose	The purpose of analyzing a property tax tied to population and inflation growth was to examine whether this change had any impact on the adequacy and stability of the revenue generated.
Comparison to Current Property Tax Limit	The alternative property tax growth limitation would change the current rate-based property tax system so that it is tied to growth in population and inflation rather than subject to the current 1% annual growth limit.
Revenue Impact	The alternative property tax growth limitation would have generated 37% more revenue in comparison to the current 1% growth limit factor during the 2017-2019 biennium.

Scenarios and Public Outreach

Scenario Development

Based on the 2020 economic research, the TSWG met and created six scenarios based on various tax types. The TSWG agreed that these scenarios were not policy recommendations, but rather ideas to stimulate discussion and public feedback. The scenarios were all revenue neutral, with the exception of a stand-alone scenario for the property tax limit factor. The tax types included:

- Primary Residence Property Tax Exemption
- Wealth Tax
- Value-Added Tax
- Employer Compensation Tax
- Margin Tax
- Sales Tax Reduction
- Personal Income Tax (flat and graduated)
- Corporate Income Tax (flat and graduated)
- Property Tax Limit Factor Adjustment

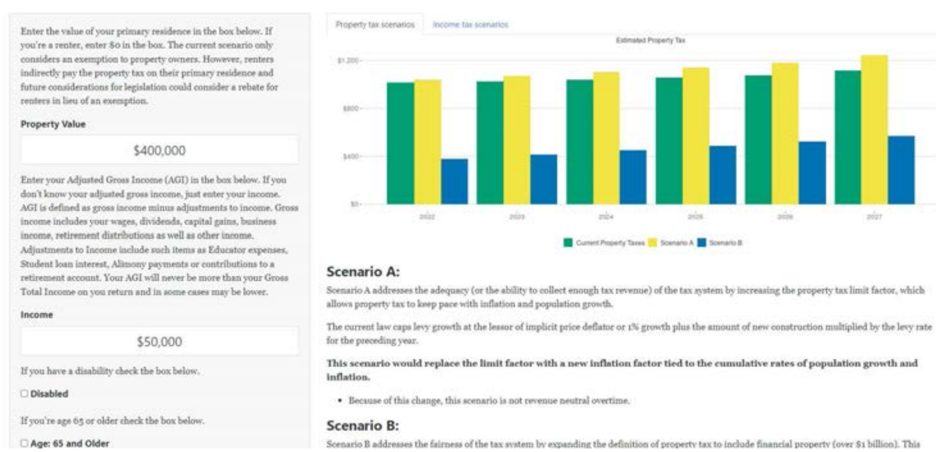
Public Engagement Strategies

The TSWG wanted to hear from individual and business taxpayers about their concerns and support regarding the six tax scenarios. In addition, the TSWG wanted public feedback on the principles for a well-designed tax system, as described in the Budget Proviso as (1) stability, (2) transparency, (3) adequacy, and (4) fairness. The TSWG developed a public engagement plan that expanded upon the requirements of the Budget Proviso. To reach a diverse range of community members and businesses, engagement encompassed various techniques—including town halls, presentations, focus groups, and a survey—detailed on the next page.

The TSWG engaged with the broader public using other tools as well.

- **Interactive Tax Calculator:** Enabled users to estimate their tax burden as a result to changes to business and individual taxes.
- **TSWG Website:** Served as a repository for engagement opportunities and tax information.
- **Social Media (Facebook/Twitter):** Provided a platform for more frequent and informal updates during the engagement period in 2021.

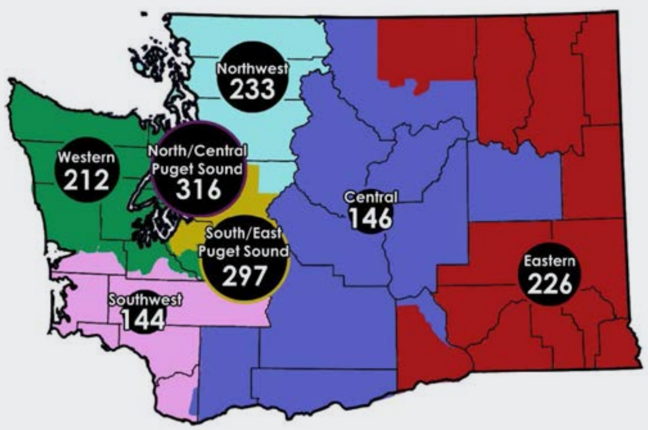
Interactive Tax Calculator



Engagement Techniques

Fourteen virtual **town hall meetings** conducted for seven geographic regions.

1,574 participants across the state



Six in-language **focus groups**

~45 participants

LANGUAGE	ORGANIZATION	DATE
Vietnamese	Friends of Little Saigon	Nov 2021
Russian	Pacific Ukrainian Society	Nov 2021
Spanish	Mujer Al Volante	Nov 2021
Korean	Korean Community Service Center	Nov 2021
Cantonese	Ethnic Chamber of Commerce Coalition	Dec 2021
Mandarin	InterImCDA	Jan 2021

Online survey (long and shorter version) translated into Spanish, Chinese (simplified and traditional), Korean, Russian, Vietnamese, and Ukrainian.

long survey: **1,693 respondents**
short survey: **1,159 respondents**
15,000 free responses individually analyzed

We Go to You presentations given at 30 existing community organization and business association meetings.

~775 participants

ORGANIZATION NAME	REGION SERVED	COMMUNITY MEMBERS	BUSINESSES	PRIORITY COMMUNITY
Aging and Disability Services/Area Agency on Aging	North/Central Puget Sound	√		√
Aging and Long-Term Care of Eastern Washington	Eastern	√		√
Arc of Washington State	Statewide	√		√
Association of Washington Business	Statewide		√	
Bellevue Chamber of Commerce	South/East Puget Sound		√	
Benton-Franklin County League of Women Voters	Eastern	√		
Columbia River Economic Development Council	Southwest		√	
Department of Revenue Technical Advisory Group	Statewide			
Economic Alliance Snohomish County	Northwest		√	
Greater Seattle Business Association (GSBA)	Statewide		√	
Greater Spokane Incorporated	Eastern		√	√
Greater Spokane Valley Chamber of Commerce	Eastern		√	√
Greater Vancouver Chamber of Commerce	Southwest		√	
King County League of Women Voters	South/East Puget Sound	√		
National Federation of Independent Business	Statewide		√	
North Pend Oreille County Chamber of Commerce	Eastern		√	
OneAmerica	Statewide	√		√
Port of Columbia	Eastern		√	
San Juan Island Family Resource Center	Northwest	√		√
Spokane Low-Income Housing Consortium	Eastern	√		√
Tri County Economic Development District	Eastern		√	
Washington Community Alliance	Statewide	√		√
Washington Policy Center	Statewide	√		
Washington Roundtable	Statewide		√	
Washington Senior Lobby	Statewide	√		√
Washington State Microenterprise Association	Statewide		√	
Washington State Pharmacy Association	Statewide		√	
Whatcom County Democratic Women	Northwest	√		
Youth Development Executives of King County	North/Central Puget Sound	√		√

Engagement Outcomes

The multipronged engagement strategy yielded valuable results for the TSWG to consider, including feedback on tax principles and the tax types that formed the basis of the six scenarios. The full results can be found in the 2021 Engagement Report and 2022 Survey Analysis Report.

Feedback on Tax Principles

Overall, participants ranked the tax principles in the following order:

1. **Fairness** *(most important)*
2. **Adequacy and transparency** *(both principles roughly tied for second-most important)*
3. **Stability**

When asked about the definition of "fairness," slightly more people defined a "fair" tax system as one that is based on capacity (e.g., those who can afford to pay more in taxes should pay more), versus a system based on consistency (e.g., everyone should pay the same rate).

Feedback on Tax Types

TAX TYPE	HIGH-LEVEL FEEDBACK
Primary Residence Property Tax Exemption	More support than concern
Sales Tax Reduction	More support than concern
Margin Tax	More support than concern
Wealth Tax	Approximately equal levels of support and concern
Value-Added Tax	Approximately equal levels of support and concern
Progressive Corporate and Personal Income Taxes	Approximately equal levels of support and concern
Employer Compensation Tax	More concern than support
Flat Corporate and Personal Income Taxes	More concern than support
Changing the Property Tax Limit Factor	More concern than support

When participants SUPPORTED a tax type, it was often for one of the following reasons:

- Simplicity
- Stable source of revenue
- Wealthy people or profitable businesses pay more based on their capacity to pay
- Relief for people with low incomes or small/low-margin businesses
- Consistent application across taxpayers

When participants had CONCERNS about a tax type, one of the reasons below was usually cited:

- Disproportionately burdened people with low incomes and/or people of color (regressive)
- Wealthy individuals can leave the state or find loopholes
- Tax rate or base may increase in the future
- Too complicated
- Discourages economic growth
- Not appropriate for all industries

Proposal Development

General Process

The TSWG worked throughout 2022 to move from high-level tax concepts to fleshed out proposals, and finally legislative recommendations.

Tax Concept Development

In 2022, the DOR completed the analyses on the tax types introduced in the scenarios. The TSWG requested that the DOR also analyze the Working Families Tax Credit. Additionally, the TSWG paired the primary residence property tax exemption with a renters credit based on public feedback. The DOR completed the following types of analyses:

- **Technical details on how the tax would be implemented and who it would impact**
- **Revenue forecasts**
- **Research on how other states have enacted similar taxes**

Based on this work, the DOR fleshed out concepts for each tax type and identified questions for TSWG consideration. When applicable, the DOR provided recommendations for certain questions that the TSWG had up for discussion.

Tax Concept Refinement

The TSWG met throughout 2022 to refine the concepts using anonymous polling and whittle down the concepts into bipartisan legislative recommendations to introduce during the 2023 legislative session. Due to the Budget Proviso, the final recommendation from the TSWG needed to be revenue neutral. As such, the TSWG could not propose any tax credits without additional sources of revenue. The TSWG began with nine concepts, reduced the list to five, and ultimately recommended two taxes to the full legislature, as described in detail on page 16.

Focused Proposal Development

Margin Tax

During the TSWG's meetings in 2022, they devoted considerable time to fleshing out the margin tax proposal. Below are technical details and the TSWG preferences regarding the margin tax.

How will businesses report?
- As consolidated corporate entities

What should be the nexus standard?
- The current physical presence and economic standards under the B&O tax

How will income be apportioned to Washington?
- Single-factor sales/gross receipts

What should the rate structure be?
- The DOR should model both flat and graduated

What should be the rate basis?
- Receipts

Should current surcharges be maintained?
- Maintain current surcharges

Should retailers be compensated?
- Yes

Are all enterprise activities subject to the tax?
- The same tax base as the B&O tax

Should preferential rates be eliminated?
- Yes, for modeling purposes

Should all current deductions, credits, exclusions, and exemptions be eliminated, except those necessary for legal compliance or practical administration?
- Yes, for modeling purposes

Will the proposal use the standard deductions?
- Yes, a fixed percentage of gross receipts, a flat amount, cost of goods sold, or compensation paid

Will the proposal include a public utility tax?
- No

Should Washington allow contractor compensation to qualify for the compensation deduction?
- No

How should Washington calculate the compensation paid deduction?
- Limit the deductions to IRS W-2 wages

Should Washington cap the per employee compensation deduction?
- Cap the deduction to a set amount

Should Washington limit the compensation deduction to a certain percentage of possible compensation costs?
- No

How should Washington calculate the cost of goods sold?
- Use the IRS definition

Should Washington limit the cost of goods sold to a certain percentage?
- No

Primary Residence Property Tax Exemption and Renters Credit

The TSWG worked through details regarding the primary residence property tax exemption and renters credit prior to deciding that this tax concept would not move forward to legislature. Below are details the TSWG refined.

Should the exemption include primary residences only or all residences?
- Primary only

How should the primary residence property tax exemption be administered?
- Refund program administered at the state level

Should the DOR model a renters' credit?
- Yes

Working Families Tax Credit

The TSWG mainly focused on whether eligibility should be broadened under the working families tax credit (WFTC) program. The TSWG agreed that eligibility should be broadened, however, the WFTC was eliminated from discussion before the TSWG determined which eligibility components should expand.

Property Tax Limit Factor

The property tax limit factor ultimately turned into a legislative proposal based on the following guidance from the TSWG.

Should there be a minimum limit of 0% on growth?
- Yes, negative growth stays at zero

Should there be a maximum limit on the property tax limit factor?
- Yes

What level should the property tax limit factor be modeled at?
- Local only

Final Proposal

During the TSWG's final meeting of 2022, TSWG members had the opportunity to publicly vote on the remaining tax concepts. **Ultimately, the TSWG voted to recommend the margin tax and the property tax limit factor as bills in the 2023 legislative session.**

Tax Concept Refinement Process: Final Recommendations

DATE	TAX CONCEPTS								
	Employer Compensation Tax	Value-Added Tax	Primary Residence Property Tax Exemption and Renters Credit	Wealth Tax	Margin Tax	Property Tax Limit Factor	Working Families Tax Credit	Corporate Income Tax	Personal Income Tax
Mar 2022	Eliminated	Eliminated	Maintain as an option	Maintain as an option	Maintain as an option	Maintain as an option	Maintain as an option	Eliminated	Eliminated
May 2022			No discussion	No discussion	12 technical details	No discussion	1 technical detail		
Sept 2022			3 technical details	No discussion	6 technical details	2 technical details	No discussion		
Nov 2022			Eliminated	Eliminated	Maintain as an option	1 technical detail	Eliminated		
Dec 2022					Legislative Recommendation	Legislative Recommendation			

Legislative Process

2023 Legislative Session

In January of 2023, the TSWG proposed to the Washington State Legislature a set of tax recommendations. Based on these recommendations, Washington state legislators introduced three bills during the 2023 legislative session:

1. SB 5482 – 2023-24 **Concerning the margin tax and companion bill;** HB 1644 - 2023-24 **Concerning the margin tax**
2. SB5618 – 2023-24 **Increasing the local property tax revenue growth limit**
3. HB 1670 – 2023-24 **Raising the limit factor for property taxes**

Legislative Details

This section describes each bill in more detail, in addition to providing the sponsors and the current state of the bill.

2023 BILLS

Margin Tax Bill (SB 5482 - 2023-24)

This bill aimed to replace Washington's B&O tax with a margin tax that is modeled after Texas's franchise tax, starting in calendar year 2027. This margin tax would tax businesses on their margin, calculated by taking the business's worldwide gross income and subtracting the greatest of four deductions:

- Cost of inputs
- Compensation paid, capped at $400,000 per employee
- 30% of gross receipts
- A flat amount of $1 million

After subtracting the deduction amount, the business's worldwide margin that is attributable to Washington would be determined using a single-factor sales apportionment method, with the amount attributable to Washington being multiplied by a 3.1966 percent tax rate to determine the total amount due. A taxpayer with a gross income of $5,000,000 or less may elect to pay the margin tax based on an easy computation, which is the business's gross income attributable to Washington multiplied by a rate of 1.75 percent.

The margin tax would be imposed on the same entities that are currently subject to the B&O tax and would also maintain Washington's currently imposed surcharges, current registration and nexus thresholds, and local B&O taxes.

Additional specifics regarding the margin tax are outlined in the Senate Bill Report for SB 5482.

Title: **SB 5482 – 2023-24** Concerning the margin tax (and companion bill).

Sponsors: Noel Frame, Keith Wagoner, Lisa Wellman, Joe Nguyen, Manka Dhingra, Phil Fortunato, Sam Hunt, Karen Keiser, Patty Kuderer, Liz Lovelett, Drew MacEwen, Rebecca Saldaña, Derek Stanford

State of the Bill: **This bill has not passed.**

Property Tax Revenue Growth Limit (SB 5618 – 2023-24 and HB 1670 – 2023-24)

These bills would change the current revenue growth limit factor of 101 percent, replacing it with a limit factor of 100 percent plus population change and inflation, with a new cap of 103 percent.[3]

These bills would also repeal the ability for taxing districts that have a substantial need to use the growth factor of 101 percent instead of the implicit price deflator if the implicit price deflator is less than 1 percent.

These bills specify the dates by which the DOR must provide county assessors the limit factors (September 1st of each year) and the date by which county assessors must determine the limit factor for each taxing district and subsequently notify those districts (October 1st of each year). These changes would be applicable for any taxes levied for collection in 2024 onward.

Additional specifics regarding the Property Tax Revenue Growth Limit bill are outlined in the Senate Bill Report 5618.

Title: SB 5618 – 2023-24 Increasing the local property tax revenue growth limit; **HB 1670 – 2023-24** Raising the limit factor for property taxes.

Senate Sponsors: Patty Kuderer, Lisa Wellman, Noel Frame, Sam Hunt, Marko Liias, Liz Lovelett, Joe Nguyen, June Robinson

House Sponsors: Timm Ormsby, Joe Fitzgibbon, Amy Walen, Nicole Macri, Tana Senn, Steve Bergquist, Mia Gregerson, Larry Springer, Roger Goodman, Frank Chopp, Jessica Bateman, Sharon Wylie, Jake Fey, Cindy Ryu, Monica Jurado Stonier, Marcus Riccelli, Kristine Reeves, Davina Duerr, Alex Ramel, Emily Alvarado, Gerry Pollet

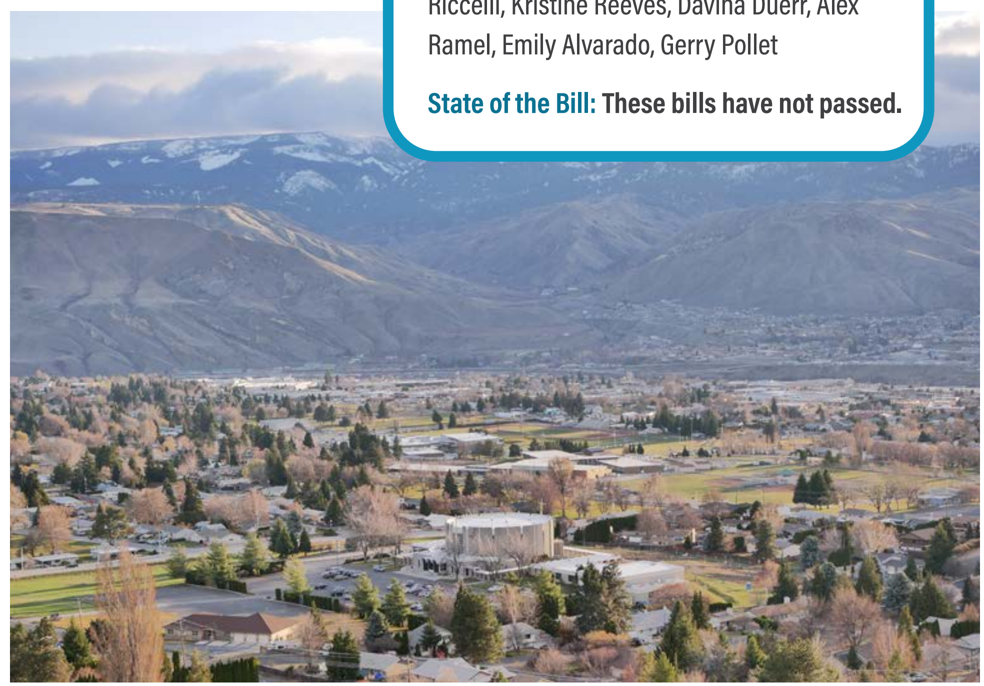
State of the Bill: These bills have not passed.

Summary of Final TSWG Meeting

On May 8, 2023, the TSWG met and discussed the 2023 legislative session and overall TSWG process. Specifically, Work Group members and public attendees expressed their thoughts about the margin tax and property tax revenue growth limit bills, expanding upon why they believed these bills did not pass and why work should continue to explore Washington's tax policy in the future.

Margin Tax

Work Group members and public attendees reflected on the fact that the margin tax bill did not pass despite concerns among the general business community over the years about the fairness of the B&O tax and expressed desires for a new tax. Work Group members suggested a few potential reasons as to why the margin tax bill did not pass, including concerns about the potential for a higher administrative burden and tax rate for particular types of businesses and concerns about the margin tax undermining reliable revenue to the state.



3 The definitions of inflation and population change as used for the calculations of the growth limit factor can be found here.

Property Tax Revenue Growth Limit

Work Group members voiced mixed opinions about the property tax revenue growth limit bill. In general, some TSWG members noted that they were not in support of increasing property tax at all. Moreover, one member noted a concern about using both population and inflation to calculate the property tax growth limit factor. However, TSWG members in support of the property tax revenue growth limit bill stressed the importance of increasing taxes to pay for necessary public services, such as fire departments, police services, roads, clean water, and school teachers.

Moving Forward

Though the margin tax and property tax revenue growth limit bills did not pass, Work Group members agreed that future legislative sessions will build off the TSWG's efforts, including the economic modeling and results of public engagement. Work Group members and the public were thankful for the TSWG efforts, recognizing that the process was a valuable and lasting step toward changing Washington's tax policy.

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