

Washington State Tax Structure Work Group
Joint Executive Summary of Community Engagement and Survey Reports

Background

In 2021, the Tax Structure Work Group (TSWG) created a set of tax scenarios that included different combinations of tax types to make Washington state’s tax structure more equitable/fair, stable, adequate, and transparent. The tax scenarios were *not* proposed policies; rather they were ideas intended to generate conversation and feedback as part of an effort to improve Washington’s tax structure. In 2021 and early 2022, the TSWG conducted engagement with individual community members and businesses across Washington to gather feedback about the tax scenarios.

This document summarizes the results of this feedback from the community. More detailed results are available in the following reports:

- [2021 Interim Engagement Report](#)
- [2022 Survey Technical Summary](#)

Methods

Community Engagement

Through community and business engagement efforts, the TSGW connected with approximately five thousand Washingtonians. To make the process more inclusive, the project team used multiple engagement methods including:

- 14 Tax Town Halls open to the public in seven geographic regions across the state.
- 30 presentations to community and business groups (“We Go to You” meetings).
- Six multilingual focus groups for people who speak Vietnamese, Spanish, Mandarin, Cantonese, Russian, and Korean.
- Surveys which generated 2,582 total responses.
- An online tax calculator tool that allowed the public to see how different tax structures might impact them.

Analysis

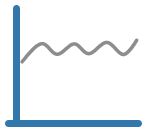
During the Tax Town Halls, “We Go to You” meetings, and multilingual focus groups, notetakers recorded participants’ feedback. The survey included opportunities for participants to share feedback through written responses. The project team analyzed this written feedback by finding themes in the responses, coding each response by theme, and identifying which themes were most common.

Results of Engagement

Through the surveys, Tax Town Halls, “We Go to You” presentations, and multilingual focus groups, participants expressed their opinions about the importance of the four principles of a well-designed tax system, definitions of fairness, and the benefits and concerns associated with each tax scenario.

Priority of Principles

The TSWG defined four principles of a well-designed tax structure 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.

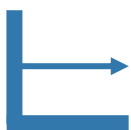
Across all engagement methods, most participants chose fairness as the most important principle.

Definitions of Fairness

Recognizing that many people have differing ideas of *fairness* within the tax structure, the TSWG developed two definitions of *fairness*, one based on *consistency*, and another based on *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.

Although participants preferred fairness over other tax principles, they differed in their preferred definitions of fairness. Over half of Tax Town Hall and multilingual focus group participants chose *capacity* as their preferred definition of fairness and fewer than half chose *consistency*. In the survey, slightly more respondents reported that they prefer the capacity definition of fairness.

Community Input on Tax Scenarios

Current Tax Structure

Though the project team did not specifically ask about Washington’s current tax structure, some participants shared their opinions about it.

Most Common Themes Heard	
Benefits	<ul style="list-style-type: none">• Participants expressed appreciation for the current tax structure’s simplicity and stability.
Concerns	<ul style="list-style-type: none">• Participants expressed concerns that the current tax structure is regressive and has disproportionate negative impacts on lower-income Washingtonians and less profitable businesses.• Participants expressed concerns about property taxes continuing to increase over time.

Scenario A – Change Property Tax Limit Factor



The property tax limit factor is a cap on the amount of revenue the state is allowed to collect from its property tax. Current law caps the growth of Washington’s property tax revenue at 1% growth plus additional value for new construction. Scenario A aims at addressing *adequacy* of the tax structure by replacing the current property tax limit factor with a new limit tied to the combined rates of population growth and inflation. 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.

Input from the Community

Most Common Themes Heard	
Benefits	<ul style="list-style-type: none"> Participants expressed appreciation that Scenario A would provide more funding to needed government services and programs.
Concerns	<ul style="list-style-type: none"> Participants expressed concern that Scenario A could result in increasing property taxes, which could disproportionately impact low-income and fixed-income property owners.

Scenario B – Update Property Tax and Tax Personal Wealth



**Property Tax
Reduction**



Wealth Tax

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 state property tax exemption would be on the first \$250,000 of value on a property owner’s primary residence.

Input from the Community

Most Common Themes Heard	
Benefits	<ul style="list-style-type: none">• Participants expressed support for “progressive” tax policies in which wealthier individuals and more profitable businesses pay a greater share in taxes than poorer individuals and less profitable businesses.
Concerns	<ul style="list-style-type: none">• Participants expressed concern that Scenario B could result in economic risks and discourage economic growth.• Participants expressed concern that Scenario B could result in wealthy individuals/large businesses leaving Washington or finding loopholes.

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



No
B&O Tax



Value Added Tax



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

Input from the Community

Most Common Themes Heard	
Benefits	<ul style="list-style-type: none"> Participants noted that the VAT could be fairer to small and low margin businesses than the B&O tax. Participants expressed support for progressive tax policies in which more profitable businesses pay a greater share in taxes than less profitable businesses.
Concerns	<ul style="list-style-type: none"> Participants overall had concerns that the VAT would be too complicated for businesses to implement. Participants expressed concerns that the employer compensation tax might slow down economic growth, encourage businesses to leave Washington, and disincentivize paying employees over \$150,000.

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



No
B&O Tax



Margins Tax



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 of 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 in the amount of over \$150,000 per employee. Businesses with total worldwide payroll over \$7 million a year would pay this tax.

Input from the Community

Most Common Themes Heard	
Benefits	<ul style="list-style-type: none"> Participants expressed support for a margins tax and noted that the margins tax could be fairer to smaller businesses than the B&O tax. Participants expressed support for progressive tax policies in which more profitable businesses pay a greater share in taxes than less profitable businesses.
Concerns	<ul style="list-style-type: none"> Participants expressed concerns about coupling the margins tax with an employer compensation tax since they felt that an employer compensation tax might hinder the state's economy and disincentivize paying employees over \$150,000. Participants expressed concerns that the margins tax could be too complicated for taxpayers. Participants expressed concerns that rich people and large business can easily leave Washington or find loopholes to paying the 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 flat corporate income tax, and adding a flat personal income tax.

Input from the Community

Most Common Themes Heard	
Benefits	<ul style="list-style-type: none"> • Participants expressed support for “progressive” tax policies in which wealthier individuals and more profitable businesses pay more in taxes than poorer individuals and less profitable businesses. • Participants expressed appreciation that Scenario D would provide relief for low-margin and small businesses.
Concerns	<ul style="list-style-type: none"> • Participants noted concerns about future potential increases in flat tax rates for the personal income tax and corporate income tax. • Participants expressed concerns that Scenario E could cause economic risks, discourage economic growth, and encourage people/businesses to leave Washington. • Participants expressed concerns that Scenario E could negatively affect people with low incomes and fixed incomes. • Participants expressed concerns that Scenario E could create challenges regarding the Washington State Constitution.

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 progressive corporate income tax, and adding a progressive personal income tax.

Input from the Community

Most Common Themes Heard	
Benefits	<ul style="list-style-type: none"> • Participants expressed support for “progressive” tax policies in which wealthier individuals and more profitable businesses pay a greater share in taxes than poorer individuals and less profitable businesses. • Participants expressed support for consistency in the tax structure.
Concerns	<ul style="list-style-type: none"> • Participants expressed concerns about future potential increases in tax rates for the progressive personal income tax and progressive corporate income tax. • Participants expressed concerns that Scenario F could cause economic risks, discourage economic growth, and encourage people/businesses to leave Washington. • Participants expressed concerns that Scenario F would create challenges regarding the Washington State Constitution.

Conclusion

The Tax Structure Work Group used feedback from community and business members to inform their discussions of tax policy proposals. The Tax Structure Work Group will continue to use this feedback as they develop policy recommendations and legislation for the 2023 Legislative Session.