

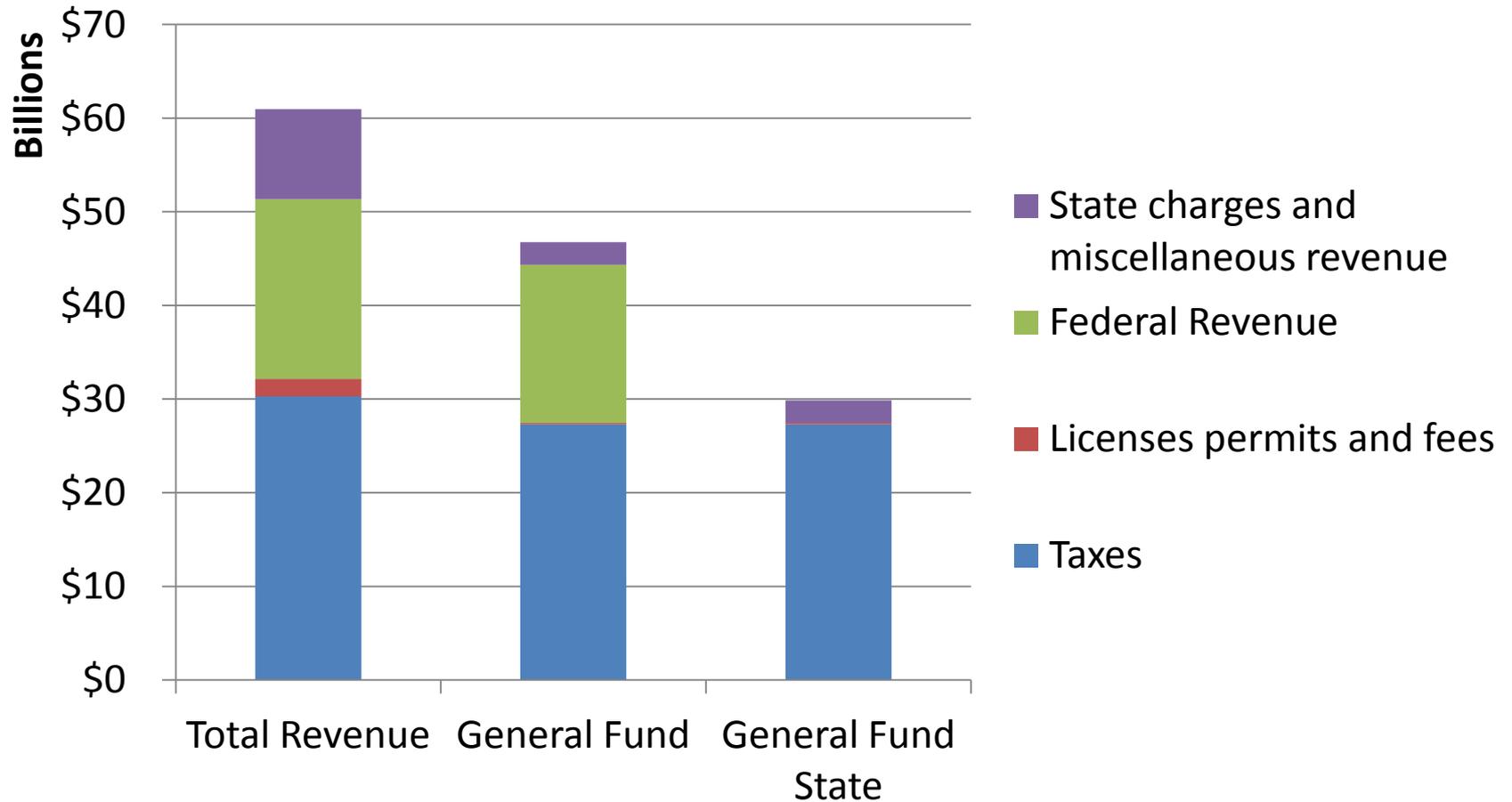
Revenue Issues in Ways & Means

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Revenue Issues in Ways and Means

- Issues related to state and local revenues
 - Increases or decreases in taxes
 - Exemptions from taxes
 - Changes in the administration of taxes
 - Transportation related taxes go to the Transportation Committee

Total Revenue compared to General Fund Revenue



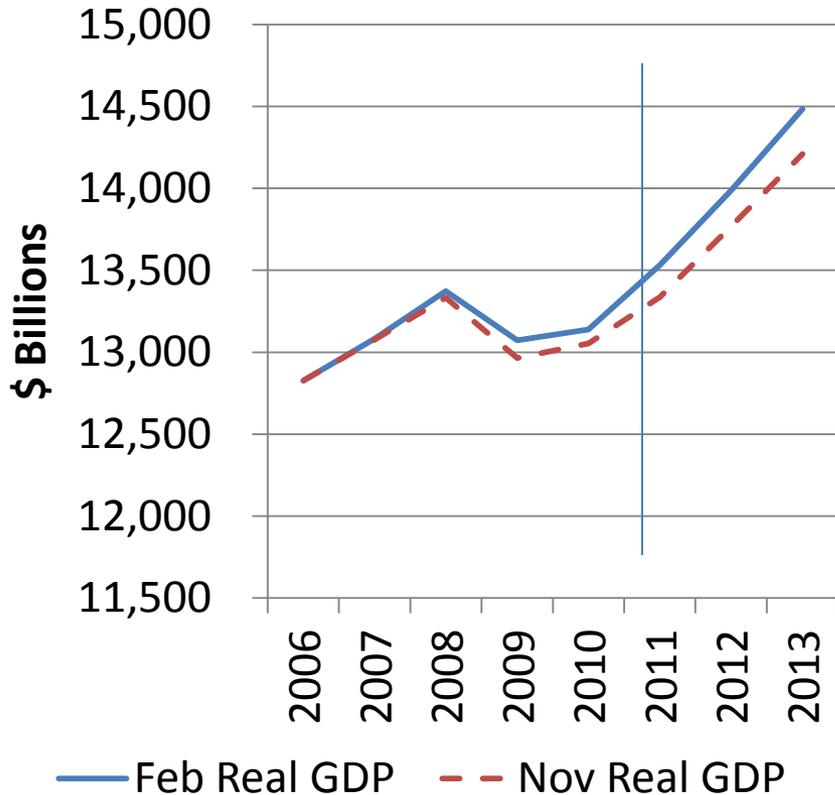
General Fund Revenue Forecast Process

- Revenue forecast is updated four times a year
 - March (February in even-numbered years)
 - June
 - September
 - November (basis for Governor's budget proposal)
- Economic and Revenue Forecast Council
 - Employs forecast supervisor
 - Six members, one member from each caucus of House and Senate plus two Governor appointees

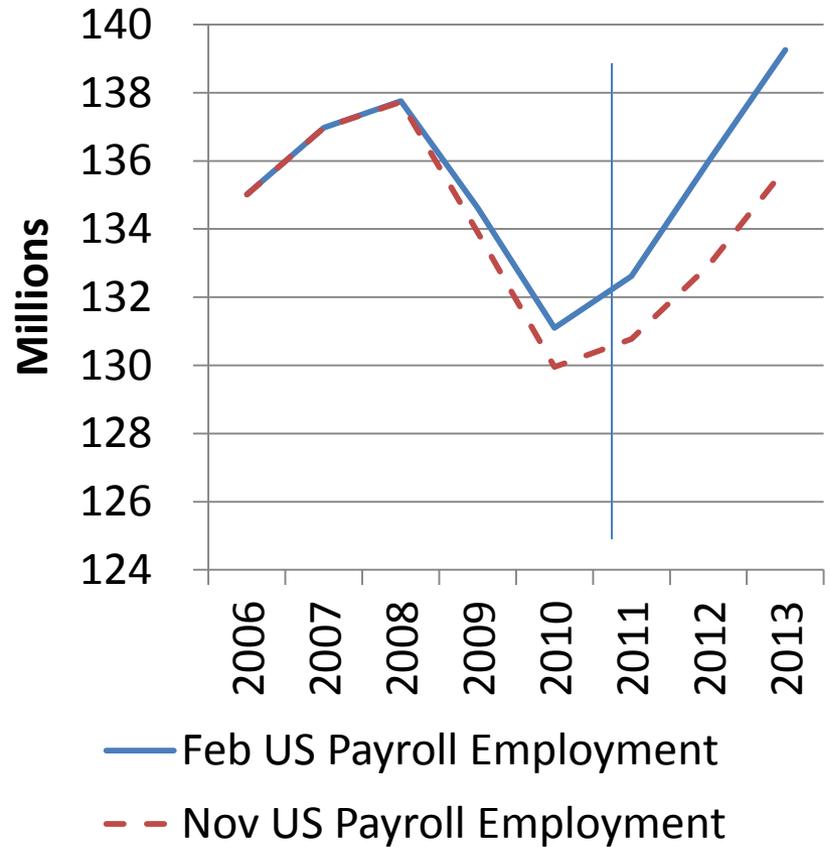
US Economy

February compared to November Forecast

US Real GDP



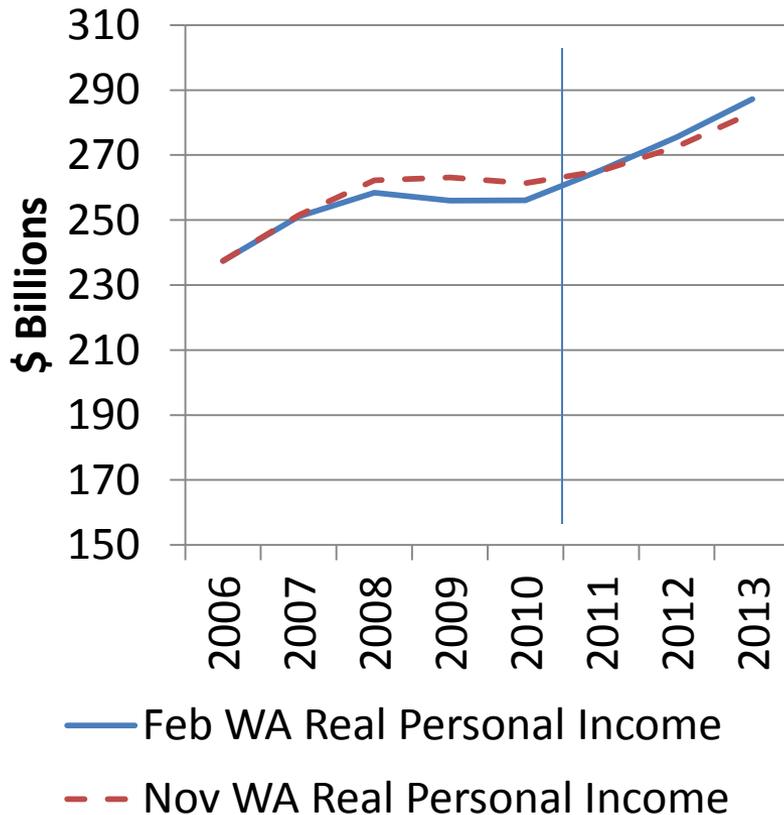
US Employment



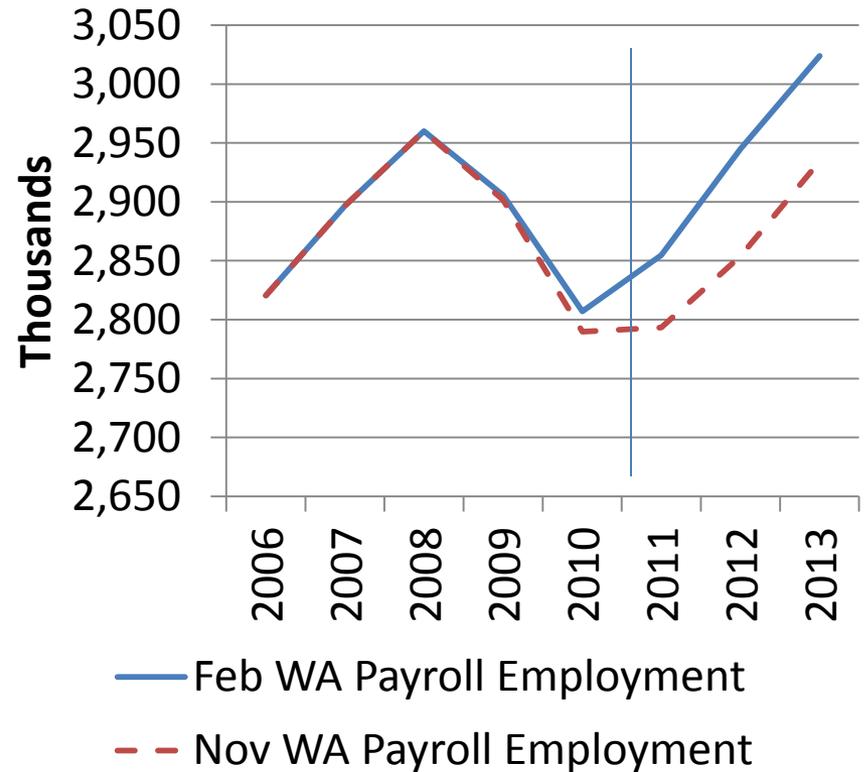
Washington Economy

February compared to November Forecast

WA Personal Income



WA Employment

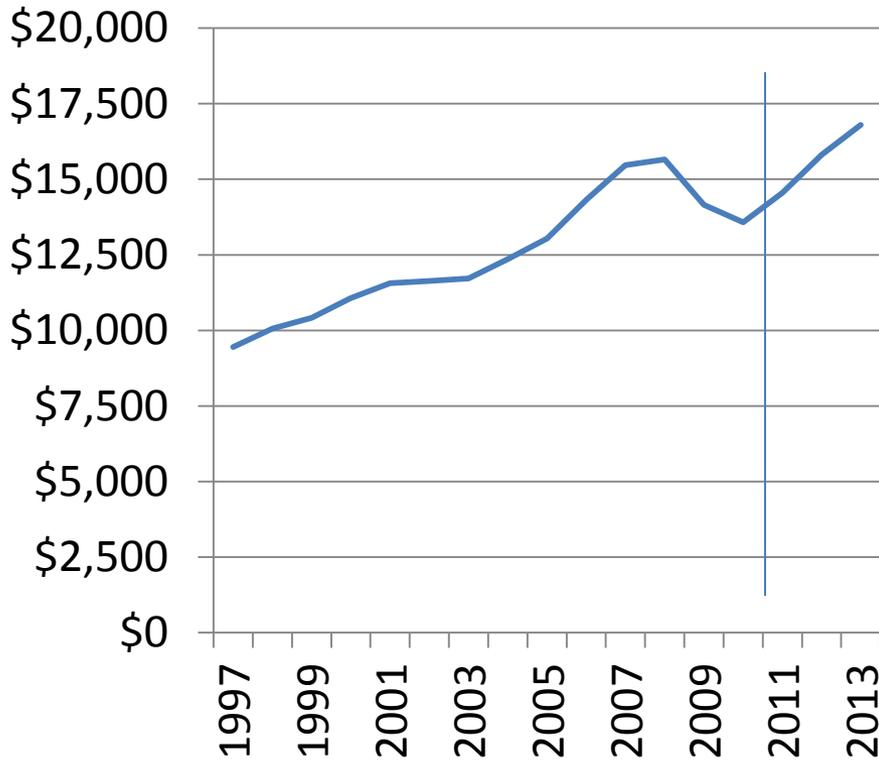


Relationship between State Personal Income and Tax Revenue

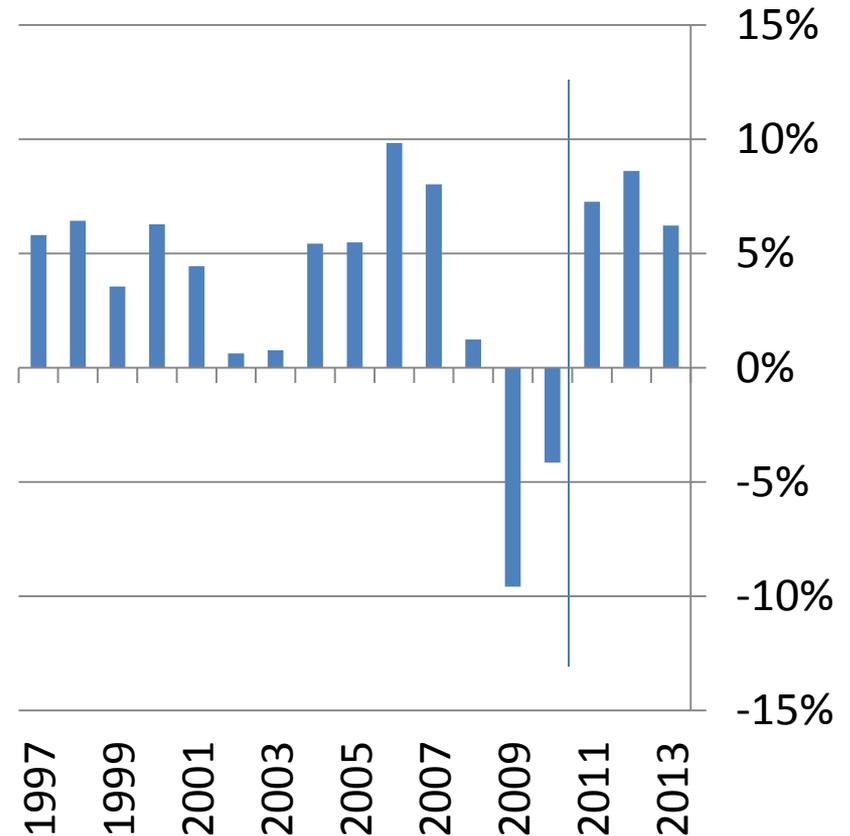


WA General Fund Revenue Growth

WA GF Revenue
In Millions



WA GF Growth Rate



Revenue Forecast Adjustments

- Revenue forecast changes since February forecast.

	Economic Changes	Tax Law and other changes
2009-11	-\$1,332 million	\$734 million
2011-13	-\$1,053	\$1,433
Total	-\$2,385	\$2,167

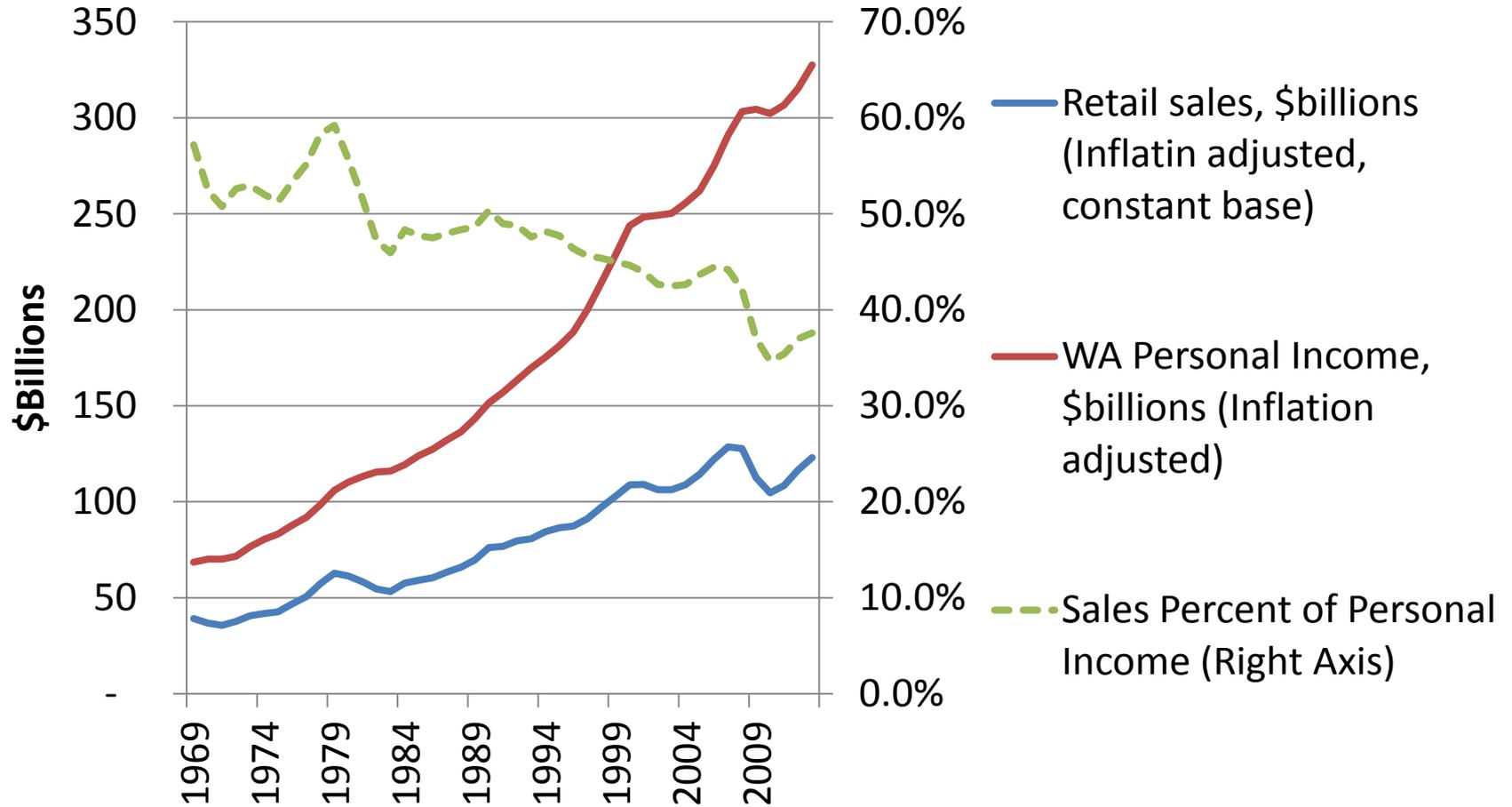
General Fund Taxes

	2011-13	
<u>Forecast by Source</u>	<u>Biennium</u>	
Tax	Amount	Percent of GF
	(Millions)	
Retail sales	16,333.81	50.1%
Business & occupation	7,062.32	21.7%
Property (state school ley)	3,779.55	11.6%
Real estate excise	1,035.55	3.2%
Insurance premiums	894.29	2.7%
Cigarette and Tobacco Products	798.62	2.4%
Public Utility	794.16	2.4%
Liquor, Beer, Wine, & Profits	681.62	2.1%
Public utility district	90.61	0.3%
Boat excise	27.88	0.1%
Timber excise	4.52	0.0%

Retail Sales Tax

- **50% of General Fund revenue.**
- **Applies to:** Retail sales and use of goods, and services such as construction and repair.
- **State Rate:** 6.5% of selling price.
 - Plus local option rates.
 - Total state and local rate varies from 7.0 to 9.5%.
- **Major exemptions:**
 - Food, prescription drugs, manufacturing machinery and equipment.

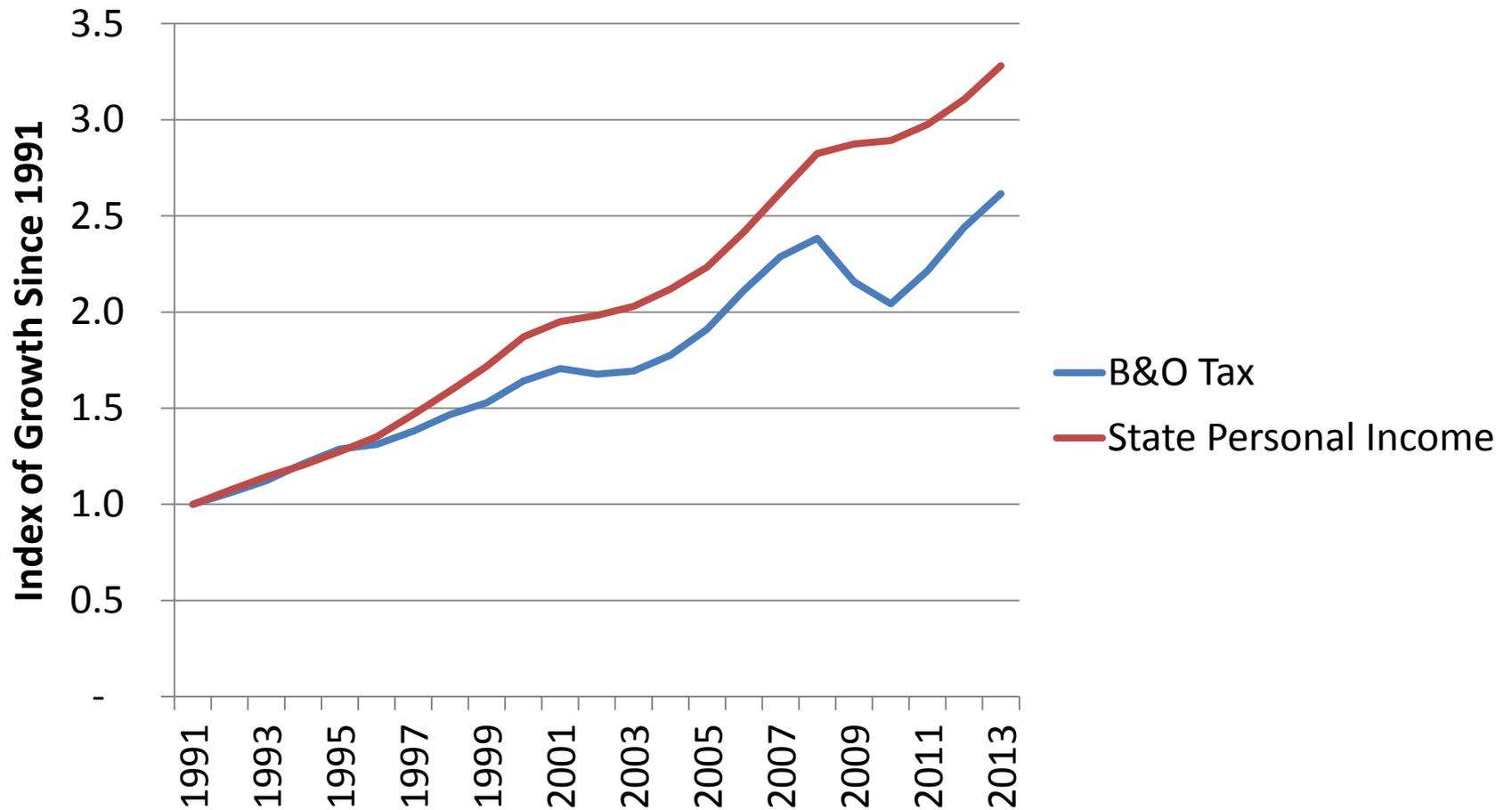
Taxable Retail Sales



Business and Occupation Tax

- **22% of General Fund revenue.**
- **Applies to:** Business gross receipts (no deduction for the costs of doing business.)
- **Ten rates:** ranging from 0.138% to 3.3%.
- **Most common rates:** 0.471% - Retailing; 0.484% wholesaling/manufacturing; 1.8% services and other activities.
- **Major exemptions:**
 - Investment income, rental of real estate, real estate loans, manufacturing equipment, agriculture, very small businesses.

B&O Tax Growth v. State Personal Income

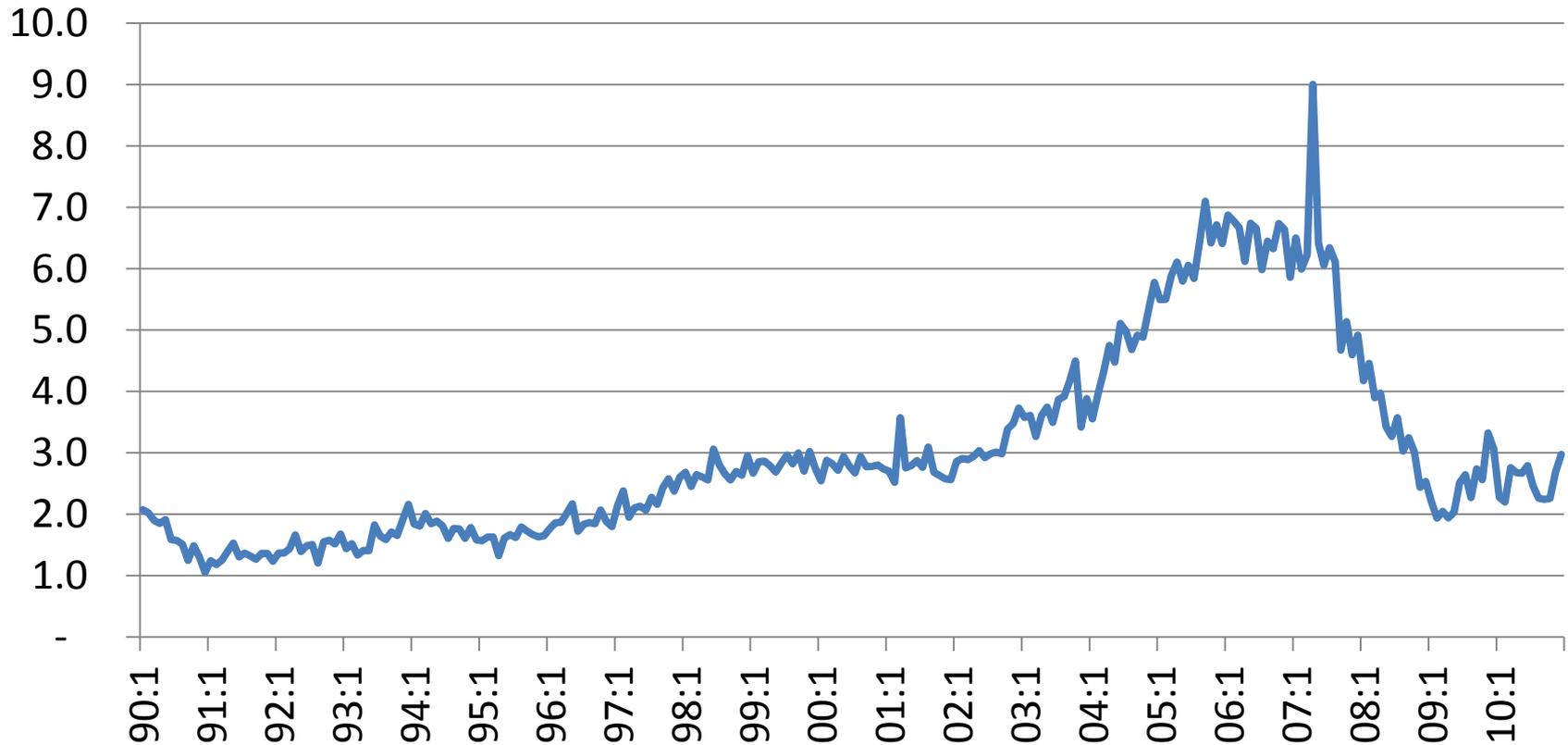


Real Estate Excise Tax

- 3.2% of General Fund
- Applies to the selling price of real estate
- Rate: 1.28% state rate plus local rates. Most combined rates are either 1.53% or 1.78%
- Major exemptions: Sales to and from government, gifts, inheritances.
- Revenue increased from about \$435 million per year in the 2000-02 period to over \$1 billion in 2007 and fell to \$380 million in 2010.

Real Estate Excise Taxable Activity

Taxable REET Activity, \$billions SA



Property Tax

- **12% of General Fund revenue.**
- **Oldest and maybe the most complicated.**
- **Applies to:** Assessed value of property.
 - Assessed value = market value, with some exceptions.
- **Rate:** Varies each year.
 - State rate for 2011: \$2.26 per \$1000 assessed value.
 - Local: Varies by district.
 - State and local average combined rate for 2010: \$10.28
- **Major exemptions:**
 - Government property, property of some nonprofit organizations, seniors' residences (partial exemption), household goods, business inventories.

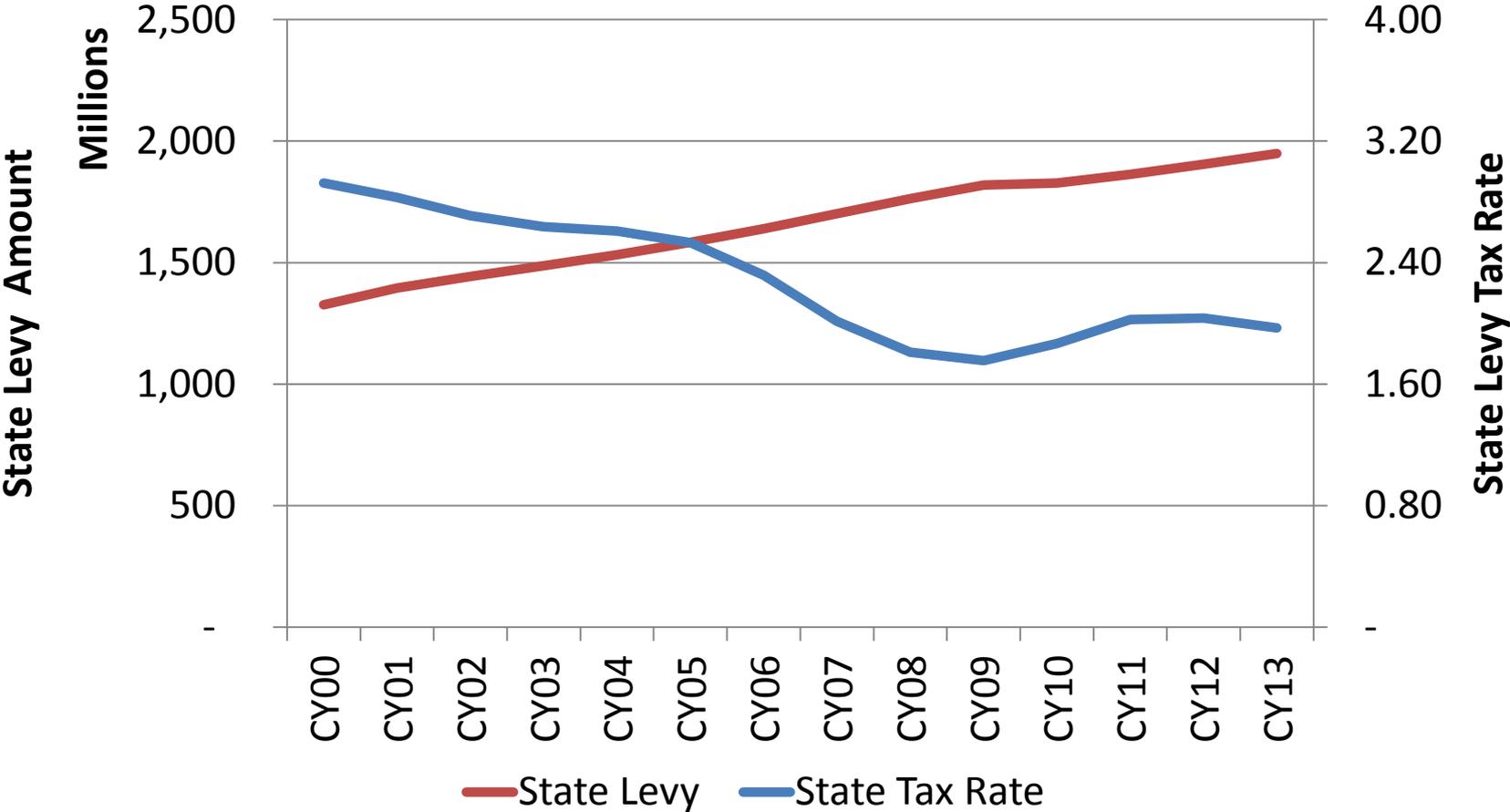
Property Tax: Constitutional Restrictions

- **Constitutional uniformity requirement:**
 - Assessed values must be a uniform percentage of market value.
- **Constitutional 1% limit:**
 - Tax rates must not exceed 1% of value, unless voter approved (e.g. school levies).
 - 1% = \$10 per thousand dollars of value.

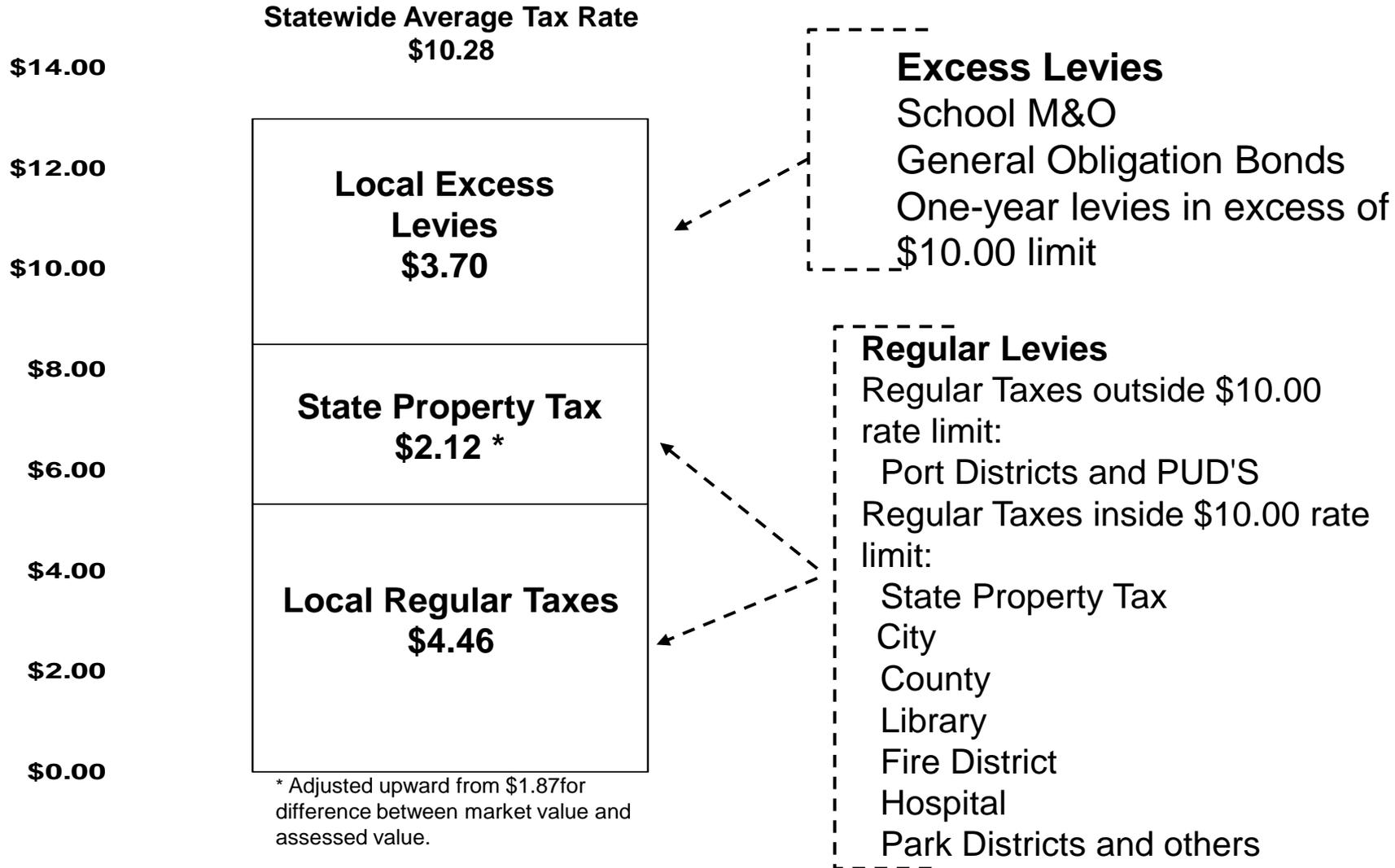
Property Taxes: Statutory Restrictions

- **Statutory rate limits:**
 - \$10 constitutional limit is allocated among districts.
 - State \$3.60 max., local districts \$5.90 total max.
- **Statutory revenue limit:**
 - Caps regular tax levy growth to 1% plus a factor for new construction.
 - Voter approval required for increases over 1% cap.
 - Limit applies to each district's property tax revenue, not individual property tax bills.

Since 2000 the state property tax levy has grown at about 3% per year. The tax rate declined from \$2.92 in 2000 to a low of \$1.75 in 2009. The 2011 rate is \$2.06.

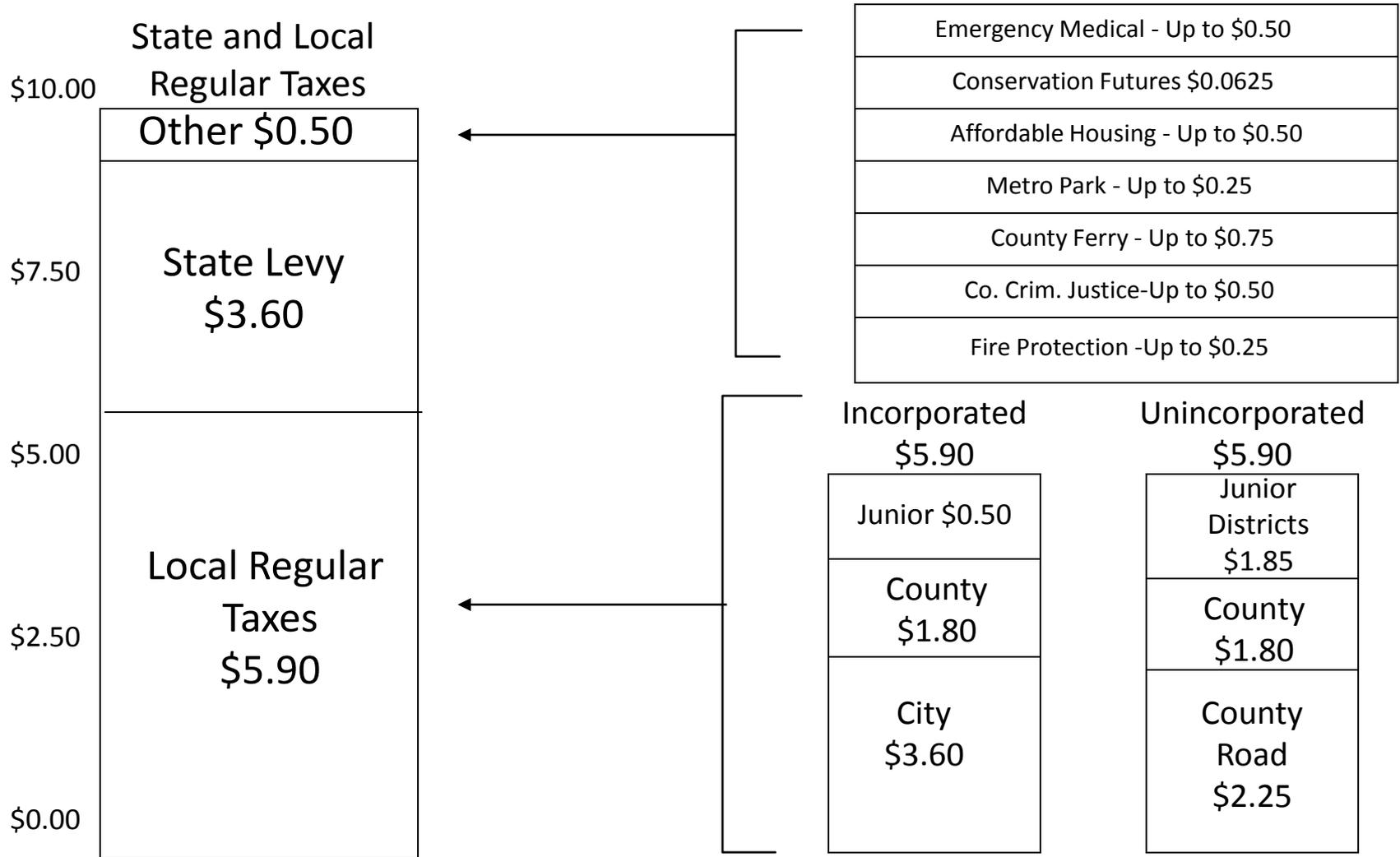


Statewide Average Property Tax Rate 2010



Regular Levy Tax Rate Allocation

Rates in \$ per \$1,000 of Value (excluding levies voter approved in excess of 1% limit)

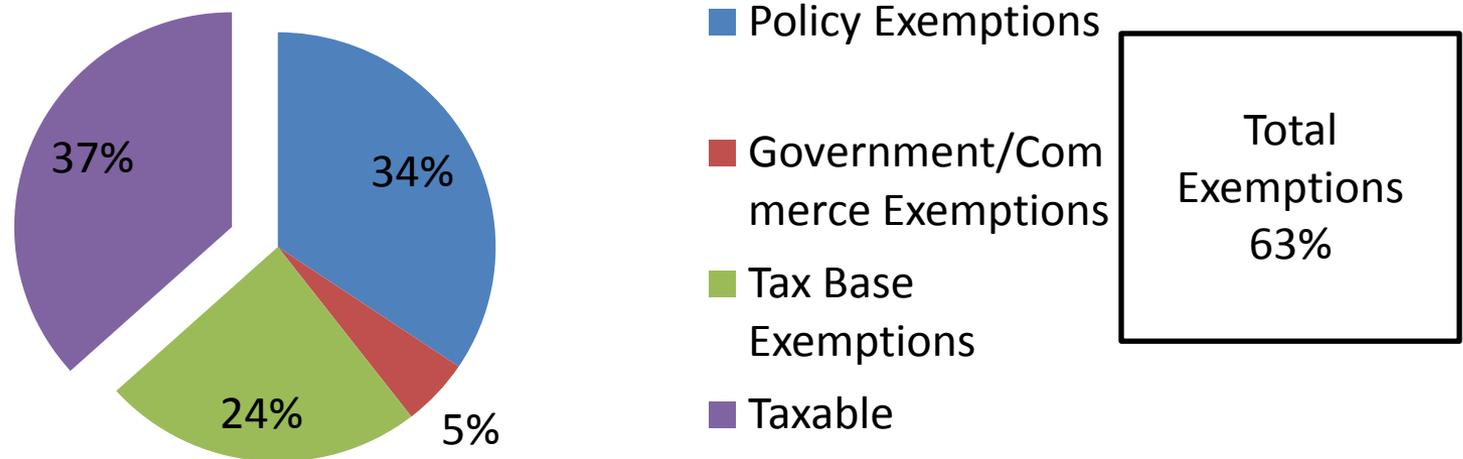


Washington Compared with Other States

- In top 5 for state and local sales tax rates.
- About average for property taxes.
- Much higher than average excise tax rates.
- Ranks 16th highest in state and local taxes per capita, 30th in state and local taxes as percent of state personal income. (based on taxes collected in 2008).
- 1 of 7 states without a personal income tax. Additional two states only tax dividends and interest.
- 1 of 7 states without a corporate net income tax.

Tax Exemptions

Tax Base for Major State Tax Sources



- Examples of government /commerce exemptions:
Property owned by government, property in interstate commerce
- Example of tax base exemption:
Employees are exempt from B&O tax, because they are not considered to be in business.
- Example of policy exemption:
Food is exempt from Retail Sales Tax