<table>
<thead>
<tr>
<th></th>
<th>Washington State</th>
<th>U.S. Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>#2 Goods and Services Tax</td>
<td>25%</td>
<td>49%</td>
</tr>
<tr>
<td>#2 Goods and Services Tax</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>#2 Goods and Services Tax</td>
<td>29%</td>
<td>30%</td>
</tr>
<tr>
<td>#2 Goods and Services Tax</td>
<td>0%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Washington’s Current Tax System was analyzed by the following tax principles:

- Economic Neutrality
- Economic Vitality
- Stability
- Adequacy
- Simplicity
- Transparency
- Equity

The tax system was also analyzed by:

- Impact on Home Ownership
- Harmony with Other States
Washington's Tax System was Analyzed

According to these Types of Equity:

- Ability to Pay
- Benefits Received
- Horizontal Equity
- Intersectoral/Vertical Equity
- Perceived Equity
- Externalities

Problems the Committee Focused On:

- Regressivity
- Adequacy
- Stability
- Economic Vitality
- Neutrality
Lower income households pay a higher percentage of their income in state and local taxes than do higher income households.

Problems with our current tax structure

Regressivity

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Total Excise and Property Tax Excise Tax Percent of Income Paid in Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $20,000</td>
<td>0%</td>
</tr>
<tr>
<td>$30,000</td>
<td>2%</td>
</tr>
<tr>
<td>$40,000</td>
<td>4%</td>
</tr>
<tr>
<td>$50,000</td>
<td>6%</td>
</tr>
<tr>
<td>$60,000</td>
<td>8%</td>
</tr>
<tr>
<td>$70,000</td>
<td>10%</td>
</tr>
<tr>
<td>$80,000</td>
<td>12%</td>
</tr>
<tr>
<td>$100,000</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: Washington Excise and Property Tax Microsimulation Model


100 100 300 300 500 500 700 700 900 900 1100 1100 1300 1300

Percent of 1971 value

Revenues (excluding tax base and rate changes)
The Economy (Personal Income)

Problems with our current tax structure - Adequacy

Source: Office of Financial Management

Excluding tax base and rate changes, over the past 30 years General Fund revenues have grown more slowly than the economy (personal income).
Significant Areas of Economic Activity that Washington does not Tax:

- Income of Individuals
- Business Inventories
- Intangible Assets
- Rental of Real Property
- Agricultural Production
- Investment Income of Nonfinancial Business
- Food for Home Consumption

Estimates of Short-Run Elasticities:

<table>
<thead>
<tr>
<th>Tax Base</th>
<th>Short-Run Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Taxes</td>
<td>-0.2</td>
</tr>
<tr>
<td>Public Utilities</td>
<td>0.2</td>
</tr>
<tr>
<td>Property</td>
<td>1.4</td>
</tr>
<tr>
<td>B&amp;O Sales and Use</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Menu of Major Alternatives

Flat Personal and Corporate Income Tax

Regressivity

Problems Addressed

Business Value Added Tax (VAT)

Neutrality

Goods and Services Tax (GST)

Neutrality, Transparency, Erosion

"Progressive" VAT (low-income relief)

Neutrality, Transparency

Flat Rate Personal Income Tax

Regressivity

Regressivity

Regressivity

Value Added Tax Alternatives

Goods & Services Tax

Existing Taxes Reduced or Replaced

Revenue Neutral VAT Tax Rate

#1 Business VAT Replace B&O tax 2.2%

#2 Replace sales/use and B&O taxes 9.0%

#3 Progressive VAT Reduce sales/use tax from 6.5% to 3.5% Replace B&O tax 3.9%
Flat Rate Personal Income Taxes

Existing Taxes Reduced or Replaced

Revenue Neutral

Income Tax Rate

A Reduce state sales/use tax from 6.5% to 3.5%

2.6%

B Reduce state sales/use tax to 3.5% and replace state property tax

3.8%

C Replace state sales/use tax

5.5%

D Replace state sales/use tax and state property tax

6.7%

Graduated Personal Income Taxes

Revenue Neutral Rates for Joint Returns

Existing Taxes Reduced or Replaced

$0 to $49,900

$49,900 to $120,650

$120,650 and over

A Reduce state sales/use tax from 6.5% to 3.5%

1.0%

2.7%

4.5%

B Reduce state sales/use tax from 6.5% to 3.5% and replace state property tax

2.2%

3.5%

6.0%

C Eliminate state sales/use tax

2.7%

5.7%

8.7%

Note: The income break points for single filers are $0 to $24,950, up to $60,325 and over $60,325.
### Flat Rate Personal Income Taxes

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Percent of Income paid in Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $20,000</td>
<td>0%</td>
</tr>
<tr>
<td>$20,001 - $30,000</td>
<td>2%</td>
</tr>
<tr>
<td>$30,001 - $40,000</td>
<td>4%</td>
</tr>
<tr>
<td>$40,001 - $50,000</td>
<td>6%</td>
</tr>
<tr>
<td>$50,001 - $60,000</td>
<td>8%</td>
</tr>
<tr>
<td>$60,001 - $70,000</td>
<td>10%</td>
</tr>
<tr>
<td>$70,001 - $80,000</td>
<td>12%</td>
</tr>
<tr>
<td>$80,001 - $100,000</td>
<td>14%</td>
</tr>
<tr>
<td>$100,001 +</td>
<td>16%</td>
</tr>
</tbody>
</table>

### Current Tax System

- Sales Tax at 3.5%
- Replace Property Tax

### Graduated Rate Personal Income Taxes

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Tax Paid as a Percent of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $20,000</td>
<td>Current Law</td>
</tr>
<tr>
<td>$20,001 - $30,000</td>
<td>Sales Tax Replaced by Personal Income Tax</td>
</tr>
<tr>
<td>$30,001 - $40,000</td>
<td></td>
</tr>
<tr>
<td>$40,001 - $50,000</td>
<td></td>
</tr>
<tr>
<td>$50,001 - $60,000</td>
<td></td>
</tr>
<tr>
<td>$60,001 - $70,000</td>
<td></td>
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<tr>
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<tr>
<td>$80,001 - $100,000</td>
<td></td>
</tr>
<tr>
<td>$100,001 +</td>
<td></td>
</tr>
</tbody>
</table>

### Initial Tax Burden on Households

- Major State and Local Taxes
  - 0%
  - 2%
  - 4%
  - 6%
  - 8%
  - 10%
  - 12%
  - 14%
  - 16%
  - Over $130,000
Growth Percent
Flat Rate Personal Income Tax at 5.5%
Sales Tax (Constant Base & Rate)
Personal Income (Economy)

Long Term Adequacy
Personal Income Tax v. Sales Tax
Personal Income Tax v. Sales Tax

Incremental Options:
• Continue to impose the estate tax
• Extend sales tax to consumer services
• Adopt the streamlined sales tax provisions
• Extend an excise tax to motor homes and travel trailers and increase it on boats
• Replace taxes on "private goods" with user fees
• Review exemptions and business incentives