



REVENUE REFORMS WE NEED TO BUILD A BETTER FUTURE FOR ALL WASHINGTONIANS



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- Progress on public priorities
- Flaws with our state tax system
- Sensible reforms
- What NOT to do

THREE KEY POINTS

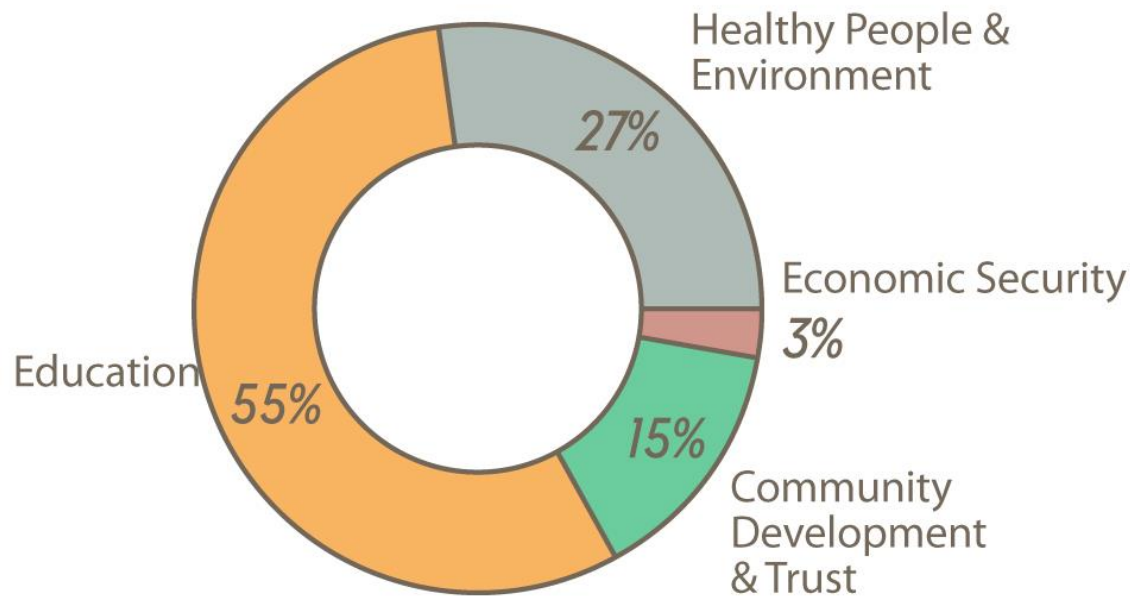


- We are *in danger* of falling backwards on key priorities.
- We must fix our *broken tax system*.
- We must avoid *damaging distractions*.

OUR SHARED INVESTMENTS



HOW WASHINGTON STATE INVESTS ITS RESOURCES State funding + federal stimulus funding, WA, FY 2014



Source: Budget & Policy Center analysis of LEAP data

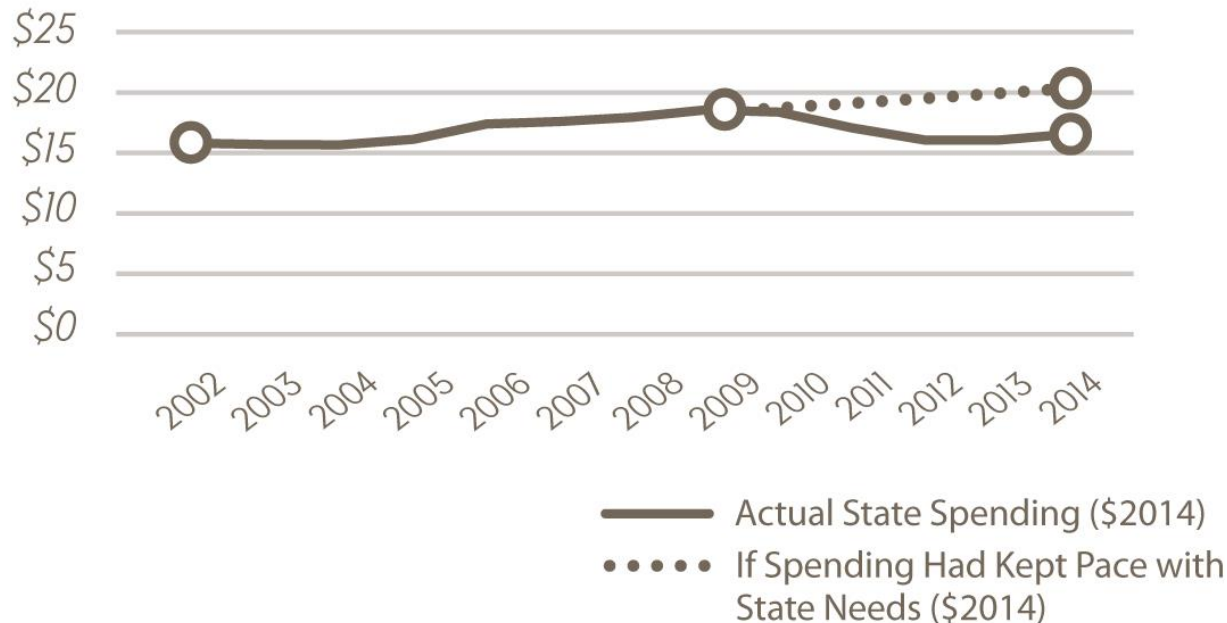
Note: This funding measures the Washington state Near General Fund (the principal state fund supporting state operations) and Opportunity Pathways (the lottery revenues used to fund education programs) as well as federal stimulus funding from the American Recovery and Reinvestment Act (ARRA).

OUR SHARED INVESTMENTS



BUDGET INVESTMENTS HAVE NOT KEPT PACE WITH STATE NEEDS

State funding + federal stimulus funding, WA, 2002-2014



Source: Budget & Policy Center analysis of LEAP data




Notes: Spending adjusted for inflation in \$2014. Estimated spending calculated using a 3.6% growth rate. See full methodology for more information on estimated spending.

PROGRESS IN DANGER



PROGRESS AT-A-GLANCE

On nearly 100 measures of progress, we are stalled or going backwards on over half

	 significant worsening	 stalled progress	 significant progress
ECONOMIC SECURITY	7	1	1
EDUCATION	4	6	2
HEALTHY PEOPLE & ENVIRONMENT	5	11	14
COMMUNITY DEVELOPMENT & TRUST	5	3	15
GOOD JOBS	13	2	3
REVENUE	4	0	2
	38	23	37
TOTALS ACROSS ALL INDICATORS			

THREE KEY POINTS



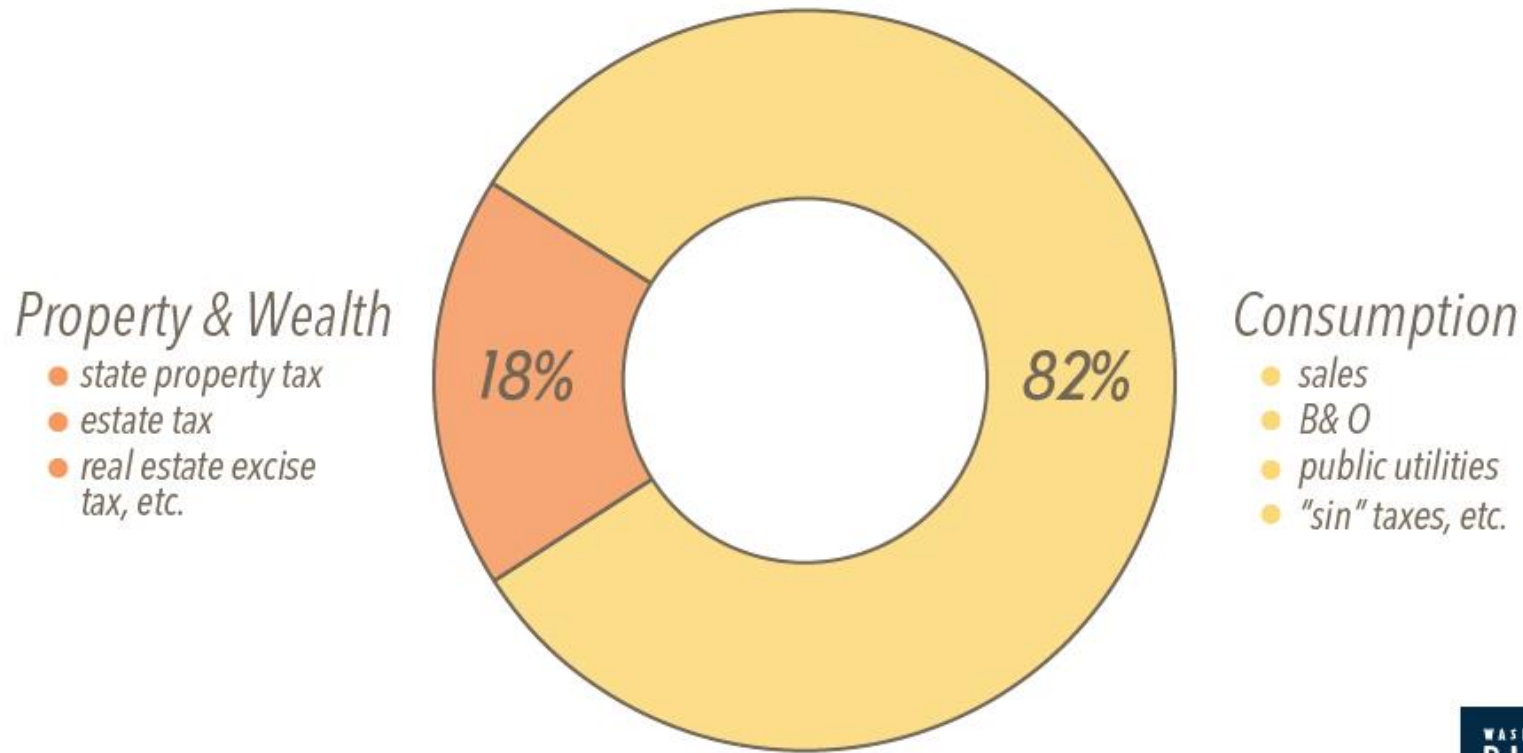
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HOW WE FINANCE PUBLIC INVESTMENTS



WASHINGTON STATE MOSTLY TAXES CONSUMPTION

State taxes collected by the Department of Revenue in 2014



Source: Budget & Policy Center calculations; data from DOR

OUR FAILING TAX SYSTEM



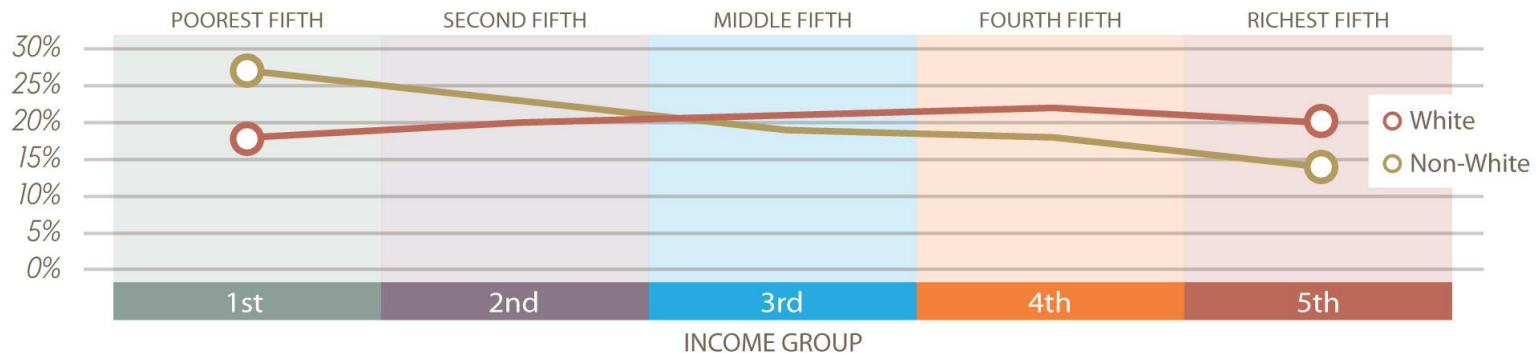
- Neither stable nor dependable
- Lacks transparency
- Inequitable

OUR FAILING REVENUE SYSTEM



PEOPLE OF COLOR ARE MORE LIKELY TO BE AMONG THE HIGHEST-TAXED/LOWEST-INCOME FIFTH OF WASHINGTONIANS

Share of race/ethnic group by household income, poorest fifth to richest fifth of Washingtonians



INCOME GROUP	1st	2nd	3rd	4th	5th
	18%	20%	21%	22%	20%
	35%	24%	16%	16%	9%
	34%	24%	18%	14%	10%
	17%	13%	17%	22%	30%
	White*	Black*	American Indian* Alaska Native*	Chinese*	Japanese*
	18%	20%	21%	22%	23%
	35%	24%	16%	16%	23%
	34%	24%	18%	14%	23%
	17%	13%	17%	22%	23%
	Other Asian Pacific Islander	Other*	Multiracial*	Latino	
	16%	17%	22%	21%	7%
	17%	26%	21%	21%	
	13%	13%	18%	18%	
	13%	13%	18%	18%	

B&PC analysis of IPUMS data, 2012 ACS 5-year estimates. *Non-Hispanic

Note about data: Disaggregated data is presented to provide a preliminary understanding of disparities by race and ethnicity. On its own, this data tells a limited story about the population it represents. We encourage users of this data to engage with communities of color to develop a more accurate and meaningful understanding



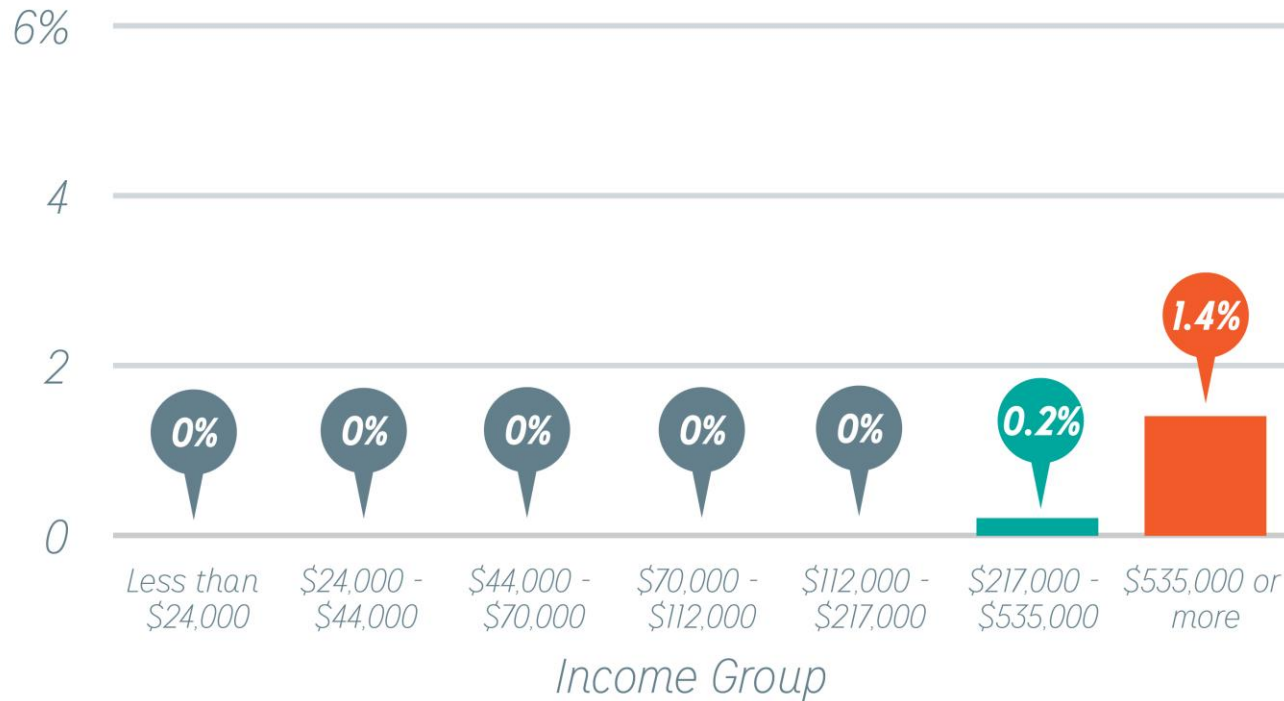
- Eliminate wasteful *tax breaks*.
- Stop subsidizing *carbon polluters*.
- Tax *capital gains*.

TAXING CAPITAL GAINS



Capital Gains Tax Would Modestly Raise Taxes For The Richest Washingtonians

*Proposed capital gains tax as a share of household income by income group**



SOURCE: Institute on Taxation and Economic Policy

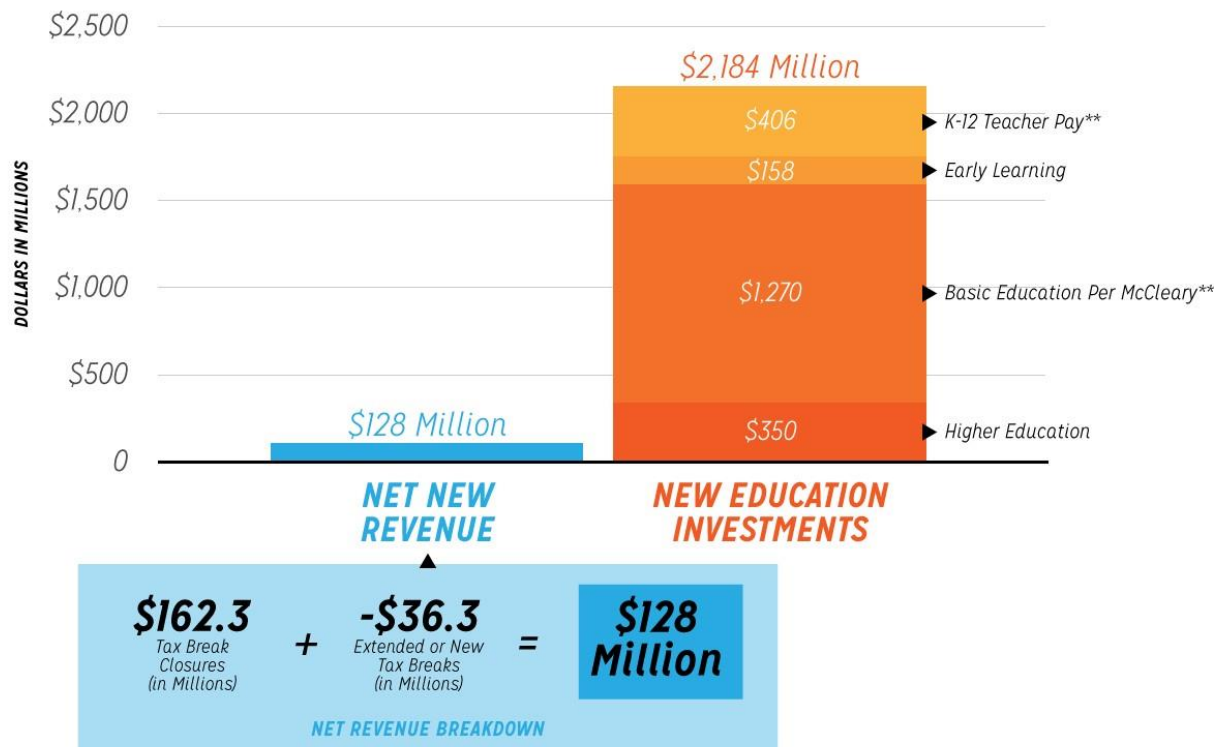
*7 percent tax on capital gains above \$50,000 per year for a married couple (\$25,000 for singles); 2014 income levels

RECIPE FOR DISASTER



NEW REVENUE IS INADEQUATE COMPARED TO NEW EDUCATION INVESTMENTS

2015-17 Approved Budget Investments in Education Compared to Net Tax Increases*;
Near General Fund State + Opportunity Pathways



SOURCE: Budget & Policy Center analysis; data from Legislative Evaluation & Accountability Program (LEAP). *Net revenue increases from legislation that impacts how much businesses or individuals in Washington owe in state taxes. Does not include revenues from administrative actions that have no impact on taxpayer liability. **Includes new spending that's part of maintenance level: \$740 million for Maintenance, Supplies, and Operating Costs in basic education and \$230 million for teacher cost-of-living-adjustments under I-732.

THREE KEY POINTS



- We are *in danger* of falling backwards.
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- We must avoid ***damaging distractions.***

DISTRACTIONS



- “Education by starvation”
- Initiative 1366
- Revenue-neutral “levy swap”



THREE KEY POINTS



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THANK YOU!

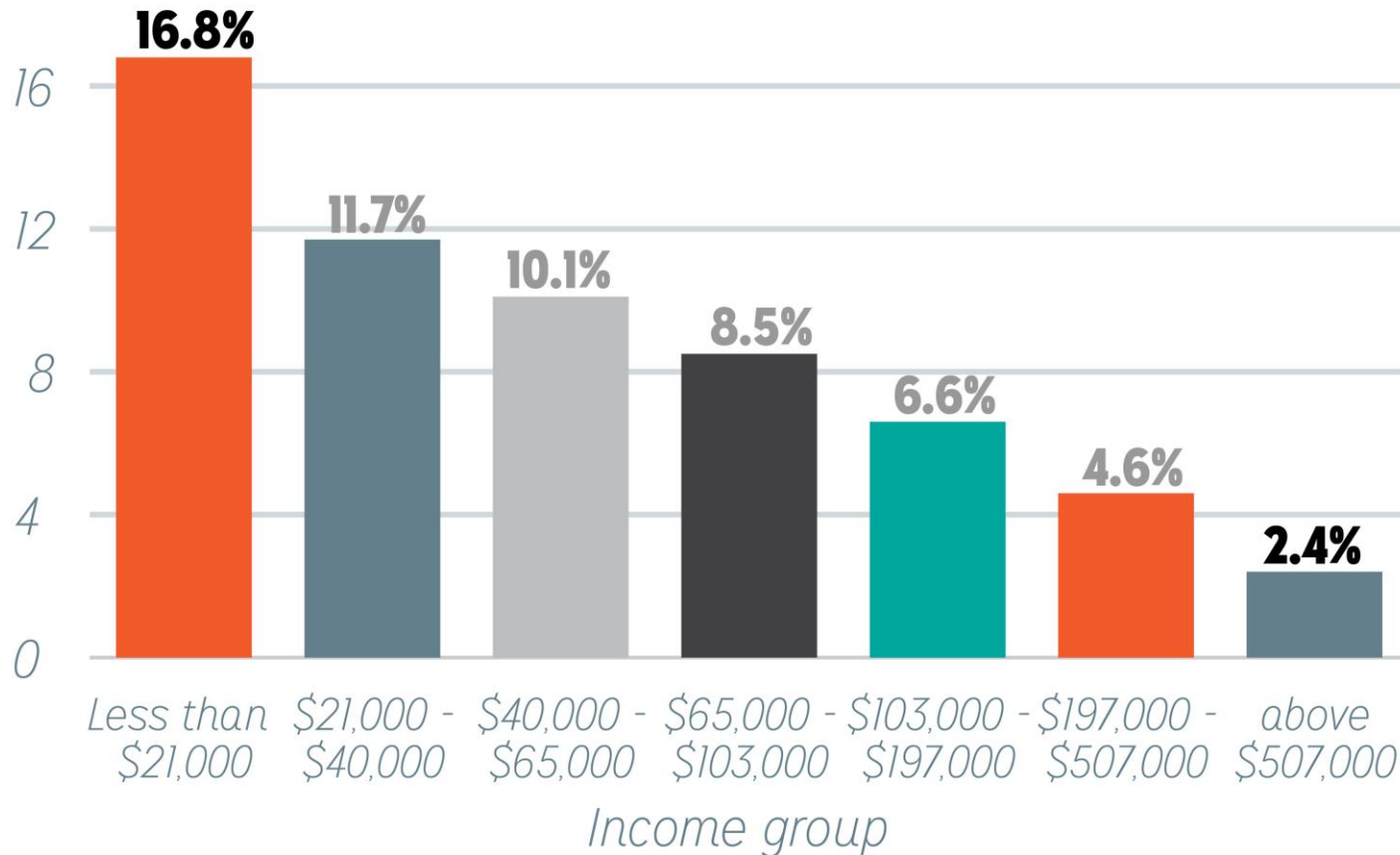
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OUR FAILING REVENUE SYSTEM



Washington State's Tax System Is Upside Down

Washington state and local taxes as a share of family income by income group in 2015.



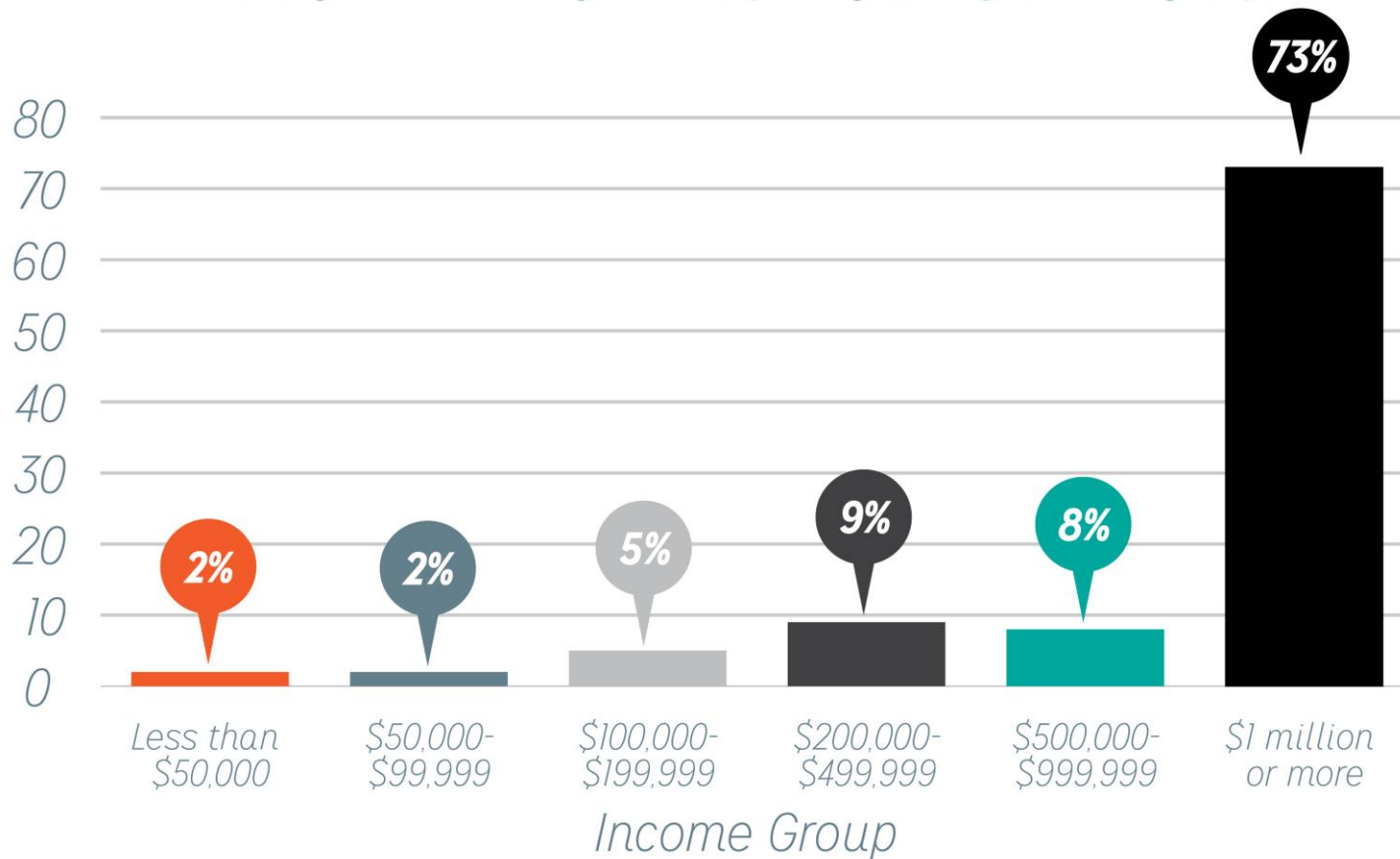
SOURCE: Institute on Taxation And Economic Policy

TAX CAPITAL GAINS



Three-Quarters of Capital Gains Go To Millionaires

Shares of Washington state long-term capital gains by income group in 2012



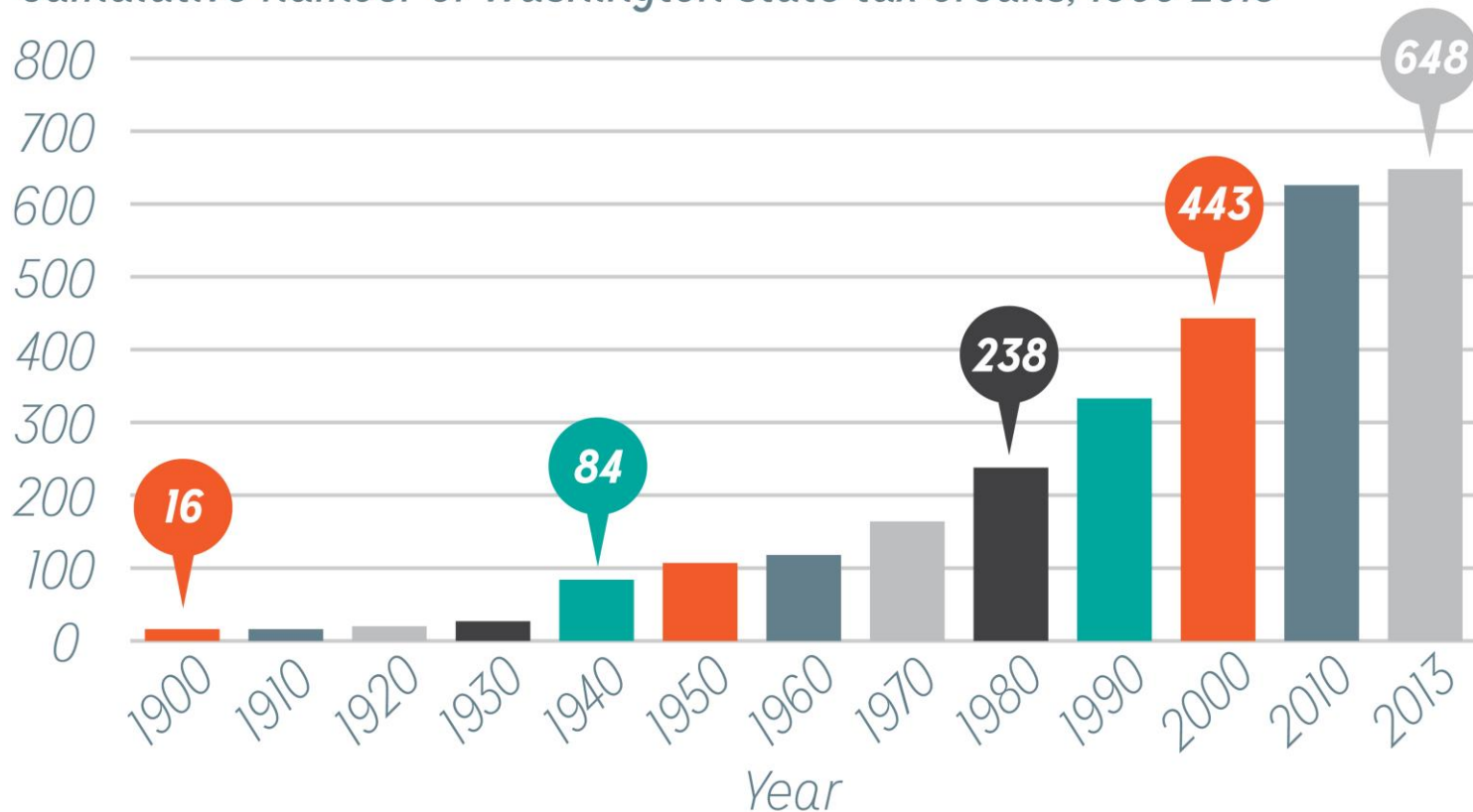
SOURCES: Budget & Policy Center calculations; statistics of income data from the IRS.

OUR FAILING REVENUE SYSTEM



Growing Tax Breaks Compromise Budget Transparency and Accountability

Cumulative number of Washington state tax breaks, 1900-2013



SOURCE: Budget & Policy Center calculations; data from DOR

PROPOSED REFORMS



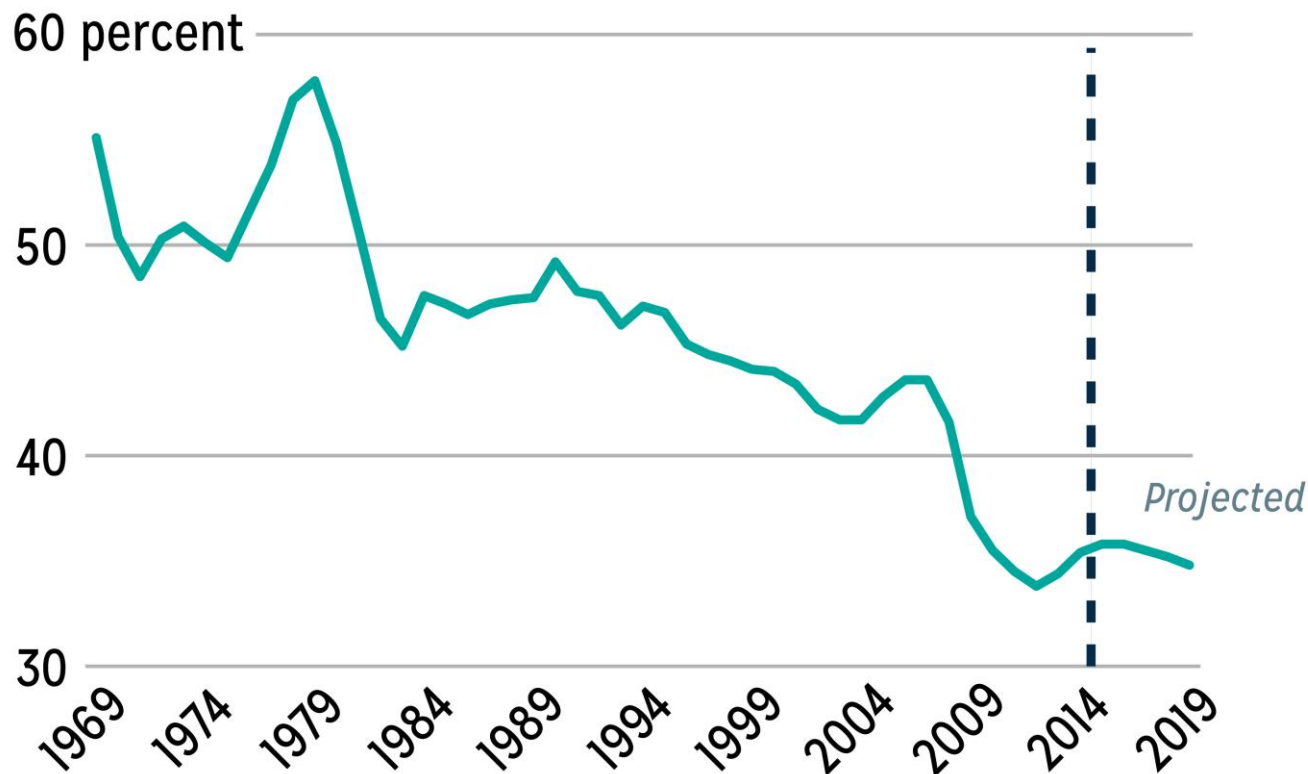
Reform	Governor	House	Senate
Tax capital gains	✓	✓	✗
Close tax breaks	✓	✓	✗
Carbon pollution fees	✓	✗	✗
Business tax reform	✗	✓	✗
Property tax reforms	✗	Study proposed	Several proposals
Total new revenue	+\$1.4 Billion	+\$1.5 Billion	-\$115 Million

FLAWED SALES TAX



A Lousy Consumption Tax: Consumption Covered By The Sales Tax Is A Shrinking Share Of The Economy

Taxable retail sales as a share of total personal income in Washington state, 1969-2019



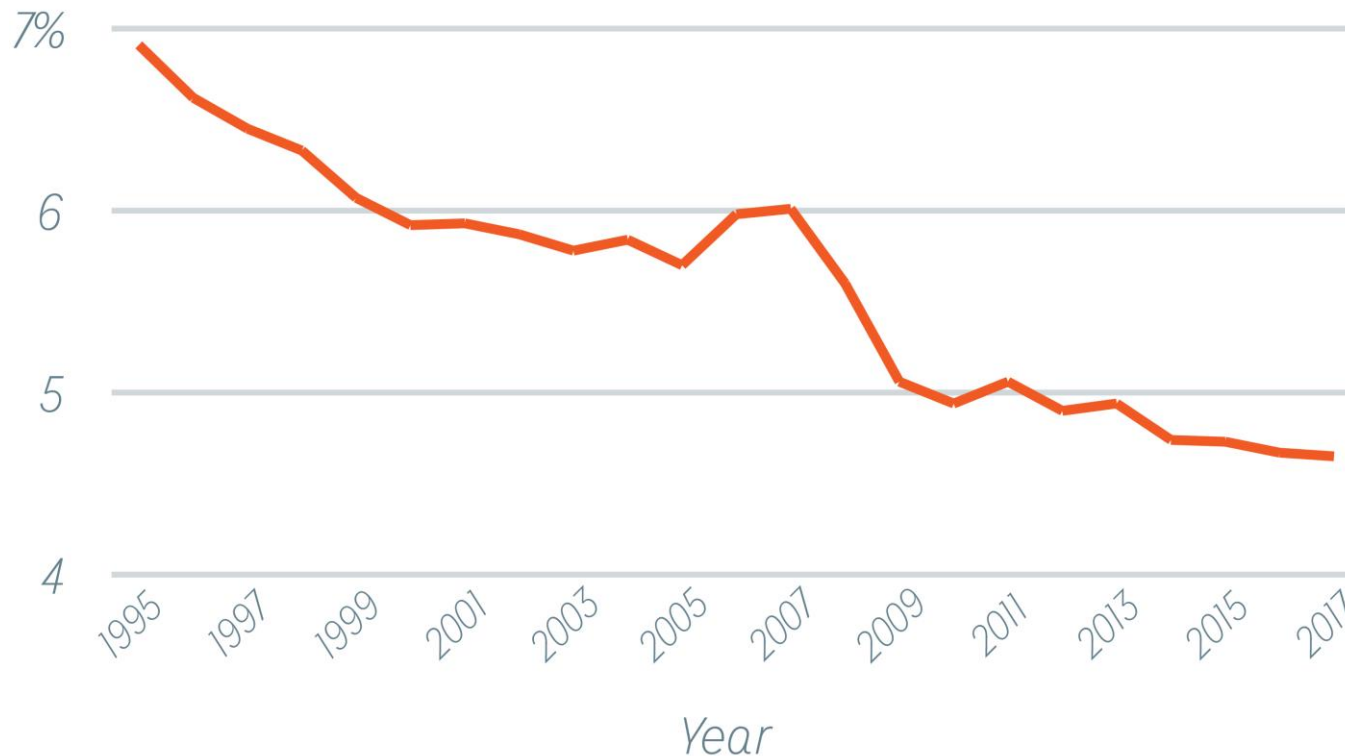
Source: Economic and Revenue Forecast Council.

OUR FAILING TAX SYSTEM



Washington State's Tax System Cannot Keep Pace With The Changing Economy

Total Washington state near general fund revenue as a share of total personal income, 1995-2017.



SOURCE: Budget & Policy Center calculations; data from ERFC, BEA

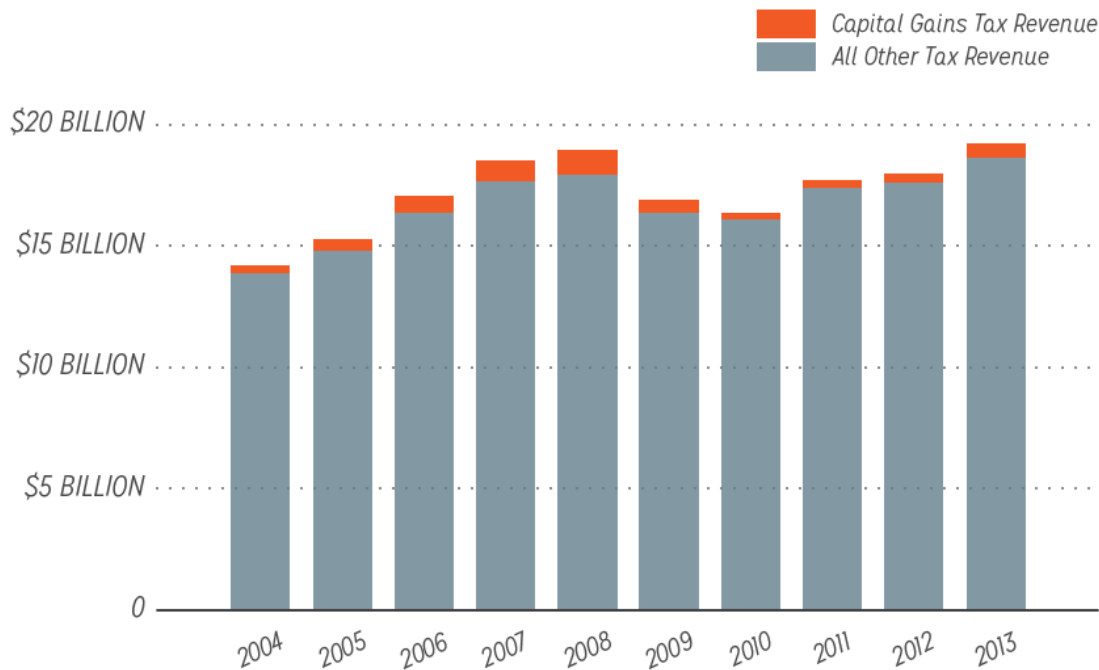
VOLATILITY CLAIMS ARE OVERBLOWN



FIGURE 2:

CAPITAL GAINS TAX WOULD BE A SMALL SHARE OF TOTAL WASHINGTON STATE TAX REVENUES

Total Washington state tax revenues and estimated capital gains tax revenues from 2004 to 2013.

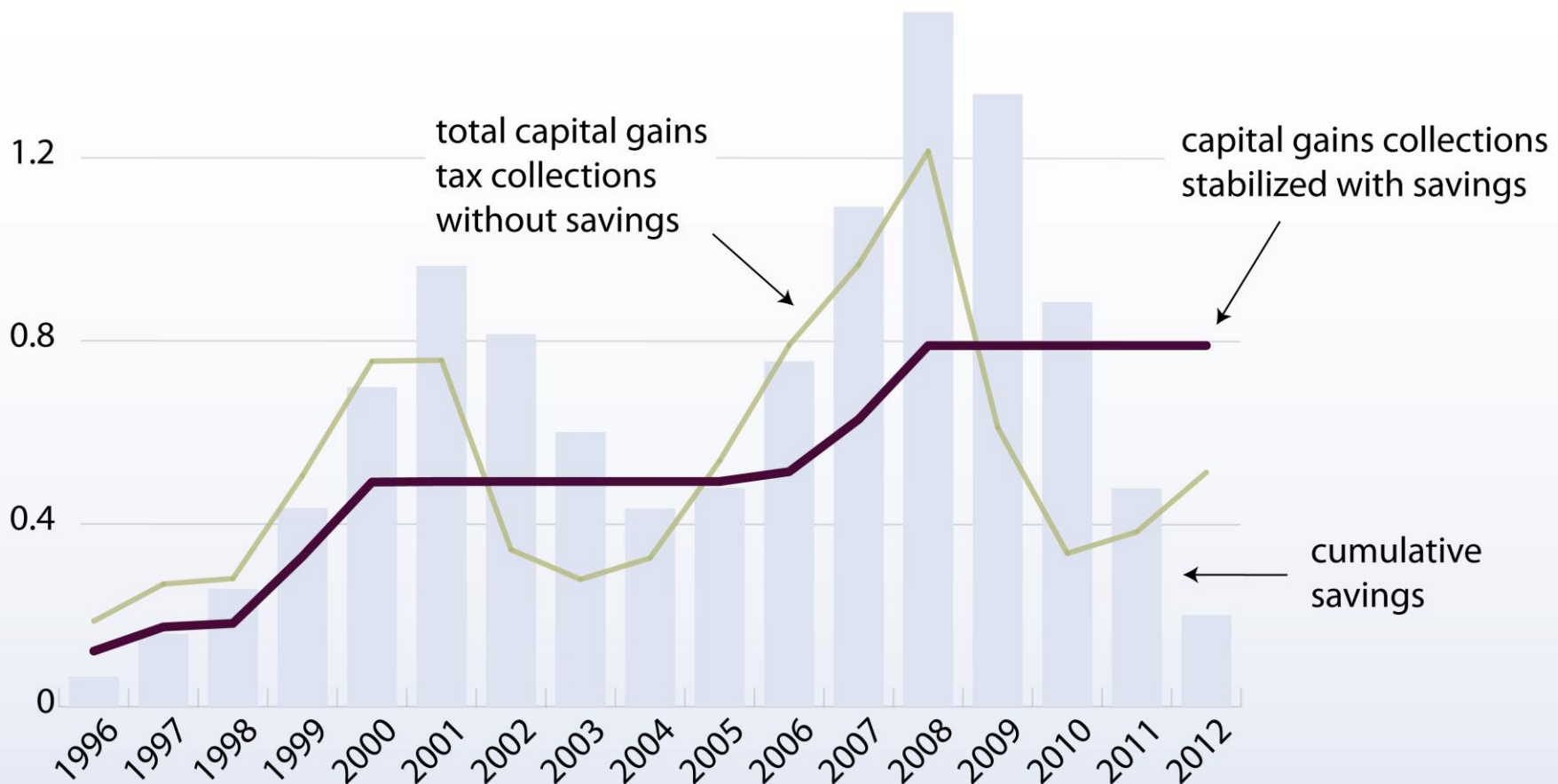


SOURCE: Budget & Policy Center calculations; data from the Pew Center on the States and DOR.

Saving 35 Percent Would Stabilize Capital Gains Revenues

5 percent capital gains tax with 35 percent of revenues placed in savings during periods of economic growth and withdrawn during recessions, fiscal years 1996-2011*

\$1.6 billion

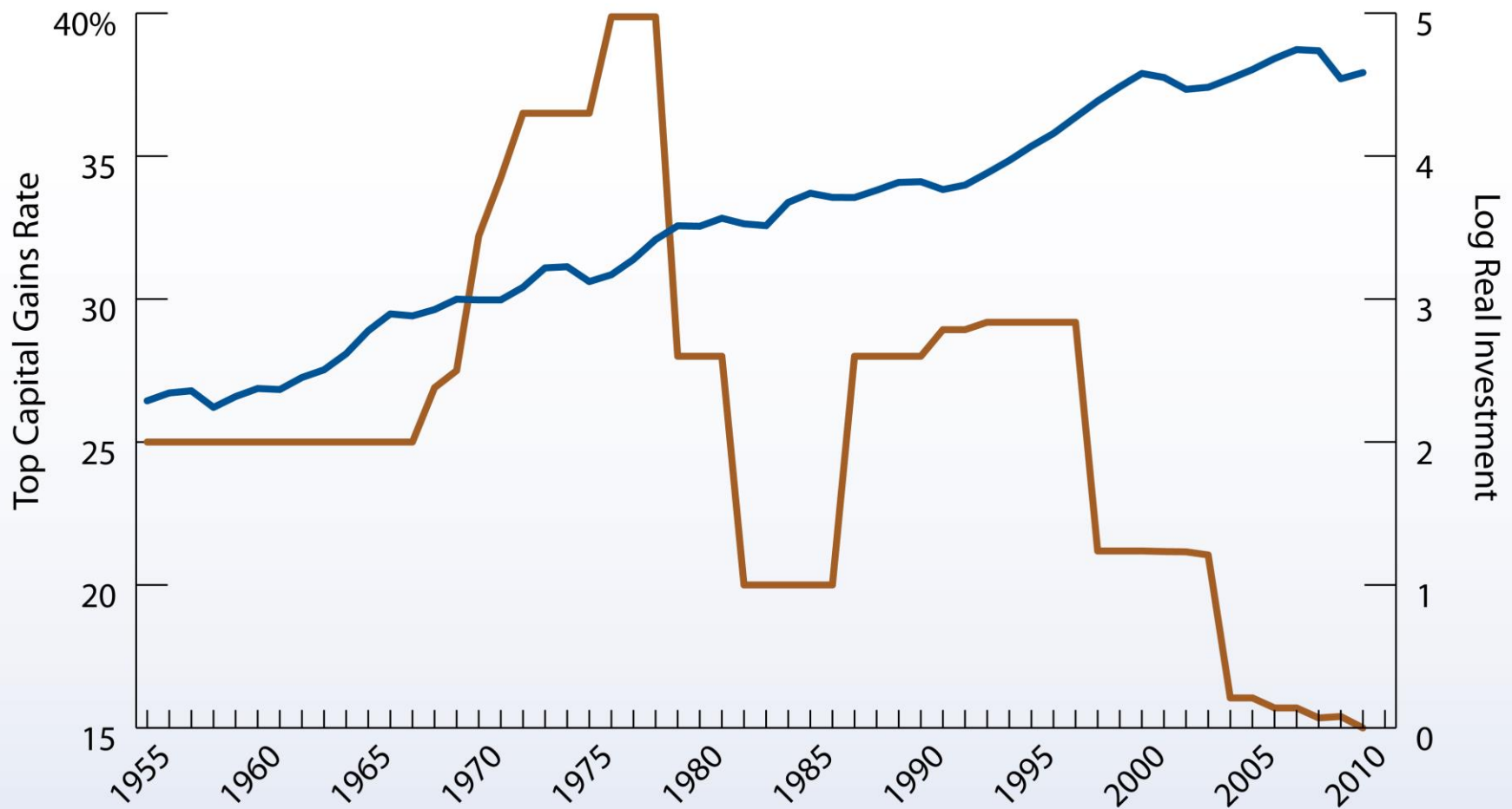


Budget & Policy Center analysis; data from ITEP

*Revenues from a 5 percent excise tax on capital gains with a \$10,000 exemption (\$5,000 for single filers)

No Relationship Between Taxing Capital Gains and Investment

Top Capital Gains Rates Over Time Against Real Business Investment



Source: Budget & Policy analysis; data from BEA, CBPP & TPC