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Setting Priorities in Washington: Raising revenue to invest in our future

Continued state budget cuts are dragging down Washington's economy, undermining opportunity for our children, and threatening the health of our most vulnerable citizens. We can choose a better path that builds a stronger future for our state.

Over the past three years, Washington's budget has been slashed by roughly \$6 billion. Reductions affect everyone— with larger classes and fewer staff in public schools, higher tuition and fewer course offerings at universities and community colleges. And with 137,000 people on the wait list for the Basic Health Plan, fragile seniors losing in-home services, and low-income children losing quality childcare, budget cuts will also mean more layoffs in every community in the state.

During its 2011 session, Washington's legislature will be adopting a supplemental budget for the final months of the 2009-2011 budget (which runs through June 2011), and a new two year 2011-2013 budget beginning in July 2011. With the effects of the recession lingering, forecasts for anticipated public revenue is well short of the need for services. Accordingly, Governor Gregoire has recommended even deeper cuts that will further harm state citizens and weaken the fragile economic recovery.

It doesn't have to be this way. Hundreds of special tax breaks passed during economic boom times drain billions from public services. Once passed, most are never scrutinized again. It's time to reprioritize tax breaks and decide which ones are more important than investments in education, health care, and the structures that build a more prosperous future for all Washingtonians.

See below for a list of tax exemptions and new revenue sources that would yield close to \$4 billion in revenue to restore budget cuts and set Washington on a path to future prosperity.

New Options for Washington's 2011-13 Budget

Source	Revenue
<p>End B&O tax exemption for bank mortgage deductions Since 1970, credit agencies can deduct interest earned from loans for first mortgages on residential property. No evidence that the tax savings is passed on to consumers, and big banks are profiting.</p>	<p>\$174.4 million (total repeal) \$110.3 million (continue for community banks)</p>
<p>End PUT exemption for instate portion of interstate transportation Public Utility Tax is not charged on the transportation of goods or people if any part of the trip is out-of-state. The Joint Legislative Audit Review Committee recommends ending the exemption. 46 states and DC already tax.</p>	<p>\$59.7 million¹</p>
<p>End PUT exemption for instate portion of interstate transportation where goods stop in Washington Two Public Utility Tax deductions (similar to the one above) were enacted in 1937 specifically dealing with goods transported from one part of the state to another for storage or processing, then transported out of state. The Joint Legislative Audit Review Committee also recommends ending this exemption.</p>	<p>\$49.6 million¹</p>
<p>End B&O deduction for investment earnings of non-financial firms Businesses that receive interest, dividends, and capital gains income but are not engaged in banking or other financial activities as their primary business (generally less than 5% of annual income), may deduct that income when calculating their B&O tax. Most states tax such income through corporate income taxes. JLARC reviewed in 2009, and noted that multi-state businesses could avoid. Excludes personal income.</p>	<p>\$442.4 million¹</p>
<p>Repeal B&O exemption for farmers whose annual gross income exceeds \$200,000</p>	<p>\$60.2 million</p>
<p>End sales tax exemption on out-of-state coal</p>	<p>\$23.7 million²</p>
<p>End sales tax exemption on items used in interstate commerce Air, rail, and water transportation companies engaged in interstate or foreign commerce are exempt from sales tax on fuel and other items. U.S. Supreme Court has ruled that states may tax such items, and many do. JLARC review in 2008 found no clear purpose for the exemption. (Already taxed in 16+ states.)</p>	<p>\$609 million¹</p>
<p>End sales tax exemption for custom software (taxed in 11+ states) ("Canned" software such as Microsoft products are already subject to tax.)</p>	<p>\$75.8 million</p>
<p>End sales tax exemption for non-organic fertilizers and sprays</p>	<p>\$83.7 million</p>
<p>End sales tax exemption for security brokers</p>	<p>\$106.5 million³</p>
<p>Change sales tax exemption for nonresidents to refund for sales tax over \$25 (applies to residents of states or provinces with sales tax under 3%)</p>	<p>\$70.3 million</p>
<p>End sales tax exemption for cosmetic surgery</p>	<p>\$13.5 million³</p>
<p>Increase hazardous substance tax from .7% to 2% of wholesale value</p>	<p>\$468.3 million³</p>
<p>Bottled water tax of 0.5 cents per ounce</p>	<p>\$140 million</p>
<p>Soda pop tax of 0.5 cents per ounce</p>	<p>\$248 million⁴</p>
<p>Increase cigarette tax \$1.25 per pack</p>	<p>\$100 million⁵</p>
<p>Apply sales tax to gasoline, reduce gas tax 5 cents per gallon</p>	<p>\$1,058 million (state)³ \$330 million (local)</p>

Sources: Department of Revenue, "Estimated Impact of Revenue Alternatives (November 2010 Forecast)" unless otherwise noted.
¹ JLARC estimate; ² Fiscal note for H.B. 3077; ³ Based on earlier DOR estimates. ⁴ Based on Fiscal Note for Initiative 1107. ⁵ Estimate based on receipts from last year's \$1 increase.