



Washington State Tax Structure Work Group

January 12, 2023

House Finance Committee
Presentation



Who is the Tax Structure Work Group (TSWG)?



Rep. Noel Frame, Co-Chair
(D-Greenwood)



Sen. Keith Wagoner, Co-Chair
(R-Sedro-Woolley)



Rep. Amy Walen (D-Kirkland)



Rep. Ed Orcutt
(R-Kalama)



Rep. Jesse Young (R-Gig Harbor)



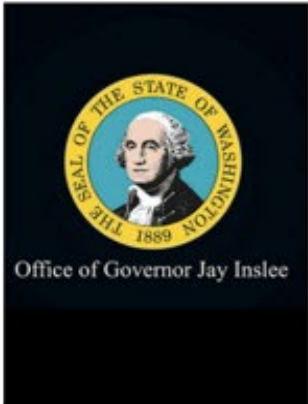
Sen. Joe Nguyen
(D-White Center)



Sen. Lisa Wellman (D-Mercer Island)



Sen. Phil Fortunato
(R-Auburn)



Scott Merriman,
Governor's Legislative
Liaison



Dean Carlson, Senior
Tax Policy Coordinator,
DOR

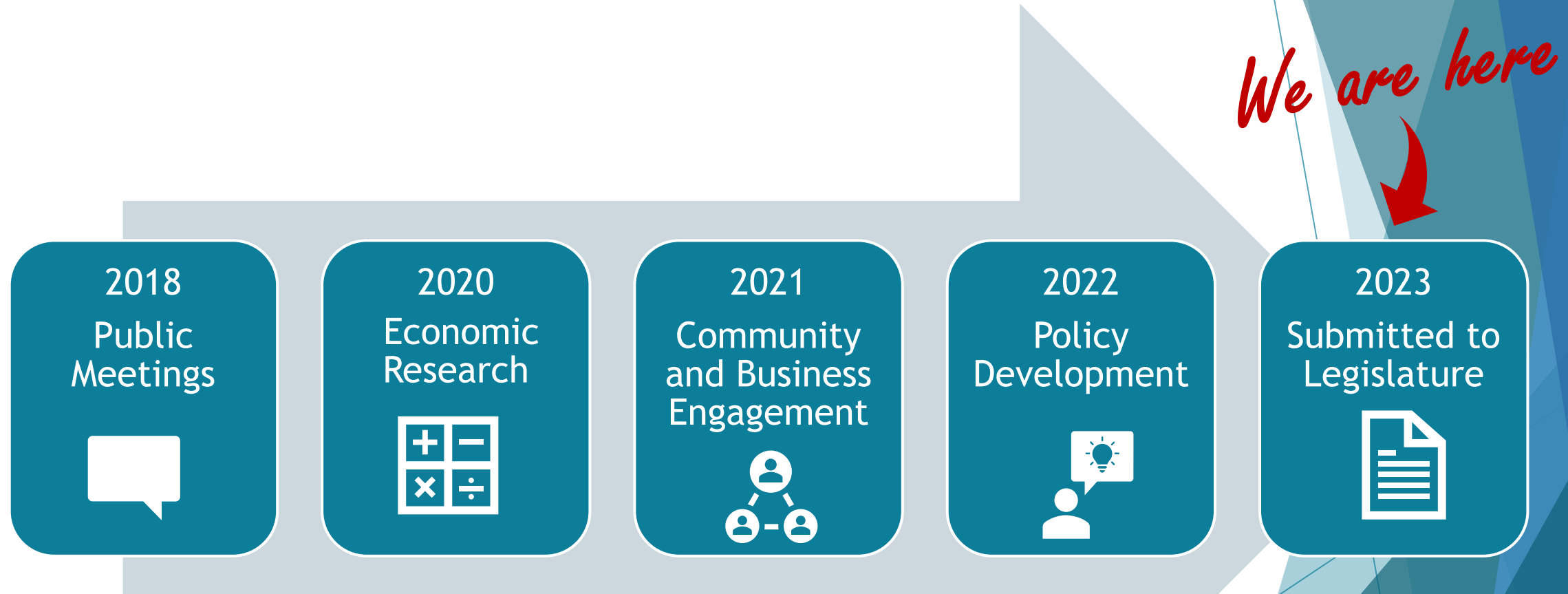


Mayor Anne McEnery-Ogle, City of Vancouver
(representing the
Association of
Washington Cities)








Councilmember Derek
Young, Pierce County
(representing the
Washington State
Association of Counties)

Where Are We in the Process?



Summary of Decisions May - December

	Margin Tax	Wealth Tax	Primary Residence Property Tax Exemption + Renters Credit	Working Families Tax Credit	Property Tax Limit Factor
May Meeting	12 technical details	<i>No questions</i>	<i>No questions</i>	Should eligibility be broadened?	<i>No questions</i>
September Meeting	6 technical details	Update only	Residences? Administration? Renters Credit?	Update only	Minimum limit? Maximum limit?
November Meeting	Move it forward	Eliminated 	Eliminated 	Eliminated 	Local only
December Meeting	Recommended Proposal to Legislature 				Recommended Proposal to Legislature 

Margin Tax

Margin Tax Proposal

- This proposal would replace Washington's B&O tax with a margin tax modeled after Texas's franchise tax.
- Under this margin tax proposal, businesses would be taxed on their margin, which is calculated as gross income minus the greater of four deductions:

Cost of goods sold

Compensation paid

A fixed percentage of gross receipts (e.g., 30%)

A flat amount (e.g., \$1 million)

Margin Tax Proposal (continued)

This margin tax proposal would also:

- Change the filing frequency for all entities to an annual return due April 15th.
- Require quarterly estimated payments.
- Require combined reporting for corporations required to file consolidated federal returns.
- Eliminate all preferential rates, deductions, exclusions and exemption, except those necessary for legal compliance or practical administration.
- Allow businesses to carryover earned but unused B&O tax credits to be credited from margin tax due for a limited amount of time.
- Compensate retailers by creating a retail sales tax credit.

Margin Tax Proposal (continued)

- The B&O tax is eliminated starting January 1, 2027, and the margin tax begins for gross income earned in 2027.
- The first quarterly estimated payments are due in April 2027, with the annual tax return for 2027 due April 15, 2028.

Measure of the tax

Washington B&O Tax	Margin Tax Proposal
Gross receipts (gross income of the business or value of products manufactured or extracted)	Gross receipts of the business less the business' choice of the greater of: <ul style="list-style-type: none">• Cost of goods sold,• Compensation paid,• 30% of total revenue, or• \$1 million.

Tax Base

Washington B&O Tax

All enterprise activities regardless of type of entity (for-profit, non-profit or municipal government)

Margin Tax Proposal

All enterprise activities regardless of type of entity (for-profit, non-profit or municipal government)

Filing Status

Washington B&O Tax	Margin Tax Proposal
Single entity	Consolidated

- In the B&O each legal entity must register and report taxes separately from other affiliated entities within or affiliated with the same business.
- In the Margin Tax, all reporting is done on a consolidated basis, where all affiliated entities are reported on one return as a part of a consolidated corporate entity (same at the federal level).

Apportionment on Single Factor Sales

Washington B&O Tax	Margin Tax Proposal
Yes	Yes

- A single-factor sales apportionment method is used to determine the amount of the business's worldwide margin that is attributable to Washington.
- For combined groups, each member of the group is included for purposes of attributing Washington income, if any member of the combined group has nexus in Washington.
- B&O's current apportionment method is essentially equivalent to single-factor sales.

Conforms to Federal Tax Definitions

Washington B&O Tax	Margin Tax Proposal
No	Yes

- For defining what constitutes the compensation paid and cost of goods sold deductions, the proposal uses the IRS's method of calculating the compensation and cost of goods sold deductions as a guide.

Tax is activity-based or revenue-based

Washington B&O Tax	Margin Tax Proposal
Activity-based	Hybrid

- The margin tax is mostly revenue-based but includes activity-based taxes for manufacturing and extracting activities when those activities take place in Washington, but the sales of those products takes place outside of Washington .

Taxes on manufacturing or extracting activities

Washington B&O Tax	Margin Tax Proposal
Yes	Yes

- In both the B&O and Margin Tax, these industries are taxed where sales take place outside of Washington with a multiple activities tax credit to avoid double taxation.

Filing Thresholds

Washington B&O Tax	Margin Tax Proposal
\$125,000	\$500,000

- Businesses with taxable gross receipts income below these thresholds do not file taxes in that given year.

Rate structure and basis

Washington B&O Tax	Margin Tax Proposal
Flat rate based on activity, multiple tax rate classifications	Flat rate based on receipts w/ EZ rate option for small businesses

- B&O tax has major and specialized tax rate classifications.
- Margin Tax has an EZ rate option for businesses with gross income of \$5 million or less annually. An eligible business can elect to pay the margin tax on their gross income, with no standard deductions allowed, at a lower EZ rate of 1.75%.

Lower tax rate for retailers

Washington B&O Tax	Margin Tax Proposal
Yes	No

- B&O has businesses pay a rate of 0.471% on retailing activity, rather than the 0.484% rate for many other B&O taxable activities.
- Margin Tax includes a sales tax credit which is equivalent to the benefit provided to retailers by the lower B&O tax rate on retailing activity.

Revenue Neutral Considerations

Margin Tax

The margin tax revenue neutral tax rate for the 2029-31 Biennium would be 3.1966% .

Fund - Source	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
GF-State - NEW	\$0	\$1,683,000,000	\$6,919,600,000	\$7,569,000,000	\$7,919,200,000	\$8,284,900,000
GF-State - Retail Sales Tax	\$0	(\$17,400,000)	(\$43,300,000)	(\$45,000,000)	(\$46,800,000)	(\$48,600,000)
GF-State - B&O Tax	\$0	(\$2,853,000,000)	(\$7,192,800,000)	(\$7,522,700,000)	(\$7,874,100,000)	(\$8,241,000,000)
Fiscal Year Total	\$0	(\$1,187,400,000)	(\$316,500,000)	\$1,300,000	(\$1,700,000)	(\$4,700,000)
Biennial Total		(\$1,187,400,000)		(\$315,200,000)		(\$6,400,000)

Property Tax Limit Factor

Property Tax Limit Factor

- This proposal would amend the 101% levy limit for all local property taxes.
- The proposal would revise the definition of “limit factor” to mean 100% plus population change and inflation, but not to exceed 103%.
- This proposal takes effect beginning with property taxes due for Calendar Year 2024.

Current law annually limits taxing districts' property tax levy increases to the levy growth limit, often referred to as the "101% levy limit" or the "1% growth limit," plus any increase in levy capacity for the following add-ons:

- New construction.
- Construction of wind turbine, solar, biomass, and geothermal facilities.
- Improvements to property.
- Increased value of state-assessed property.
- Increases in real property value within a local tax increment finance area designated by a local government.

Current Law (cont'd)

Property Tax Limit Factor

- Inflation as the percentage change in the implicit price deflator (IPD) for personal consumption expenditures for the United States as published for the most recent 12-month period by the Bureau of Economic Analysis of the Federal Department of Commerce by September 25th of the year before the taxes are payable.
- The limit factor:
 - For taxing districts with a population of less than 10,000 as 101%.
 - For all other districts as the lesser of 101% or 100% plus inflation. If inflation is less than 1%, then taxing districts who adopt a substantial need resolution can have a limit factor up to 101%.

Revenue Estimate

**Property Tax Limit
Factor**

Option	Revenue Impact						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	6-Year Total
0% Floor / 3% Ceiling							
Local Fiscal Year Totals	\$60,800,000	\$181,300,000	\$309,800,000	\$444,300,000	\$584,900,000	\$734,800,000	
Biennial Totals		\$242,100,000		\$754,100,000		\$1,319,700,000	\$2,315,900,000

**Under the current forecast, levy rate pro-rationing does not occur.*

Questions and Comments?



Presenter Contact Info

Dean Carlson
Senior Tax Policy Coordinator, Executive Division
360-534-1587
deanc@dor.wa.gov

Kathy Oline
Assistant Director, Research and Fiscal Analysis Division
(360) 534-1534
KathyO@dor.wa.gov

Tax Structure Work Group website: <https://taxworkgroup.org/>