

Tax & Fiscal Policy

Background:

The 2011 session was dramatically different for business than 2010 when lawmakers passed a \$6.7 billion tax increase over a 10 year period. In turn, voters overturned several taxes and overwhelmingly passed Initiative 1053 to require a two-thirds majority vote to raise taxes. At the same time they strongly rejected Initiative 1098 to establish an income tax. The message to lawmakers was clear – live within their means and look to reforms and efficiencies with bi-partisan collaboration to address budget problems. I-1053 worked precisely as it was intended to this past session when lawmakers were faced with a \$5 billion dollar budget shortfall. Holding the line on tax increases, improving budget sustainability, transferring the master license program to the Department of Revenue and reducing the debt limit were a few of the accomplishments by lawmakers to meet the goal of voters. In addition to these efficiencies, Governor Gregoire recently directed the Department of Revenue to proceed with efforts to centralize all business tax administration, registration and licensing. The Governor also directed DOR to evaluate ways to reduce the number of state B&O tax classifications to further reduce the complexity of the tax structure, with revenue neutrality.

Problem:

More work is necessary in the coming year to help employers weather this recession and to ensure a sustainable budget into the future. Despite this, a lawsuit is pending by the Washington Education Association and a dozen democrats to challenge the constitutionality of Initiative 1053 even though it is extremely popular with voters. The Department of Revenue report on tax simplification identifies key areas of the tax code to help employers comply and to simplify the process of paying taxes but various cities have historically opposed change. The current tax system in addition to the state requirements has more than 200 cities with registration and licensing requirements and 39 cities administer their own local business and occupation taxes. This requires businesses to file tax returns with both cities and the state, often with different classifications, definitions and deductions. This is confusing and takes time away from small business owners' top priority of running their businesses. Furthermore, the Council on State Taxation (COST) report, *"The Best and Worst of Property Tax Administration: Scorecard on State Property Tax Administrative Practices"*, focuses on areas of effective property tax administration. Unfortunately, we received a C+ and could have scored higher except our tax appeal procedures needs improved to reduce the burden of proof for taxpayers. Finally, the highly successful research and development tax incentive is set to expire in 2015 and trouble is already brewing for its continuation. Some lawmakers feel the incentive should sunset and not get renewed. Others believe resources should go to higher education instead. Current budget practices require a six-year budget outlook and legislators are not accounting for the continuation. AWB expects a continued attack on all business incentives next session. This will further hurt economic recovery.

Solution:

AWB will seek the following legislative changes in the 2012 session:

1 Jobs & Economy

- a) Maintain existing tax incentives used by employers and recognize them as a necessary part of the tax code due to high tax rates or competitive factors.

- b) Extend and improve the research and development tax incentive.
- c) Update the manufacturing sales and use tax incentive by removing restrictive regulatory processes and interpretations including the majority use test, definition of prototypes, computers, converted-use, buildings and fixtures.
- d) Establish incentives for consumables that go into business inputs and extend the sales tax exemption on machinery and equipment to additional capital-intensive industries.
- e) Establish tax-increment-financing as an available tool while preserving property tax principles.
- f) Establish effective, targeted and accountable sales and use tax holidays.
- g) Utilize liberal implementation of tax incentives that promote economic development activities.

2. Tax Simplification

- a) Transfer the duty to collect and administer local B&O and public utility taxes to the Department of Revenue, require a consistent state and local B&O code that is applied uniformly among jurisdictions and prevent discriminatory replacement taxes from being adopted.
- b) Decisions of the DOR Appeals Division should be published and followed by the Department.
- c) Taxpayers seeking a sales tax refund or credit, who can show proof of payment, should have the option to receive the refund or credit directly from the Department.
- d) Clarify online searchable databases are an exempt business input and not a digital products.
- e) Change the number of times sales tax rates can be altered from four times to two times a year.
- f) Clarify that the presence in a local jurisdiction of delivery sales using third party delivery companies or deliveries in a company owned vehicles does not establish nexus for purposes of licensing or local B&O taxes.
- g) Require cities with license requirements to participate in the master business license application.
- h) Remove the prerequisite for filing an annual survey for tax incentives and eliminate the penalty for late filing. Review the effectiveness of survey data and the ease of collection by employers.

3. Property Tax Competitiveness

- a) Change the unreasonably high “burden of proof” placed on taxpayers that challenge property valuations to the more traditional standard of the “preponderance of the evidence”.

4. Fiscal Restraint

- a) Adopt a balanced budget that prevents new costs on business through increased or new taxes, licensing requirements or fees.
- b) Preserve the supermajority vote requirement for increasing taxes enacted by initiative and place the supermajority for raising taxes in the state constitution.