

[Home](#) / [Blog, Feature Story](#) / Tax Relief Without Budget Cuts?: New Report Details How WA Taxpayers Could Save Hundreds of Millions

Tax Relief Without Budget Cuts?: New Report Details How WA Taxpayers Could Save Hundreds of Millions

By [Trevor Griffey](#) • on April 15, 2010

Washington state taxpayers are paying hundreds of millions more in taxes than they need to, according to a new study from the [Institute on Taxation and Economic Policy](#) and [United for a Fair Economy](#). The report, “[Leaving Money on the Table](#),” which was released Monday, argues that simply reducing the state’s sales tax and replacing that revenue with an income tax would save Washington state taxpayers between \$162 and \$654 million. Here’s how:

The report analyzes seven states without an income tax, including Washington state. It finds that states without an income tax do not spend less than other states that do—instead, they simply rely more heavily upon sales taxes and property taxes to make up the difference. Because federal tax breaks are skewed toward the 43 states that have an income tax, taxpayers in states without an income tax end up paying more taxes for fewer state and local government services.

“Uniquely among the major state taxes,” the report claims, “the income tax can be substantially ‘exported’ to the federal government due to a federal tax break allowing federal itemizers a deduction for their state and local taxes. This federal tax rule amounts to a matching grant from the federal government to states.”

As a result, a “tax swap”—reducing state and local sales taxes and making up the shortfall with income taxes—could provide taxpayers with hundreds of millions of dollars in tax relief without cutting government services or increasing the size of government. For the seven states that lack an income tax, the report calculates, this swap could provide anywhere between \$1.7 billion and \$5.5 billion in immediate tax relief.

The report’s breakdown of the potential savings in Washington state is eye-opening. Our state government relies upon the sales tax for almost 50 percent of its revenue, while the national average remains closer to 23 percent. Swapping some of that sales tax revenue with a 3 percent tax on all incomes would provide a total of \$162 million in tax relief distributed to 60 percent of Washington state’s taxpayers, while increasing the taxes paid by the wealthiest 20 percent of the population. A graduated income tax between 4.5 and 6.5 percent would provide \$652 million tax relief distributed to 80 percent of Washington taxpayers. Both tax swap options would not require any budget cuts.

Those who pay the largest share of their income to state taxes would benefit most from the tax relief plans described in the report. Washington state’s poorest 20 percent currently pay over 17 percent of their income in taxes, and the bottom 60 percent pay over 10 percent of their income in taxes, while the top one percent pay just 2.6 percent. A flat income tax would reduce that disparity somewhat, while a graduated income tax capped at 6.5 percent would equalize the tax burden much more dramatically, and result in 95 percent of Washington taxpayers paying between 8 and 10 percent of their income in taxes.

As the Olympia Newswire reported last month in “[Myths and Facts About an Income Tax in Washington State](#),” recent polling in Washington state found that roughly 50 percent of state voters are generally supportive of enacting an income tax on high earners. But so far no popular movement has organized that populist sentiment at the state level, making it much easier for corporate lobbyists and free market think tanks— who, according to

[The Atlantic](#), provide the foundation for the modern “tea party” movement– to bankroll and channel popular discontent over the recession into specific demands for more and deeper cuts to government services.