



A fix to Washington's broken revenue system

May 24, 7:42 PM · Russ Lehman - Seattle Public Policy Examiner

Examiner 5/24/10

There's a proposed state initiative out getting signatures right now striving to qualify for the fall ballot. The measure, I-1098, is intended to, as the sponsors say, "make our tax code more fair". Bill Gates, Sr., the former co-chair of the tax restructure committee, is spearheading the measure which would put into law some of the recommendations put forth by the committee in 2002. Washington Tax Restructure report. The measure deserves thoughtful and deliberate debate and consideration. Towards that end let's start with two issues raised by the initiative.

According to the Economic Opportunity Institute, the proposal would cut property taxes by 1/5 of the state levy and save taxpayers \$357m. The credit available to small businesses currently paying B+O tax would rise from \$420 to \$4,800 per year, saving those taxpayers \$261m. The kicker, and the revenue raiser, which would not be dedicated or restricted but supporters hope would provide increases to education and health care funding, would raise \$1.7b. The combination of the lowering of taxes for the majority of taxpayers and raising taxes on the small minority who make in excess of \$200,000 (singles or \$400,000/couples) per year would yield a net increase in revenue of \$1b. Yes on 1098 Fact Sheet

First, this proposal, while clearly attempting to make one of the country's most regressive tax systems more progressive, starts from the point where we are with "tax expenditures" (i.e. tax exemptions and subsidies). Currently in Washington state the lowest 20% of income earners spend 17.8% of their income on taxes while the highest 20% of income earners spend 5.3% of their income on taxes. It is hard to argue that Washington's tax system is anything other than an antiquated and regressive system which is one of the top 10 most regressive in the nation. "Who Pays", report by the Institute on Taxation and Economic Policy 2009.

Without alleging that I-1098 should solve all the state's tax inequities, it seems reasonable to ask, in the context of debate on this measure, whether the current billions in tax expenditures represent sound, current public policy in the public interest. While the entirety of revenue available, and possibly due, the general fund is a complex calculation not exactly the equivalent to all tax breaks and subsidies. This is because of U.S. and state laws limit certain taxes. The legislature took a baby step towards review possible reconsideration with the recently created 2010 budget, with the "task force for reform of executive and legislative procedures". This category represents billions of dollars, some portion of which has been granted likely more for political reasons than that of good public policy.

The other broad issue raised by this initiative was addressed this past weekend by Stephen Brill in the NY Times magazine. There now is a large amount of evidence that money alone is not what is ailing our education system. Though money is important, there is a danger that the public could feel as though the job is done if the measure passes, and assuming the legislature actually adds substantial resources to public education. True education reform, as stimulated by President Obama's "Race to the Top" contest changes the debate and raises school choice, teacher lifetime tenure, evaluations and, most importantly teacher quality as indispensable to actual reform.

The nature of ballot measures is that the people can directly enact laws but do so often outside the context of debate on the myriad issues relevant to a final disposition on the issue. With the paucity of political journalism already the norm, the people will likely make this important decision relying, at best, on political advertisements. This issue is far too important to leave to the pundits and consultants. It deserves careful attention, engagement and at least a cursory knowledge of Washington's revenue system – arguably the most important issue lawmakers (including the public) ever consider.