



# Revenue Alternatives for Building a Better Future

OFFICE OF THE GOVERNOR  
NOVEMBER 2011

To accommodate persons with disabilities, this document is available in alternative formats by calling the Office of Financial Management at 360-902-0550. TTY/TDD users should contact OFM via the Washington Relay Service at 711 or 1-800-833-6388.

---

*Visit our website at [www.ofm.wa.gov](http://www.ofm.wa.gov)*

# Table of Contents

Recommendation to the Public	1
Guiding Principles	2
Investing in Education	3
Protecting Public Safety	4
Caring for Our Most Vulnerable Citizens	5
Recommendations to the Legislature	6
Governor Gregoire's Recommendations (detail)	7
Revenue Alternatives Reviewed by Governor Gregoire	10



# Building a Better Future

## Investing in Education, Public Safety and Services for the Vulnerable

Washington must do everything it can to avoid jeopardizing the future of our students, the safety of our citizens and the care of our most vulnerable citizens.

After putting forward a long list of budget reduction alternatives in October, Governor Gregoire turned her attention to revenue options and whether to recommend new revenue. The Governor reviewed more than 150 revenue options submitted by the Department of Revenue, or raised by citizens, state employees and interest groups, as well as a number of fees to offset the costs of certain programs. These options range from eliminating the state sales tax exemption for nonresidents and taxing the windfall profits of oil companies and banks to auctioning licenses for non-tribal casinos.

The Governor identified revenue options that support or have limited negative effect on the state's economic recovery, promote fairness among taxpayers, simplify the state's tax structure and provide immediate benefits to address the projected \$1.4 billion shortfall in the 2011–13 biennium.

Grounded on those guiding principles, the Governor today is recommending a revenue package to Washington citizens and the Legislature that will help protect critical services in several key areas.

### Governor Gregoire's recommendation to the public

The Governor is asking voters to approve a temporary half-cent increase in the state sales tax (from 6.5 percent to 7 percent). If approved by a majority of the state's voters, this would raise \$494 million.

## What's half a penny worth?



**\$411 million for education**  
**\$42 million for long-term care and developmental disability services**  
**\$41 million for public safety**

# Guiding Principles for Governor's Revenue Package

---

## Economic recovery

- » Supports or has limited negative impacts on the state's economic recovery, especially for small businesses and struggling business sectors
- » Promotes job creation

## Fairness/equity

- » Promotes consistent treatment of similar taxpayers
- » Ensures in-state businesses aren't disadvantaged vs. out-of-state competitors
- » Makes sure those who should be paying taxes are paying them

## Simplification

- » Promotes simplicity, efficiency and certainty in the tax system
- » Works within the state's current tax structure
- » Reduces or has limited impact on administrative costs

## Revenue adequacy

- » Raises revenue necessary to fund critical state services
- » Provides immediate benefits in the current biennium

## Health & environment

- » Promotes beneficial activities and discourages harmful behavior
- » Promotes environmental quality

# Building a Better Future

## Investing in Education

Since the start of what has been the worst economic downturn since the Great Depression, we have had to make drastic cuts that diminish the opportunity for our students to get the education they need to compete in today's global economy.



During the past three years we have:

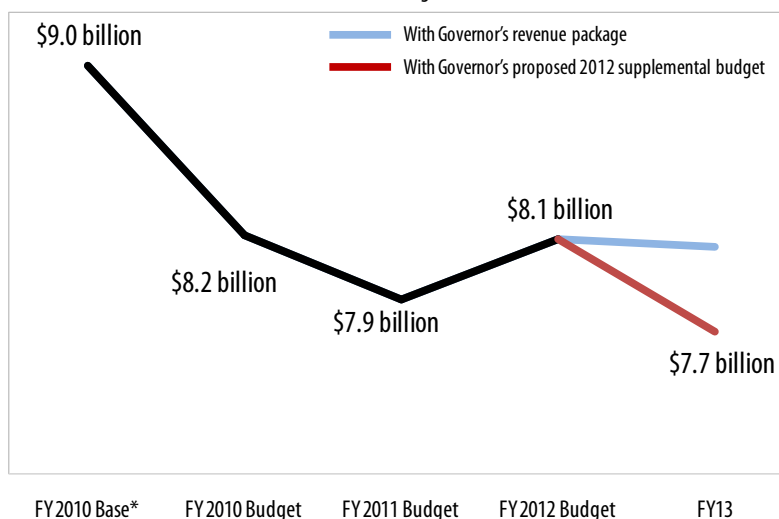
- » Cut funding for our K-12 education system by \$966 million, including elimination of funding for smaller class sizes, teacher pay and educator training.
- » Cut state support for higher education institutions by \$623 million — a 46 percent reduction to our four-year universities and 26 percent cut to our community and technical colleges, resulting in tuition increases of up to 55 percent.

To balance the Governor's proposed 2012 supplemental budget, cuts to education would place even greater strains on our students, teachers, schools and higher education institutions. If voters approve the Governor's proposed temporary half-cent sales tax increase, they would:

- » Stop a \$100 million cut which would shorten the K-12 school year from 180 to 176 days.
- » Stop a \$152 million reduction to the state's levy equalization program, which provides financial support to school districts in property poor counties. The Governor's tiered proposal would reduce school district levy equalization payments by 10 percent to 100 percent.
- » Stop a \$160 million reduction in state support for higher education. The Governor's budget would reduce support to the six public four-year colleges and universities by up to 17 percent and would cut the state's 34 community and technical colleges by 13 percent.

### State Funding for Education Since 2009

Includes K-12 and higher education



\*Includes funding for Initiatives 728 and 732

Office of Financial Management

# Building a Better Future

## Protecting Public Safety

Under the strains of the recession, Washington has had to look everywhere for savings. One budget area critical to public safety but not protected by statutory or constitutional provisions is our state corrections system.



Over the past three years, we cut more than \$300 million and eliminated almost 1,200 positions at the Department of Corrections.

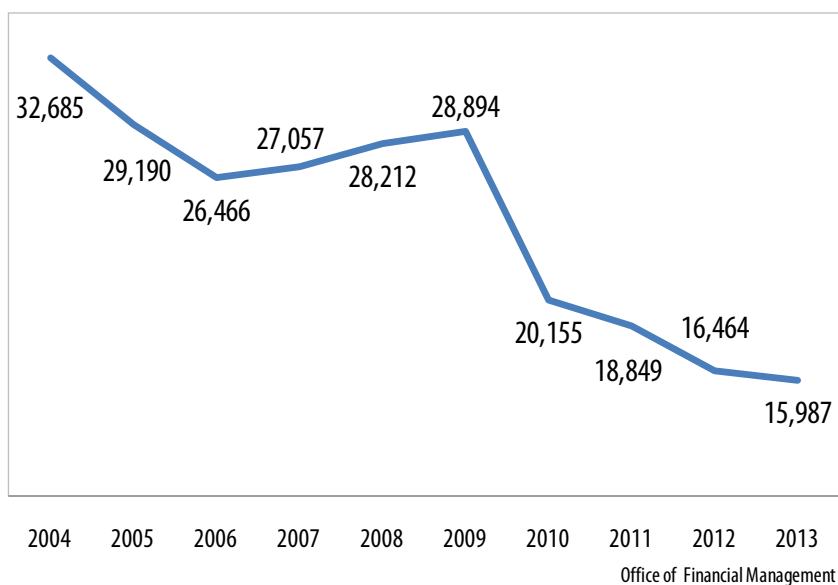
Those cuts include:

- » Closure of three prisons — McNeil Island, Pine Lodge and Ahtanum View. The department targeted older, more costly facilities for closure and now is focusing its limited resources on safer, more efficient institutions.
- » Reduced sentences for offenders and elimination of community supervision for low-risk offenders. In three years, the number of offenders on community supervision has decreased by about 10,000 — a nearly 40 percent decline.

The Governor's supplemental budget would cut the department by another \$72 million and stretch our prison and community corrections system even thinner. If voters approve the Governor's temporary half-cent sales tax increase, they would:

- » Stop the early release (150 days) of offenders assessed at low to moderate risk of reoffending, including sex offenders. Under the Governor's proposed cuts, the state's average daily prison population would be reduced by an estimated 370 offenders.
- » Maintain the length of post-prison community supervision for all offenders. The length of supervision will be reduced to 12 months for all offenders, except sex offenders. Sex offender supervision will be reduced from 36 to 24 months.

**The Number of Offenders Under Community Supervision Has Declined Sharply Since 2009**



# Building a Better Future

## Caring For Our Most Vulnerable Citizens

Many of our society's most vulnerable citizens are individuals who need long-term care and individuals with developmental disabilities — low-income elderly or people with conditions or ailments that prevent them from performing normal daily routines such as bathing, dressing or preparing meals. Economic downturns are especially trying for people with such significant needs.

During the past three years, our cash-strapped state government has:

- » Reduced in-home personal care services by \$311 million, resulting in more than 46,000 elderly and disabled adults losing up to a quarter of their monthly hours of care.
- » Cut home care and community residential provider rates by \$50 million. These rate reductions limit a provider's ability to serve clients and could cause some providers to shy away from Medicaid clients and instead serve private-pay clients who can afford the care.
- » Regularly suspended or reduced state-only funded programs such as the Individual Family Support program, the Family Caregiver Support program and the Senior Citizens Services Act, which keep the elderly and individuals with developmental disabilities in their own homes and with their families.



The Governor's proposed supplemental budget would make even deeper cuts that would reduce — or in some cases eliminate — services for people with developmental disabilities or those in long-term care. If voters approve the Governor's proposed temporary half-cent sales tax increase, they would:

- » Prevent 1,600 individuals from losing all personal care and other services, and restore service hours, for some of the most vulnerable clients whose care has been reduced over the past three years.
- » Restore nearly \$13 million in home care and residential provider rates.
- » Invest more than \$15 million in programs that keep elderly and developmentally disabled individuals in their own homes and with their families.

# Building a Better Future

---

## Recommendations that require a simple majority vote of the Legislature

These alternatives (see page 7) could raise an estimated \$59 million.

## Recommendations that require a two-thirds vote of the Legislature

These alternatives (see page 8) could raise an estimated \$282 million.

## Priorities for Preventing Cuts

The Governor recommends that any additional revenue approved by the Legislature be used to prevent or mitigate reductions in the following priority:

1. **Non-emergency dental coverage** for 38,000 adults with developmental disabilities, long-term care clients and pregnant women (\$8.6 million). Last year, we eliminated non-emergency dental services for all but these individuals (45,000 in all).
2. **Chemical dependency services** for nearly 5,000 low-income individuals (\$5.9 million). These services help individuals receive outpatient treatment and detoxification services, which improve public safety and cut down on emergency medical costs.
3. **Regional support networks** that deliver non-Medicaid mental health services (\$4.6 million). These networks provide mental health treatment to low-income individuals with severe and persistent mental illness. The Governor's supplemental budget would reduce services such as crisis intervention, medication management and case management that help keep 8,000 people living safely in their communities.
4. **The Basic Health Plan**, which covers the working poor — low-income people who do not qualify for Medicaid. Over the past three years, we have dropped more than 60,000 people from Basic Health. The Governor's supplemental budget would eliminate the program (\$49 million), which would leave another 35,000 people without health care.
5. **TANF/WorkFirst grants** that help low-income families with children with cash assistance. Grants were reduced last year by 15 percent and the Governor has proposed another 2 percent reduction (\$7.2 million).
6. **Community grants** that deliver prevention and treatment services to victims of sexual assault as well as domestic violence prevention, crisis intervention, and crime victims assistance programs. The Governor has proposed cutting these programs by 20 percent (\$4.7 million).
7. **Disability Lifeline medical program**, which provides limited medical benefits for 20,000 low-income individuals with temporary disabilities. The Governor has proposed eliminating the program (\$95 million).
8. **Subsidized child care** to help low-income families in getting and keeping work. The Governor has proposed reducing the program by 12 percent (\$50 million), which would eliminate subsidies for about 4,000 children.
9. **State Work Study program** which provides financial aid to 7,600 students in higher education institutions. The Governor has proposed suspending the program (\$8.1 million).
10. **Parole treatment and services** that help keep juvenile offenders from returning to the correctional system. The Governor has proposed a 20 percent cut (\$2.9 million) that would eliminate services for about 400 youths.

# Governor Gregoire's Recommendations

(Dollars in Thousands)

RECOMMENDATION TO CITIZENS	FY2013 Estimate <sup>1</sup>
» <b>Requires majority vote of the public</b>	
<b><u>Increase state sales tax rate temporarily from 6.5% to 7.0%</u></b> – This proposal would increase the state sales tax rate from 6.5% to 7.0%. The increase would expire on July 1, 2015.	\$494,100
RECOMMENDATIONS TO THE LEGISLATURE	FY2013 Estimate <sup>1</sup>
» <b>Requires majority vote of the Legislature</b>	
<b><u>Convert securities reported as unclaimed property immediately upon receipt</u></b> – Currently, the Department of Revenue must hold most securities such as stocks and bonds received as unclaimed property for at least three years before they may be sold and converted to cash. This proposal would allow the department to immediately convert into cash all securities received as unclaimed property. The cash would be deposited into the General Fund and may be claimed by the original owners of the securities at any time. This results in a one-time increase in General Fund revenue.	\$50,600 <sup>2</sup>
<b><u>Require local governments that issue building permits to supply subcontractor information to the Department of Revenue</u></b> – This proposal would require local governments (cities, towns and counties) that issue residential building permits to request — at the time of final inspection — the name, contractor registration numbers and state business license numbers of any subcontractors performing work on the project. This proposal will help the department combat an underground economy and ensure that subcontractors are paying their taxes and fairly competing with other businesses.	2,600
<b><u>Reduce the time to claim an excise tax refund to four years</u></b> – Currently, businesses can file refund claims for five years — the current tax year plus the past four years. This proposal would shorten time to claim refunds by one year.	2,100
<b><u>Increase the interest rate on excise tax assessments by 2% to equal the federal short-term rate plus 4%</u></b> – Currently, the interest rate for excise tax assessments and refunds is 2% above the average federal short-term rate, adjusted annually. The rate for calendar year 2011 is 3%. This proposal would increase the interest rate on unpaid taxes an additional 2%.	1,200
<b><u>Prohibit delinquent taxpayers from renewing liquor licenses</u></b> – This proposal would require businesses to pay any past due taxes before their liquor license could be renewed. The requirement would be waived for any business in a payment plan with the department.	1,000

<sup>1</sup> Estimates based on the November 2011 forecast unless otherwise noted. Assumes start date of July 1, 2012, for any new legislation.

<sup>2</sup> This is a one-time sale of accumulated securities. Actual value will vary depending on market value on date of sale.

<b><u>Impose a \$10 fee per invoice issued to a taxpayer for unpaid taxes (balance due notices, assessments, warrants, etc.)</u></b> – This proposal would require a \$10 fee for each billing invoice sent to taxpayers.	<b>900</b>
<b><u>Impose a \$25 fee for the issuance and renewal of reseller permits</u></b> – This proposal would require a \$25 fee for the issuance and renewal of reseller permits. Reseller permits allow businesses to make purchases for resale without paying retail sales tax. Reseller permits are now free.	<b>700</b>
<b>TOTAL (REQUIRING MAJORITY VOTE OF THE LEGISLATURE)</b>	<b>\$59,100</b>

## RECOMMENDATIONS TO THE LEGISLATURE

FY2013  
Estimate<sup>1</sup>

### » Requires 2/3 vote of the Legislature

<b><u>Increase business and occupation (B&amp;O) tax rate on oil companies with windfall profits</u></b> – Currently, oil companies pay B&O tax in Washington at various rates — 0.471% for retailing and 0.484% for wholesale and manufacturing. This proposal would impose an additional B&O tax of 0.6% of taxable income (for a total of 1.071% or 1.084%) if: <ul style="list-style-type: none"> <li>a. The oil company reported, for federal income tax purposes, a profit (net income) of \$1 billion or more in the prior calendar year; and</li> <li>b. The profit was 5% or more of its total revenue.</li> </ul>	<b>\$131,000</b>
<b><u>Increase B&amp;O tax rate on financial institutions with windfall profits</u></b> – Generally, financial institutions pay B&O tax at a 1.8% rate. This proposal imposes an additional 1.5% B&O tax rate (for a total of 3.3%) on financial institutions if: <ul style="list-style-type: none"> <li>a. The financial institution reported a profit (net income) of \$1 billion or more in the prior calendar year; and</li> <li>b. The profit was 5% or more of its total revenue.</li> </ul>	<b>53,800</b>
<b><u>Repeal sales tax exemption for purchases made by nonresidents (from states with a sales tax of &lt;3%)</u></b> – Currently, residents of any state, U. S. possession or province of Canada with a sales tax of less than 3% may purchase goods for use outside Washington without paying our sales tax. The proposal would repeal this sales tax exemption.	<b>23,400</b>
<b><u>Limit the B&amp;O tax deduction for first mortgage interest to community banks (banks located in 10 or fewer states)</u></b> – Interest paid on first mortgages on homes and other residential properties are not subject to B&O tax. This proposal will require large national banks to pay the B&O tax on first mortgage interest income. The deduction will continue for locally owned and operated community banks.	<b>18,100</b>
<b><u>Impose 5% luxury tax on passenger motor vehicles - \$50,000 threshold</u></b> – This proposal would create an additional sales and use tax of 5% on passenger motor vehicles if the price/value exceeds \$50,000.	<b>14,200</b>
<b><u>Impose 1.5% gross receipts tax on gambling and lottery winnings</u></b> – This proposal would impose a new 1.5% excise tax on gambling and lottery winnings that must be reported for federal tax purposes. Washington residents would be allowed a credit for any taxes paid to another state on the same gambling winnings.	<b>13,100</b>

<b><u>Increase the cigarette tax 25 cents from \$3.025 to \$3.275</u></b> – This proposal increases the combined state cigarette tax by 25 cents from \$3.025 to \$3.275 per pack.	<b>12,400</b>
<b><u>Impose public utility taxes (PUT) on developmental disabilities supported living services at 5.029%</u></b> – This proposal would increase the tax rate for supported living and community residential providers to 5.029% of all income, including payments from government sources. This change enables the state to qualify for higher federal Medicaid reimbursement and would help offset reductions in payments to providers.	<b>11,600</b>
<b><u>Close B&amp;O tax loophole that allows companies to create shell corporations outside the state to reduce their Washington tax liability</u></b> – Under current law, some in-state manufacturers have artificially reduced their B&O taxes by creating out-of-state shell corporations to qualify for the nonresident manufacturer exclusion. This proposal would end this practice.	<b>3,500</b>
<b><u>Limit B&amp;O tax preferences for meat processors, fruit and vegetable processors</u></b> – The Washington Supreme Court expanded this preference for butchers to include products that contained any amount of meat. This proposal restores the original legislative intent that the tax preference apply only to raw and perishable meat, not products such as canned chili. The proposal also applies to a similar preference for fruit and vegetable processors.	<b>900</b>
<b><u>Close B&amp;O tax loophole that allows out-of-state printers to sell into Washington without paying B&amp;O tax</u></b> – The department has been unable to collect B&O tax from out-of-state printers that sell into Washington. This proposal would end this loophole.	<b>114</b>
<b>TOTAL (REQUIRING 2/3 VOTE OF LEGISLATURE)</b>	<b>\$282,114</b>

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

		FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
<b>Business and Occupation Taxes</b>				
➤ <b>Expand B&amp;O Tax Base (Exemptions and Deductions)</b>				
1	<a href="#">Limit B&amp;O tax deduction for investment income to \$500,000 and impose tax on both non-financial firms and individuals</a>	145,200		
2	Limit B&O tax deduction for investment income of non-financial firms to \$250,000	87,900		
3	Alt: Limit B&O tax deduction for investment income of non-financial firms to \$500,000	45,700		
4	Alt: Limit B&O tax deduction for investment income of non-financial firms to \$1 million	40,500		
5	<a href="#">Repeal B&amp;O tax deduction for first mortgage interest</a>	46,600		
6	<a href="#">Alt: Limit B&amp;O tax deduction for first mortgage interest to community banks (banks located in 10 or fewer states)</a>	<b>18,100<sup>i</sup></b>		<b>18,100</b>
7	<a href="#">Alt: Limit B&amp;O tax deduction for first mortgage interest to \$100 million</a>	15,700		
8	<a href="#">Limit B&amp;O tax exemption for individual earnings to \$250,000</a>	48,600		
9	Repeal B&O tax exemption for farmers	32,600		
10	<a href="#">Alt: Repeal B&amp;O tax exemption for farmers with an annual gross income over \$200,000</a>	30,000		
11	<a href="#">Repeal B&amp;O tax exemption for shared real estate commissions</a>	20,600		
12	Repeal B&O tax exemption for private school tuition income	10,200 <sup>ii</sup>		
13	Repeal B&O tax exemption for state-chartered credit unions	9,200 <sup>ii</sup>		
14	Repeal B&O tax deduction for dividends received from subsidiaries	8,900 <sup>ii</sup>		
15	<a href="#">Extend economic nexus to retail and wholesale activities</a>	8,900		
16	<a href="#">Impose service B&amp;O tax on gross income from long-term real estate rentals</a>	8,800		
17	Alt: Impose service B&O tax on gross income from long-term commercial real estate rentals	8,200		
18	<a href="#">Repeal B&amp;O tax credit for syrup tax paid</a>	7,700		
19	Repeal any preferential B&O tax rate with fewer than 20 taxpayers	6,800		
20	Repeal B&O tax deduction for nonprofit nursing homes, kidney dialysis facilities, hospice agencies, and homes for unwed mothers	6,000		
21	<a href="#">Reduce the cap on the B&amp;O tax credit for high-technology research and development spending from \$2 million to \$1 million per year</a>	3,700		
22	<a href="#">Close B&amp;O tax loophole that allows companies to create shell corporations outside the state in</a>	<b>3,500<sup>i</sup></b>		<b>3,500</b>

<sup>1</sup> Estimates based on the Sept. 2011 forecast unless otherwise noted. Assumes a start date of July 1, 2012 for any new legislation.

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

		FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
	<a href="#">order to reduce their WA tax liability</a>			
23	Repeal B&O tax deduction for federal motor fuel taxes	3,400		
24	<a href="#">Repeal B&amp;O tax deduction for membership fees and dues</a>	1,900		
25	Repeal B&O tax exemption for cities that share sewer services	1,800 <sup>iii</sup>		
26	Repeal B&O tax exemption for home and community based service providers for income from government sources	1,700		
27	Repeal B&O tax exemption for horse racing income	1,400 <sup>iii</sup>		
28	<a href="#">Limit B&amp;O tax exemption for insurance companies to exclude affiliated companies that do not sell insurance</a>	1,331		
29	Repeal special B&O tax apportionment rule for radio/TV advertising income	1,100		
30	Repeal B&O tax exemption for on-site property management	500 <sup>ii</sup>		
31	<a href="#">Close B&amp;O tax loophole that allows out-of-state printers to sell into Washington without paying B&amp;O tax</a>	114 <sup>i</sup>		114
32	Repeal B&O tax exemption for farm services provided by farmers or related persons	100 <sup>ii</sup>		
	➤ <b>B&amp;O Tax Rates (Surcharges and Preferential Rates)</b>			
33	<a href="#">Impose 25% surtax on B&amp;O tax rates, including those with a 0.3% surcharge</a>	794,900		
34	<a href="#">Alt: Impose 25% surtax on B&amp;O tax rates, excluding those with a 0.3% surcharge</a>	434,500		
35	<a href="#">Alt: Impose 10% surtax on B&amp;O tax rates, including those with a 0.3% surcharge</a>	317,900		
36	<a href="#">Alt: Impose 10% surtax on B&amp;O tax rates, excluding those with a 0.3% surcharge</a>	173,800		
37	Impose 20% surtax on all B&O tax rates, excluding aerospace and hospitals through June 30, 2015 -- and extend the 1.8% service B&O tax rate to June 30, 2015	301,600		
38	Alt: Impose 20% surtax on B&O tax rates, excluding aerospace and hospitals through June 30, 2015 -- and extend 1.8% service rate to June 30, 2015 -- and double small business credit for affected taxpayers	284,200		
39	<a href="#">Repeal all preferential B&amp;O tax rates</a>	287,800		
40	Impose 10% surtax on B&O tax rates, excluding those with a 0.3% surcharge -- and double small business credit for affected taxpayers	156,000		
41	<a href="#">Repeal all preferential B&amp;O tax rates, excluding aerospace, retailing, and radioactive waste cleanup</a>	137,100		
42	<a href="#">Increase B&amp;O tax rate on oil companies with windfall profits</a>	131,000 <sup>i</sup>		131,000
43	Impose 5% surtax on B&O tax rates, excluding aerospace and those with a 0.3% surcharge	83,100		

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

	FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
44 <b><u>Increase B&amp;O tax rate on financial institutions with windfall profits</u></b>	53,800 <sup>i</sup>		53,800
45 Reduce the benefit of all preferential B&O tax rates by 25%	53,300		
46 <u>Increase B&amp;O tax rate for manufacturing petroleum fuels (0.484% to 1% rate)</u>	50,100		
47 Repeal preferential B&O tax rate for meat processors (increases rate from 0.138% to 0.484%)	19,300 <sup>iii</sup>		
48 <b><u>Alt: Limit B&amp;O tax preferences for meat processors, fruit and vegetable processors</u></b>	900 <sup>i</sup>		900
49 <u>Repeal preferential B&amp;O tax rate for retailing (increases rate from 0.471% to 0.484%)</u>	19,300		
50 <u>Repeal preferential B&amp;O tax rate for royalties (increases rate from 0.484% to 1.8%)</u>	18,200		
51 <u>Repeal preferential B&amp;O tax rate for international investment management (increases rate from 0.275% to 1.5%)</u>	8,300		
52 Repeal preferential B&O tax rate for flour and oil manufacturing (increases rate from 0.138% to 0.484%)	200 <sup>iii</sup>		
53 Extend 1.8% service B&O rate (0.3% surcharge) to June 30, 2017	0 <sup>2</sup>		
<b>Tax on Income/Capital Gains</b>			
54 <u>Impose 5% excise tax on capital gains (\$5,000 exemption single/\$10,000 exemption joint filing)</u>	727,500		
55 <u>Alt: Impose 5% excise tax on capital gains (\$10,000 exemption single/\$20,000 exemption joint filing)</u>	698,000		
56 Impose a flat rate income tax on high-income individuals	67,000 <sup>3 iii</sup>		
57 Impose an income tax on joint incomes over \$400,000	0 <sup>4</sup>		
<b>Property Taxes</b>			
58 <u>Increase property tax state levy to \$3.60 limit</u>	624,700		
59 Repeal low income property tax deferral	200 <sup>iii</sup>		
60 Repeal property tax exemption for nonsectarian social service organization	Shift <sup>5</sup>		
61 Repeal property tax exemption for nonprofit nursing homes	Shift <sup>5</sup>		
62 <u>Repeal property tax exemption for nonprofit hospitals</u>	Shift <sup>5</sup>		

<sup>2</sup> The surcharge is in place through FY 2013, so extending the surcharge has no impact in FY 2013.

<sup>3</sup> Estimate based on June 2011 revenue forecast and reflects only one quarterly payment in FY2013.

<sup>4</sup> Implementation of the tax would cause a delay in revenues until FY 2014.

<sup>5</sup> Repealing a property tax exemption causes tax rates to decrease and does not result in new revenue. The exempt property owner now pays taxes and all other property owners pay slightly less tax. Thus, the tax "shifts" to the exempt property owner.

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

		FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
63	Repeal property tax exemption for airports located in Washington owned by cities in a neighboring state	Shift <sup>5</sup>		
64	Repeal property exemption for nonprofit orphanages	Shift <sup>5</sup>		
65	Repeal property tax exemption for sheltered workshops	Shift <sup>5</sup>		
<b>Public Utility Taxes (PUT)</b>				
66	<u>Impose 25% surtax on all PUT rates</u>	94,400		
67	<u>Alt: Impose 10% surtax on all PUT rates</u>	37,800		
68	<u>Increase the PUT rates on motor transportation (1.926%), urban transportation (0.642%) and log transportation activities (1.3696%) to 3.852% for each</u>	30,000		
69	Repeal PUT deduction for in-state portion of interstate transportation	28,000		
70	<u>Impose PUT on home and community based services at 5.029%</u>	20,800		
71	<b><u>Alt: Impose PUT on developmental disabilities supported living services at 5.029%</u></b>	<b>11,600<sup>i</sup></b>		<b>11,600</b>
72	<u>Shift sewerage collection (3.852%) and refuse collection (3.6%) from PUT to retailing B&amp;O tax (0.471%) and retail sales tax (6.5%)</u>	16,200		
73	Impose PUT on cable and satellite TV at 6% rate with a tax credit for franchise fees paid	15,300 <sup>ii</sup>		
74	<u>Impose PUT on all sewerage utility activities (increases tax rate from 1.8% to 3.852%)</u>	11,800		
75	Repeal preferential PUT rate for urban transportation and vessels (increases tax rate from 0.642% to 1.926%)	6,000 <sup>iii</sup>		
76	Repeal PUT deduction for sales of irrigation water	1,100 <sup>iii</sup>		
<b>Real Estate Excise Tax (REET)</b>				
77	<u>Increase the state REET rate from 1.28% to 1.6%</u>	87,500		
78	Limit REET "foreclosure" exemption by excluding subsequent sales	26,100 <sup>ii</sup>		
79	<u>Repeal REET exemption for sales of government property to private purchasers</u>	7,700		
80	Repeal REET exemption on certain property transfers between related entities	7,100 <sup>iv</sup>		
<b>Retail Sales and Use Tax</b>				
<b>➤ Expand Retail Sales Tax Base (Exemptions and Deductions)</b>				
81	<u>Impose sales tax on most services</u>	1,581,700		
82	<u>Alt: Impose sales tax on most services, excluding purchases by businesses</u>	713,200		
83	<u>Alt: Impose sales tax on selected business services only</u>	660,600		

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

		FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
84	<a href="#">Alt: Impose sales tax on financial, insurance, and real estate services only</a>	195,200		
85	<a href="#">Alt: Impose sales tax on selected consumer services only</a>	94,000		
86	<a href="#">Repeal sales tax exemption for food and food ingredients</a>	819,700		
87	<a href="#">Repeal sales tax exemption for motor vehicle fuel</a>	736,300		
88	<a href="#">Repeal sales tax exemption for manufacturing machinery and equipment (M&amp;E exemption)</a>	223,600		
89	<a href="#">Alt: Limit M&amp;E exemption to production machinery and equipment only</a>	74,700		
90	<a href="#">Alt: Limit M&amp;E exemption to machinery and equipment used exclusively for manufacturing</a>	71,200		
91	<a href="#">Repeal sales tax trade-in exemption</a>	104,500		
92	<a href="#">Alt: Repeal sales tax trade-in exemption for motor vehicles only</a>	88,800		
93	<a href="#">Alt: Repeal sales tax trade-in exemption for boats, trailers, mobile homes, appliances only</a>	3,300		
94	<a href="#">Repeal sales tax exemption for items used in interstate commerce (aircraft fuel)</a>	101,100		
95	<a href="#">Repeal sales tax exemption for most agricultural purchases</a>	71,900		
96	<a href="#">Impose sales tax on all amusement and recreation services</a>	57,400		
97	<a href="#">Alt: Impose sales tax on all amusement and recreation services – exclude all K-12 and youth nonprofit activities</a>	55,400		
98	Repeal sales tax exemption for fertilizers, sprays, and washes sold to farmers	54,500		
99	<a href="#">Alt: Limit sales tax exemption for fertilizers, sprays, and washes sold to farmers to organic products only</a>	40,900		
100	Repeal sales tax exemption for labor on public road construction	43,300 <sup>iii</sup>		
101	<a href="#">Repeal sales tax exemption for bottled water</a>	29,400		
102	Repeal sales tax exemption for candy and gum	29,100		
103	Impose sales tax on custom software programming services	28,600		
104	<b><a href="#">Repeal sales tax exemption for purchases made by nonresidents (from states with a sales tax of &lt;3%)</a></b>	<b>23,400<sup>i</sup></b>		<b>23,400</b>
105	<a href="#">Alt: Limit sales tax exemption for purchases made by nonresidents -- require merchant to collect sales tax; nonresident may apply for a refund of state share only</a>	17,700		
106	Repeal sales tax exemption for over-the-counter drugs purchased with a prescription	22,100 <sup>ii</sup>		
107	<a href="#">Repeal use tax exemption for fuel used to run refineries</a>	20,900		
108	Repeal sales tax exemption for food products baked and sold onsite	18,000 <sup>ii</sup>		
109	Impose sales tax on janitorial services	15,300		

**BOLD = Governor's Recommendation**

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

	FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
110	Impose sales tax on security brokerage services	14,100 <sup>iv</sup>	
111	Repeal sales tax exemption for coal used at a coal-fired thermal electric generation facility	8,400 <sup>iv</sup>	
112	Repeal sales tax exemption for replacement parts and repair services for farming machinery and equipment	7,700	
113	<a href="#">Repeal sales tax exemption for newspapers</a>	7,000	
114	Impose sales tax on cosmetic/reconstructive surgery not covered by health insurance	4,600	
115	<a href="#">Repeal grain elevator/warehouse tax preference (allows refund of sales tax on construction and equipment purchases)</a>	3,900	
116	Repeal sales tax exemption for diesel, biodiesel, and aircraft fuel for farm use	3,800	
117	Repeal sales tax exemption for property bought at a farm auction	2,600 <sup>iii</sup>	
118	Repeal sales tax exemption for leased irrigation equipment	2,500	
119	Require full sales tax on all vending machine sales of food -- currently taxed on 57% of sales revenue	900	
120	<a href="#">Repeal sales tax exemption for propane used to heat chicken barns</a>	800	
121	<a href="#">Repeal sales tax exemption for chicken bedding materials</a>	256 <sup>iii</sup>	
122	Require full sales tax on all vending machine sales of low-cost items (<5 cents) -- currently taxed on 60% of sales revenue	200	
123	Repeal sales tax exemption for repaired goods delivered out-of-state	0 <sup>6</sup>	
124	Repeal sales tax exemption for renewable energy machinery and installation	0 <sup>7</sup>	
	<b>➤ Retail Sales Tax Rates</b>		
125	<a href="#">Increase state sales tax rate temporarily from 6.5% to 7.5%</a>	990,400	
126	<b><a href="#">Alt: Increase state sales tax rate temporarily from 6.5% to 7.0%</a></b>	<b>494,100<sup>i</sup></b>	<b>494,100</b>
127	<a href="#">Alt: Increase state sales tax rate temporarily from 6.5% to 6.9%</a>	398,800	
128	<a href="#">Alt: Increase state sales tax rate temporarily from 6.5% to 6.6%</a>	100,000	
129	Increase state sales tax on food and drinks at restaurants from 6.5% to 7.5%	95,900	
130	Increase state sales tax rate on boats, boat trailers and travel trailers from 6.5% to 6.8%	1,637	
	<b>Administration and Fees</b>		
131	<a href="#">Increase the initial business license fee from \$15 to \$100, and establish an annual renewal fee of \$25</a>	28,600	

<sup>6</sup> Due to change to destination based sourcing the elimination of this exemption would not result in any revenue impact.

<sup>7</sup> Exemption set to expire on June 30, 2013.

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

		FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
132	<a href="#">Reduce the time to claim an excise tax refund from the current five years to two years</a>	9,500		
133	<a href="#">Alt: Reduce the time to claim an excise tax refund to three years</a>	5,400		
134	<a href="#">Alt: Reduce the time to claim an excise tax refund to four years</a>	<b>2,100<sup>i</sup></b>	<b>2,100</b>	
135	<a href="#">Establish personal liability of certain corporate officers for unpaid business excise taxes</a>	7,700		
136	<a href="#">Increase the interest rate on excise tax assessments to an amount equal to the average rate for consumer credit</a>	7,300		
137	<a href="#">Alt: Increase the interest rate on excise tax assessments by 2% to equal the federal short-term rate plus 4%</a>	<b>1,200<sup>i</sup></b>	<b>1,200</b>	
138	<a href="#">Create a fourth penalty level (35%) for unpaid taxes</a>	6,700		
139	<a href="#">Require local governments that issue building permits to supply subcontractor information to the Department of Revenue</a>	<b>2,600<sup>i</sup></b>	<b>2,600</b>	
140	<a href="#">Prohibit delinquent taxpayers from renewing liquor licenses</a>	<b>1,000<sup>i</sup></b>	<b>1,000</b>	
141	<a href="#">Impose a \$10 fee per invoice issued to a taxpayer for unpaid taxes (balance due notices, assessments, warrants, etc.)</a>	<b>900<sup>i</sup></b>	<b>900</b>	
142	<a href="#">Impose a 1% fee for administration of state-shared local sales taxes</a>	900		
143	<a href="#">Impose a \$25 fee for the issuance and renewal of reseller permits</a>	<b>700<sup>i</sup></b>	<b>700</b>	
144	<a href="#">Impose a \$100 fee for each tax warrant issued by the Department of Revenue</a>	600		
145	<a href="#">Reduce the interest rate on excise tax refunds to the federal short-term rate</a>	500		
A	Extend \$30 Homeless Housing and Assistance Act document recording surcharge through January 30, 2017. Surcharge is set to expire June 30, 2013. Funds from the surcharge support programs that help the homeless.	TBD		
<b>Miscellaneous Taxes and Preferences</b>				
146	<a href="#">Combine oil spill taxes and tax crude oil and petroleum products at 5% of value of product</a>	408,300		
147	<a href="#">Alt: Combine oil spill taxes and tax crude oil and petroleum products at 0.7% of value of product</a>	60,400		
148	<a href="#">Impose motor vehicle excise tax (MVET) at 0.55% tax rate on all vehicles</a>	276,700		
149	<a href="#">Increase hazardous substance tax from 0.7% to 2% of wholesale value</a>	239,200		
150	Repeal aircraft fuel tax exemptions for exports and commercial use	138,800 <sup>iii</sup>		
151	<a href="#">Impose bottled water tax of 1 cent per ounce</a>	137,300		
152	<a href="#">Repeal the current suspension threshold for the petroleum products tax and make the tax permanent</a>	59,900		
153	Accelerate expiration date to June 30, 2012 for all tax incentives scheduled to expire on or before	52,800		

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

	FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
December 31, 2015			
154	<a href="#">Impose carbonated beverage tax of 2 cents per 12 ounces</a>	41,600	
155	<a href="#">Impose 5% state admissions tax - exclude all K-12 and youth nonprofit activities</a>	39,800	
156	<a href="#">Alt: Impose 5% state admissions tax - exclude all K-12, youth nonprofit, and college activities</a>	37,500	
157	<a href="#">Alt: Impose 5% state admissions tax - exclude all K-12, nonprofit, and college activities</a>	28,900	
158	<a href="#">Increase oil spill tax from 4 cents to 50 cents per barrel</a>	37,900	
159	Increase the cigarette tax \$1 - from \$3.025 to \$4.025	37,725	
160	<b><a href="#">Alt: Increase the cigarette tax 25 cents - from \$3.025 to \$3.275</a></b>	<b>12,400<sup>i</sup></b>	<b>12,400</b>
161	Reduce all business preferential tax rates, credits and deductions by 3% (does not include exemptions)	33,000	
162	<a href="#">Impose 10% luxury tax on recreational watercraft - \$50,000 threshold</a>	30,400	
163	<a href="#">Alt: Impose 10% luxury tax on recreational watercraft - \$50,000 deduction</a>	13,700	
164	<a href="#">Impose 10% luxury tax on passenger motor vehicles - \$50,000 threshold</a>	28,300	
165	<b><a href="#">Alt: Impose 5% luxury tax on passenger motor vehicles - \$50,000 threshold</a></b>	<b>14,200<sup>i</sup></b>	<b>14,200</b>
166	<a href="#">Alt: Impose 10% luxury tax on passenger motor vehicles - \$50,000 deduction</a>	10,600	
167	Impose an annual 1% excise tax on the value of RV's and travel trailers	21,800	
168	<a href="#">Legalize marijuana and impose cigarette tax on sales</a>	21,700 <sup>iv</sup>	
169	<a href="#">Repeal B&amp;O tax credit for syrup tax paid and increase the syrup tax from \$1 to \$2 per gallon</a>	15,300	
170	<b><a href="#">Impose 1.5% gross receipts tax on gambling and lottery winnings</a></b>	<b>13,100<sup>i</sup></b>	<b>13,100</b>
171	<a href="#">Impose \$2 fee on all wireless devices (cell phones, laptops, etc.)</a>	11,700	
172	Repeal statute allowing tax-free sales to Washington residents by certain out-of-state merchants that sell through an online vendor based in Washington	10,800	
173	<a href="#">Impose 10% luxury tax on general aviation aircraft - \$50,000 threshold</a>	5,700	
174	<a href="#">Alt: Impose 10% luxury tax on general aviation aircraft - \$50,000 deduction</a>	5,600	
175	Repeal insurance premiums tax exemption for fraternal organizations	3,600 <sup>iii</sup>	
176	Require out-of-state online merchants that receive customer referrals from Washington affiliates to pay tax in Washington	3,300 <sup>v</sup>	
177	Repeal insurance premiums tax preferential rate for ocean marine insurance	1,700 <sup>iii</sup>	
178	Increase tax per cigar 35 cents - from \$0.65 to \$1.00	200 <sup>ii</sup>	

## Revenue Alternatives Reviewed by Governor Gregoire (Dollars in Thousands)

		FY2013 Estimate <sup>1</sup>	50% Vote Required	2/3 Vote Required
179	<u>Reduce estate tax threshold from \$2 million to \$1 million</u>	0 <sup>8</sup>		
180	<u>Alt: Reduce estate tax threshold from \$2 million to \$1,500,000</u>	0 <sup>8</sup>		
181	<u>Double current estate tax rates (increase from 10% and 19% to 20% and 38%)</u>	0 <sup>8</sup>		
<b>Unclaimed Property</b>				
182	<b><u>Convert securities reported as unclaimed property immediately upon receipt</u></b>	<b>50,600<sup>9</sup></b>	<b>50,600</b>	
183	<u>Require unused gift cards to be reported as unclaimed property after three years</u>	7,100		
<b>Securitization (Revenue Bonds)</b>				
184	Securitize a revenue stream to advance the availability of funds -- e.g., liquor revenues, lottery proceeds, public works account, or other revenue streams	indeterminate		
<b>Gaming Expansion</b>				
185	Expand Lottery and gambling revenue options by considering Multi-Draw KENO, implementing Video Lottery Terminals, opening a state run casino, auctioning licenses for non-tribal casinos and privatizing the State's Lottery	indeterminate		

<sup>i</sup> Estimate based on Nov. 2011 Revenue Forecast

<sup>ii</sup> Estimate based on June 2010 Revenue Forecast

<sup>iii</sup> Estimate based on June 2011 Revenue Forecast

<sup>iv</sup> Estimate based on Nov. 2010 Revenue Forecast

<sup>v</sup> Estimate based on March 2011 Revenue Forecast

<sup>8</sup> Assumes a Jan. 1, 2013 effective date. Estate tax is due nine months after date of death, so first impact is Oct. 1, 2013.

<sup>9</sup> This is a one-time sale of accumulated securities. Actual value will vary depending on market value on date of sale.

WASHINGTON STATE OFFICE OF FINANCIAL MANAGEMENT  
INSURANCE BUILDING • PO BOX 43113  
OLYMPIA, WA 98504-3113 • 360-902-0555 • FAX 360-664-2832