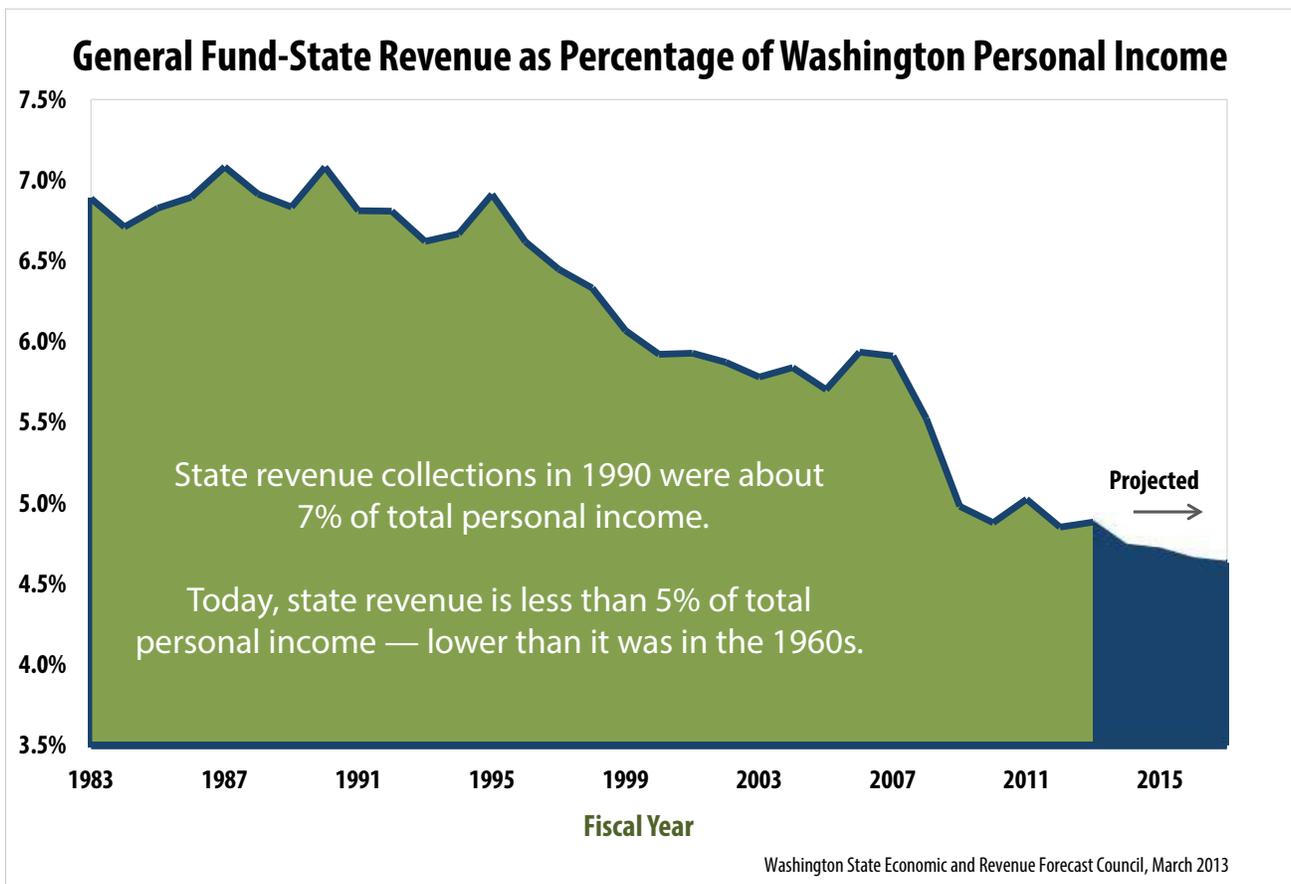


Revenue



Closing tax breaks to fund education and meet other obligations

Washington's fragile economic situation requires a thoughtful, strategic and focused approach to funding education and other budget obligations. Governor Inslee does not believe this is the time for general tax increases. And he has stressed that we will not meet our education funding responsibilities by making deeper cuts to other vital services for children, seniors and vulnerable adults.

Instead, Governor Inslee is putting forward a funding solution that will meet our basic education needs while minimizing the impact on our economy. First, he proposes eliminating tax breaks that have either proven to be ineffective at improving economic outcomes or whose benefits simply do not outweigh the needs of our students. Second, he proposes extending tax rates that are already in place.

Almost \$1.2 billion of the new revenue will be dedicated to the Education Legacy Trust Account to make significant improvements in education.

Many tax breaks serve an obvious benefit. For example, the voter-approved sales tax exemption on food is estimated to save consumers more than \$2.7 billion in state and local taxes during the current biennium. But many other tax breaks are harder to justify, especially when weighed against educating children.

The Joint Legislative Audit and Review Committee has recommended several dozen exemptions be given additional scrutiny, terminated or allowed to expire. But the Legislature has acted on very few of those recommendations, and many more tax breaks have yet to be reviewed by the committee.

Governor Inslee's budget office worked with the Department of Revenue to review dozens of tax breaks. Based on that review, the Governor is proposing eliminating or modifying a dozen tax breaks worth more than \$500 million in the 2013–15 biennium.

In addition, the Governor proposes trimming the break that many industries get on their business and occupation (B&O) tax rates. The state's B&O tax code now includes preferential tax rates that benefit about 40 industries, from the manufacturers of certain agricultural products to travel agencies and international investment management. Industries with a preferential rate do not pay the same B&O tax rate other businesses pay for their specific classification.

Many of these preferential rates have been enacted in the past 15 years, often without any specific, measurable public policy objectives. For example, income from royalties, which is classified as a service, would normally require payment of the standard service B&O tax rate of 1.5 percent, but instead requires payment of a much lower rate of 0.484 percent.

The Governor proposes to reduce the value of these special tax rates by 25 percent for all industries except aerospace and radioactive waste cleanup by the federal government.

The Governor also supports continuing certain tax rates that are set to expire June 30. In 2010, lawmakers approved a 0.3 percent increase to the B&O tax paid by doctors, lawyers, accountants and others, and a 50-cent-per-gallon beer tax. Continuing both — and including small brewers in the beer tax — will yield more than \$660 million in the next biennium.