

February 27, 2001

Despite Budget Crisis, Legislators Propose \$977.9 Million in Tax Cuts

For seven consecutive years, the Legislature has reduced taxes on an unprecedented scale. Faced with the worst revenue shortfall in two decades, legislators show little sign of losing their appetite for additional tax cuts.

PENDING LEGISLATION

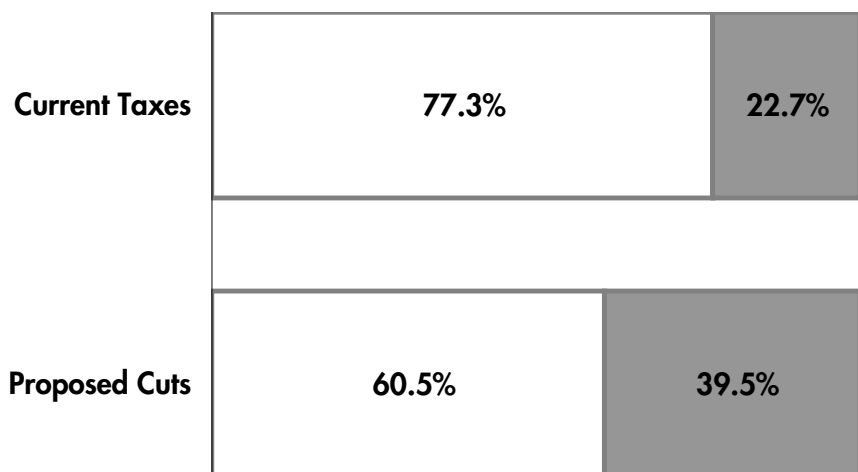
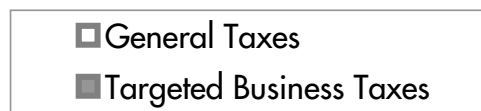
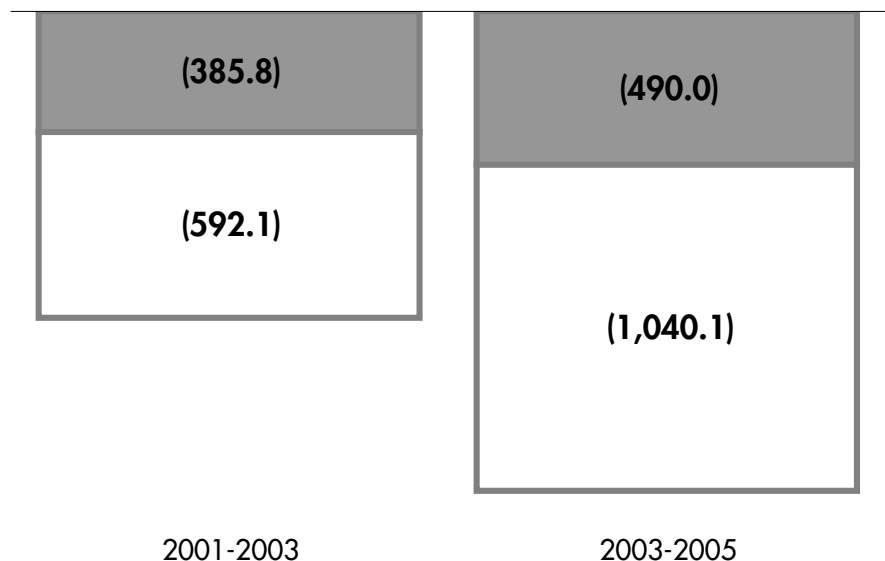
Several thousand bills are introduced each session, but only a handful are enacted into law. This session nearly a hundred bills have been introduced reducing general fund revenues. They range from efforts to phase out the state property tax to tax expenditures for local government (credits against state taxes for undertaking local spending on public facilities).

Excluding companion bills – duplicate legislation introduced simultaneously in the opposite house – a total of \$1.8 billion in general fund reductions have been proposed for the 2001-2003 biennium.

Aggregating tax proposals (to avoid double-counting the revenue loss from overlapping cuts) reveal a non-duplicative impact of \$977.9 million for 2001-2003 and over \$1.5 billion for 2003-2005. Experts downplay the likelihood of passage of most of

Cost of Proposed Tax Reductions

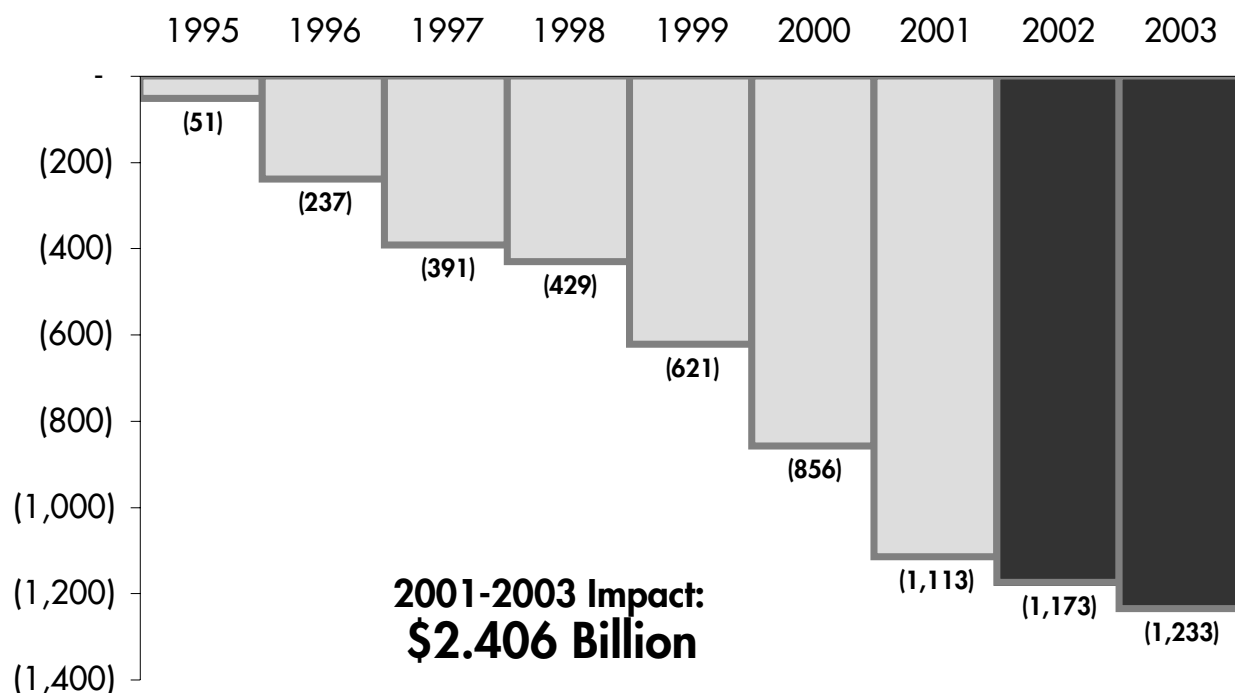
Non-Duplicative Aggregates, Legislation introduced as of February 15
Millions of Current Dollars



Sources: 2001 Fiscal Notes (including some preliminary data) and Fiscal Policy Center estimates. Tax data is initial incidence excluding general taxes (Property and Sales/Use).

Cumulative Impact of Tax Changes Enacted Since 1994

General Fund, Millions of Current Dollars, Fiscal Years



these bills, but new momentum has emerged with the ruling against Initiative 722.

BUSINESS TAXES

Over half of the tax proposals and 39.5 percent of the 2001-2003 revenue impact is specifically targeted at businesses. Relief proposed is close to double the proportion of current taxes – only 22.7 percent are levied solely on businesses. The vast majority of these bills involve exemptions and rate reductions to the business and occupation tax.

It is important to distinguish between the initial and ultimate incidence of taxes. Although the business and occupation tax is assessed on businesses, much of it is simply passed along to consumers in the form of higher prices. Similarly, the sales tax, collected from consumers, tends to depress

pre-tax prices, and thus is partially borne by businesses. Washington is one of only six states that does not tax corporate profits; to the extent profits are significantly taxed, it is through the business and occupation and property taxes.

TAX INCREASES?

Washington's poor fiscal outlook, made bleaker by recent caseload projections, has nonetheless done nothing to spur consideration of tax increases. As of February 22nd, only a proposal to change the method of taxing electricity producers would boost general fund revenues – by roughly \$300 million. Nonetheless, the legislation (which establishes a planning commission) is unlikely to produce new revenues for non-energy purposes.

At the same time, Washington's present revenue shortfall reflects the impact of seven years of tax cuts.

Since passage of Initiative 601 in 1993, the Legislature, ballot initiatives, and referendums have collectively slashed a host of taxes. Constrained by the 601 spending limit, lawmakers have reduced the size of government in real per capita terms, funding property and business tax reductions.

The 2001-2003 revenue cost of tax changes since 1993 is \$2.4 billion. Enacting further tax cuts will increase the budget deficit.



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