

WHY I-1098 IS RIGHT FOR WASHINGTON

By Marilyn Watkins, Ph.D.

Summary: Initiative 1098 will reduce taxes for most Washington households by cutting property taxes and exempting small businesses from the business and occupation tax. I-1098 will also raise new revenue dedicated to education, health and long-term care by adding a modest tax on the wealthiest 1.2% – the group that is now paying the lowest proportion of income in state and local taxes.

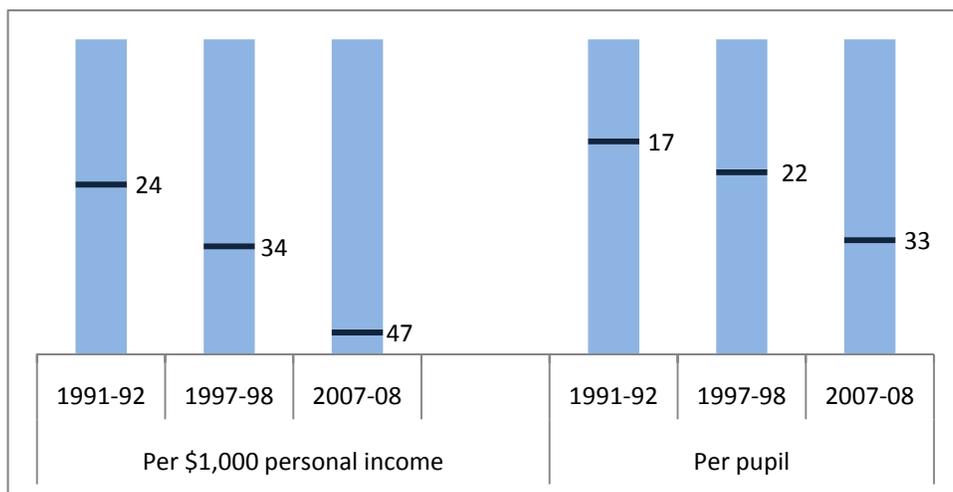
Washington has fallen behind in providing the education system and public services our people and businesses need to thrive in the global economy. The state struggled to fund upgrades to education and health care even before the recession. Budget cuts of the last two years have pushed us further behind. I-1098's reforms lay the foundations for stronger economic growth and greater opportunity for all people in Washington.

SIX REASONS WHY I-1098 IS RIGHT FOR WASHINGTON

Reason 1: We're Falling Behind in K-12 Education

Washington has been losing ground in funding high priority public services for two decades. From the 1991-92 school year to 2005-06, Washington's rank among all the states in funding K-12 education fell from 17th to 37th on a per pupil basis. Then the legislature increased allocations to education, including fully funding the Student Achievement Fund. That pushed Washington's rank in per pupil spending up to 33rd in 2007-08. Relative to the state's personal wealth, however, the state's decline has been relentless. According to that measure, our rank fell from from 24th in 1991-92 to 47th in 2007-08.¹

WASHINGTON'S RANK AMONG ALL STATES IN K-12 SPENDING



Source: U.S. Census, Annual Survey of Local Government Finances – Public Education

BLUEPRINT for change

SEPTEMBER 2010
UPDATE

47TH

WASHINGTON'S
RANK IN K-12
SPENDING PER
\$1,000 PERSONAL
INCOME

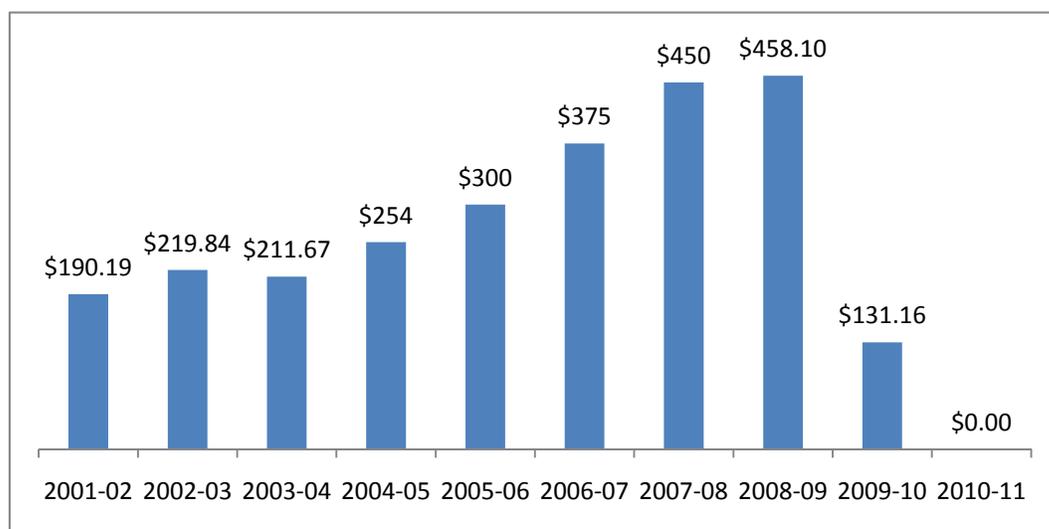
\$0

PER STUDENT
ALLOCATION FOR
STUDENT
ACHIEVEMENT,
2010-11

Budget cuts of the last two years undermine hard-won gains for Washington kids. Voters created the Student Achievement Fund in 2000 with the passage of Initiative 728 to reduce class size, provide extended learning opportunities, offer preschool to help prepare children for kindergarten, and provide other supports to students. Each school district decides with citizen input which of the authorized uses best suit the needs of its students.²

However, I-728 has always depended on the state general fund.³ In good economic times, the legislature is able to appropriate sufficient general revenues. Between 2005-06 and 2007-08, the legislature increased the per student allocation for student achievement from \$300 to \$450, accounting for Washington's climb in the national rankings. But because of the deep recession, the I-728 allocation will fall from \$458 in 2008-09 to zero in 2010-11. That cut alone will drop Washington back from 33rd to 38th in per pupil funding, behind Alabama and just ahead of Montana.⁴

ANNUAL PER PUPIL ALLOCATIONS FOR STUDENT ACHIEVEMENT (INITIATIVE 728)



Sources: Washington Office of the Superintendent of Public Instruction, *About I-728*; and Legislative Evaluation and Accountability Program Committee, *2010 supplemental budget notes*

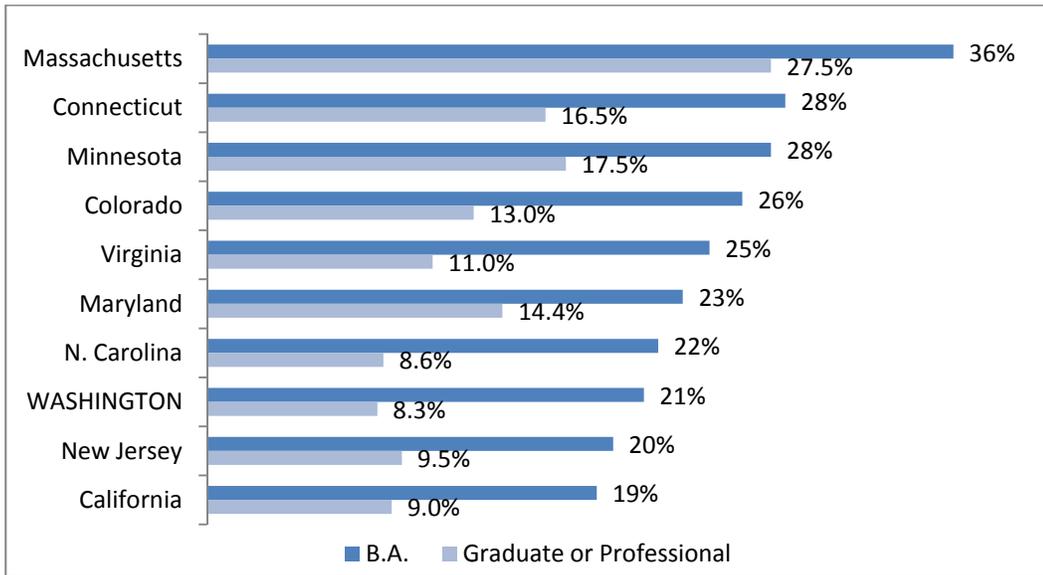
The reduction in Student Achievement funding is only one of many cuts to K-12 education in Washington. The legislature also suspended voter-approved teacher cost-of-living adjustments, reduced levy equalization for property-poor districts, and made other cuts in the 2009-11 state budget.⁵ New policy advances that will help provide real educational opportunity to all our state's kids also remain unfunded, including full-day kindergarten, additional preschool availability, and more rigorous high school requirements.

Reason 2: Higher Education Is Moving Out of Reach

Washington is lagging behind other states in awarding college degrees. Among the 50 states, we rank 37th in awarding bachelor degrees and 39th in graduate degrees as a percentage of our young adult population.⁶ Compared to our key economic competitor states, the "global challenge states," Washington is last in awarding graduate degrees and 7th out of 10 in bachelor degrees.⁷

B.A. AND GRADUATE DEGREES AWARDED PER 1,000 POPULATION

AGES 20-34, GLOBAL CHALLENGE STATES

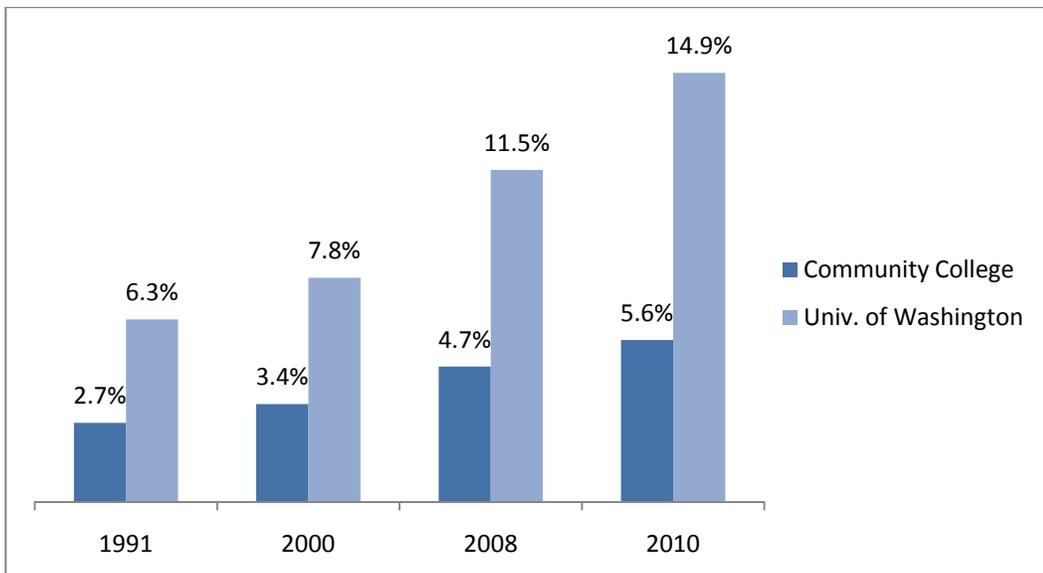


Source: Washington Learns

Meanwhile, the traditional college-age population has been growing faster than overall population growth, and more older adults are seeking job retraining. The state's strategic plan calls for expanding the total number of degrees, certificates, and apprenticeships by 40% over two decades.⁸ But instead of expanding, the 2009-11 state budget cut higher education funding by \$560 million.⁹

TUITION AND FEES AT UNIV. OF WASHINGTON AND COMMUNITY COLLEGES

AS A PERCENTAGE OF STATE MEDIAN HOUSEHOLD ANNUAL INCOME, 1991 - 2010



Sources: Washington Higher Education Coordinating Board; Office of Financial Management; U.S. Census Bureau, American Community Survey 2008 and Current Population Survey 2009¹⁰

37TH

WASHINGTON'S
RANK AMONG THE
STATES IN
AWARDING
BACHELOR
DEGREES

\$560

MILLION

DOLLARS CUT
FROM HIGHER
EDUCATION
FUNDING, 2009-11
STATE BUDGET

30%

TUITION INCREASE
AT STATE
UNIVERSITIES,
2009-11

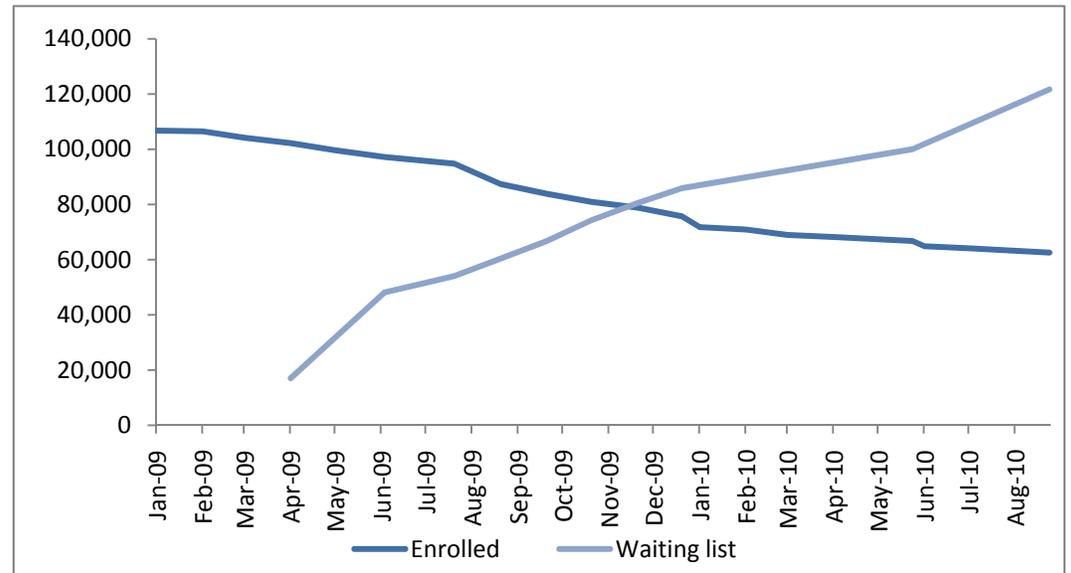
A portion of those cuts is being made up by hefty tuition increases. The 2009-11 state budget raised tuition by 30% over two years at the state's universities, and by 14% at community and technical colleges. Funding for financial aid rose too, but the number of students receiving state need grants increased by just 2% from 2008-09 to 2009-10, while the number of eligible but not served students increased by more than 50%.¹¹

These tuition increases are only the most recent in a thirty year history of shifting the cost of college education from the state to students and their families.¹² As a result, tuition has soared relative to family income, pushing college increasingly out of reach for middle-income families.

Reason 3: We're Not Investing Enough for a Healthy Population

In 2008, over 800,000 Washington residents lacked health insurance.¹³ Since then, the ranks of the unemployed have increased while health care costs have continued to soar, adding many more to the uninsured.¹⁴ Yet state budget deficits have forced suspension of state funding for children's vaccines, cuts in services for fragile elderly and disabled people, and a 43% reduction in funding for the Basic Health Plan (BHP) for low income working adults.¹⁵ The BHP cuts mean that 40,000 fewer Washingtonians have health coverage, and many of those remaining on the plan have higher premiums. By late August 2010, BHP's waitlist represented more than 120,000 individuals.¹⁶

WASHINGTON'S BASIC HEALTH PLAN: ENROLLED VS. WAITING LIST



Source: Washington State Basic Health, <http://www.basichealth.hca.wa.gov/>

Budget cuts have also resulted in cuts to services that help Washington's seniors and people with disabilities stay as healthy and live as independently as possible. In-home care hours, adult day health programs, information and referral services and nursing home funding have all been cut.¹⁷ Looking ahead, the number of seniors over age 85 is expected to increase more than twice as fast as the general population in coming years, increasing the need for long term care and other services – and the pressure on the state budget.¹⁸

122

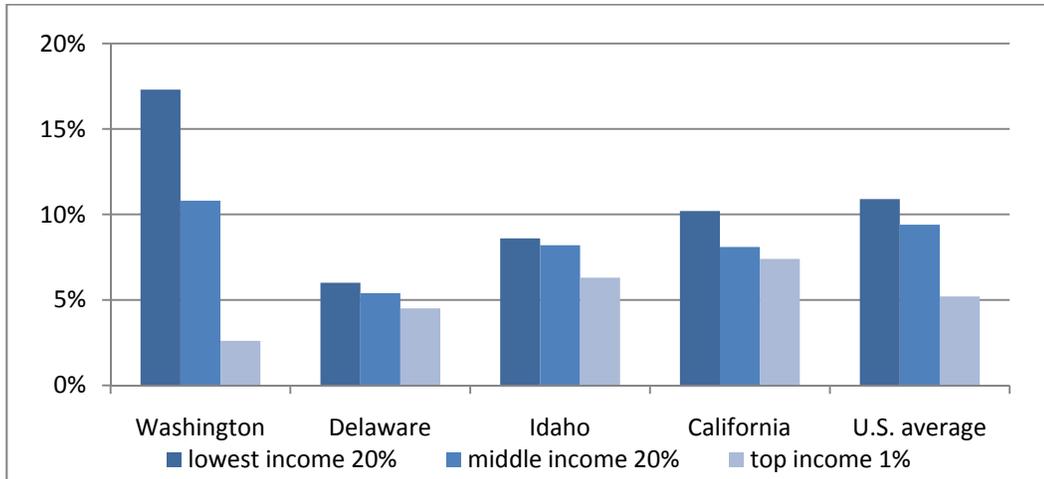
THOUSAND

PEOPLE ON
WAITLIST FOR
STATE BASIC
HEALTH PLAN –
AND GROWING

Reason 4: Our Current Tax Structure Is Unfair

Washington over-taxes low and middle income residents and under-taxes our wealthiest citizens. The lowest income 20% of non-elderly taxpayers pay over 17% of their income in state and local taxes, while those in the middle pay about 11% and the wealthiest 1% pay less than 3%. Repeated studies have found that Washington's tax system is the most regressive in the nation.¹⁹

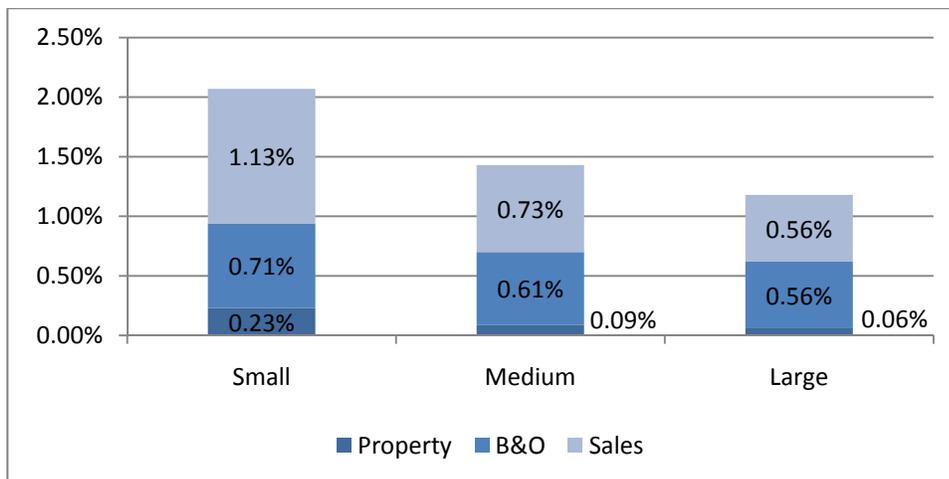
PERCENTAGE OF INCOME PAID IN STATE AND LOCAL TAXES
NON-ELDERLY TAXPAYERS



Source: Institute for Taxation and Economic Policy, *Who Pays?*, 2009

Washington's tax system also disadvantages small and new businesses. Small businesses pay a higher percentage in taxes than mid-size or large companies.²⁰ And because the business and occupation tax is on gross receipts, firms have to pay it even when they make no profit.

STATE TAXES PAID BY WASHINGTON BUSINESSES
(AS A PERCENTAGE OF GROSS INCOME, BY FIRM SIZE)



Source: Washington Department of Revenue, 2002 data

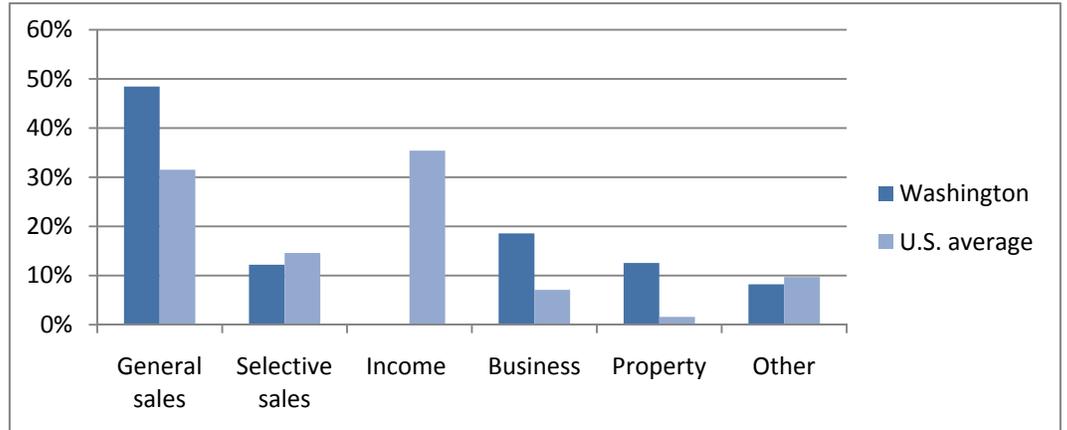
#1

WASHINGTON'S
RANK IN A STUDY
OF THE MOST
REGRESSIVE STATE
TAX STRUCTURES

Reason 5: Our Current Tax Structure is Out-of-Date

Other states have surpassed Washington in funding education and have less regressive tax systems, because most have an income tax. Washington is one of only seven states with no income tax. The other seven (Alaska, Florida, Nevada, South Dakota, Texas and Wyoming) have other sources of revenue, including from oil, minerals, gambling and tourism. On average among the states, individual income taxes contribute about one-third of General Fund revenues.²¹

SOURCES OF STATE REVENUE, WASHINGTON AND U.S. AVERAGE, 2007



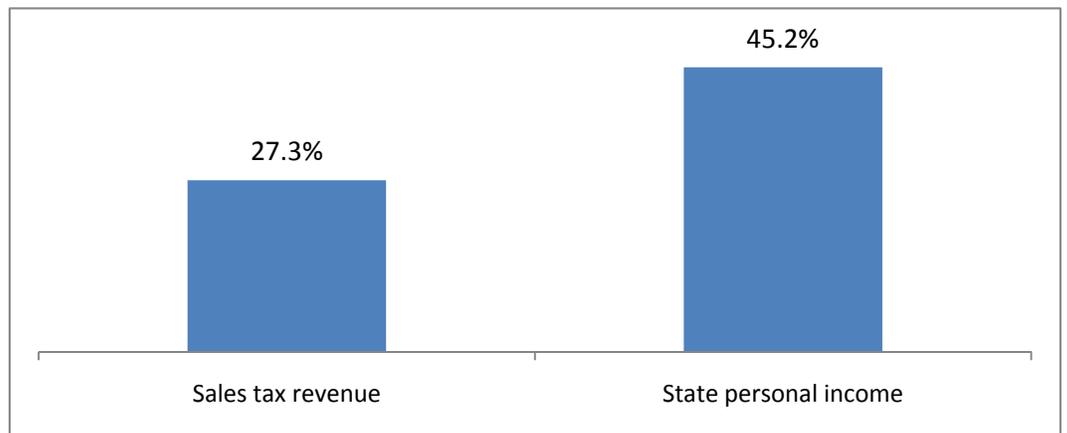
Source: Federation of State Administrators and Washington Department of Revenue

35%

**INCOME TAX AS A
PERCENTAGE OF
STATE BUDGETS,
U.S. AVERAGE**

Income taxes help other states keep up with the demand for services because personal incomes grow at the same rate as overall economic growth. In contrast, the sales tax, which provided 56.5% of Washington's General Fund in the 2007-09 biennium, is growing much more slowly. From 2000 to 2009, personal income in Washington grew by 45.2%, but sales tax revenues grew by only 27.3%.²² This is because people are spending more on services on which sales tax is not charged, for example, health care, beauty salons, and attorneys. People are also buying more goods over the internet – often without paying sales tax.

**PERCENTAGE INCREASE IN WASHINGTON SALES TAX REVENUE
AND STATE PERSONAL INCOME, 2000 TO 2009**



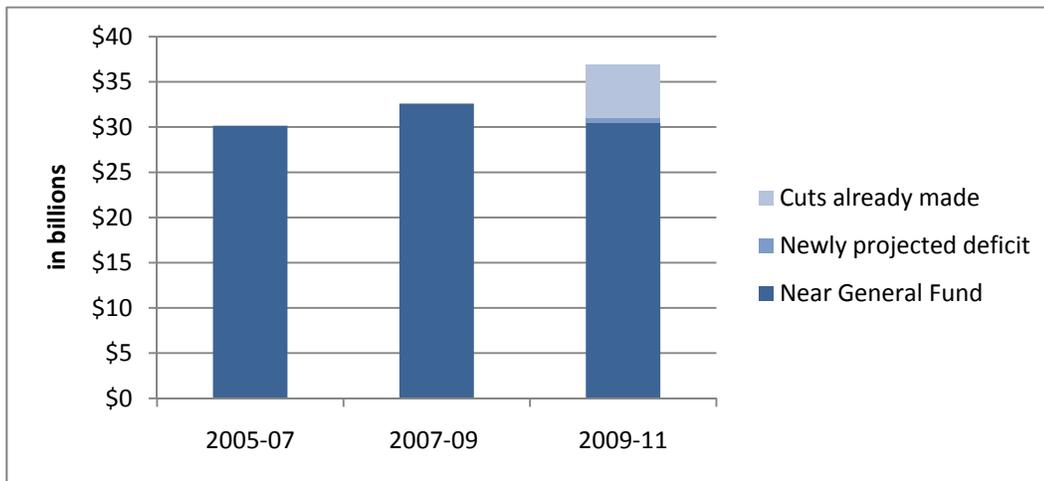
Sources: Washington Department of Revenue, U.S. Bureau of Economic Analysis

Reason 6: Washington State Budget Cuts \$5.2 Billion – And Counting

Over 3 budget years from 2009 to 2011, Washington State has dealt with a \$12 billion shortfall between the projected need for public services and state revenues – which have plunged because of the recession. Federal stimulus money and the rainy day fund made up some of the difference, and the state raised \$918 million with tighter standards and new taxes. Still, Washington’s legislature has cut \$5.2 billion, impacting schools, childcare centers, health clinics, assisted living facilities, families, and individuals across the state.

Despite continued population growth, inflation, and increased needs caused by the recession, Washington’s 2-year General Fund budget for 2009-11 is barely above the 2005-07 level and \$2.7 billion below the amount originally budgeted for 2007-09 – an 8% drop.²³

WASHINGTON’S “NEAR GENERAL FUND” BIENNIAL BUDGET, 2005-11²⁴



Sources: Washington Office of Financial Management and LEAP

More budget cuts are being made. Recovery from the national recession slowed over the summer. As a result, state tax receipts have continued to fall below expectations. Revenues for the 2009-11 budget, which runs through June 2011, now are projected to be \$770 million less than expected last spring.²⁵ The state will have to cut – or raise – an additional \$516 million in the current budget to prevent a deficit.²⁶ Governor Gregoire has asked all state agencies to prepare to implement further across-the-board cuts of 6.3% October 1, 2010.

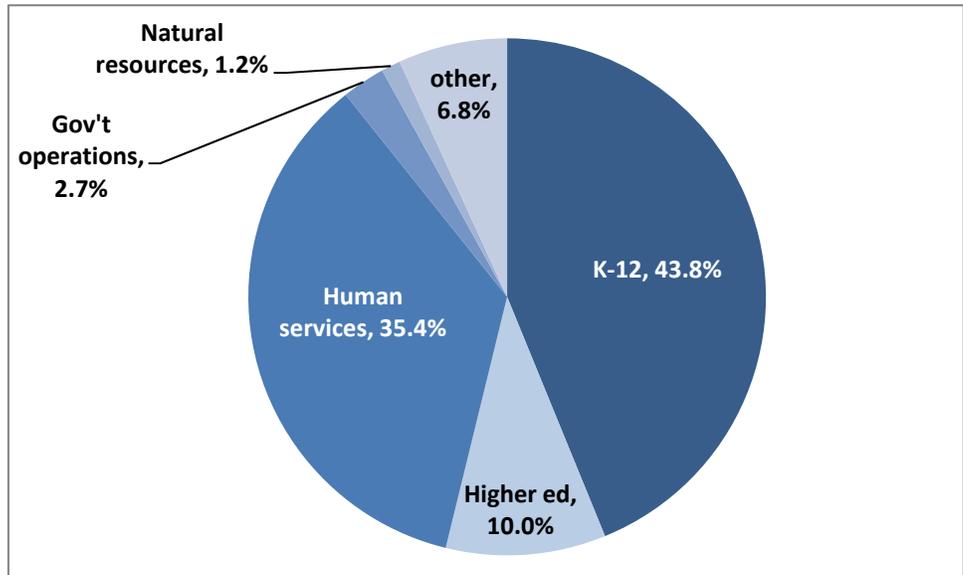
The 2011-13 budget which the legislature will adopt when it returns to Olympia in January 2011 is expected to have a hole of \$4.5 billion in addition to all of the reductions already made.²⁷

\$5.2

BILLION

DOLLARS CUT
FROM STATE
BUDGET OVER THE
PAST THREE YEARS

WASHINGTON'S GENERAL FUND SPENDING BY CATEGORY, 2009-11



Source: Washington Legislative Evaluation and Accountability Program Committee

\$3

BILLION

PROJECTED
SHORTFALL FOR
2011-2013 STATE
BUDGET

General government cuts include:²⁸

- \$428 million in staff reductions, travel and hiring freezes, mandatory unpaid furloughs, and efficiencies
- \$430 million in deferred public employee pension contributions
- \$123 million in criminal justice consolidations and alternative sentencing
- \$56 million from recreation and natural resource management

Education cuts include:

- \$632 million in higher education
- \$479 million in I-728 student achievement funding
- \$369 million in I-732-approved teacher cost of living adjustments
- \$127 million in learning improvement days and professional development

Health cuts include:²⁹

- \$236 million from the Basic Health Plan for low income working adults – reducing enrollment by 40,000
- \$33 million in nursing home and personal care services
- \$75 million in hospital reimbursement rate decreases
- \$44.5 million in mental health reductions
- \$54 million in children's vaccines.

HOW INITIATIVE 1098 WILL AFFECT WASHINGTON STATE

Initiative 1098 will appear on the November 2010 ballot in Washington. If approved by voters, it will cut taxes for the majority of families and businesses, *and* strengthen Washington's tax structure by reducing both the structural deficit and regressivity. I-1098 will raise about \$2 billion in net new revenue per year, dedicated to education and health care.

I-1098 proposes:³⁰

- Reducing the state portion of the property tax by 20%;
- Eliminating or reducing B&O taxes for 157,000 small businesses by raising the small business credit from \$420 to \$4,800 per year;³¹
- Adding an income tax on the adjusted gross income of couples (married and registered domestic partners) with incomes above \$400,000 and singles over \$200,000 – 1.2% of state taxpayers;
- Dedicating net new revenues to education (70%) and health (30%);
- Requiring regular reporting on how revenues are spent and requiring that future changes in the income tax be approved by a vote of the people.

ESTIMATED ANNUAL REVENUE CHANGE FROM INITIATIVE 1098, 2013

	Annual Revenue Change
Income tax: 5% over \$200,000 singles/\$400,000 couples 9% over \$500,000 singles/\$1 million couples	\$2,937 million
Property tax: Reduce state portion 20%	(\$393 million)
B&O tax: Increase credit from \$420 to \$4,800 annually	(\$259 million)
Net New Revenue	\$2,285 million

Source: Washington Office of Financial Management, Fiscal Impact of Initiative 1098.

Property tax cuts | Two-thirds of Washington households own their homes. These households will receive a direct reduction of 20% of the state portion of the property tax. Currently, on average, 21% of total property taxes go to the state. The remainder stays in local communities and includes voter-approved school levies and support for other local services.³² The 20% reduction in the state property tax translates into an annual tax savings of \$170 for the average homeowner in Seattle where the average residence value in 2010 is \$448,500.³³ In Pierce County, the annual savings would be \$103, in Spokane County \$66, and statewide \$111.³⁴ Because the cost of property tax is typically included in rent, renters over time will also likely save. Businesses of all sizes will also benefit from the property tax cut.

B&O tax cuts | Under I-1098, 80% of state businesses will be exempt from the business and occupation tax (B&O) and an additional 12% will receive a tax cut. I-1098 raises the small business tax credit from \$420 to \$4,800 per year. Retail businesses with gross receipts up to \$1 million will be exempt from B&O taxes

\$111

AVERAGE
HOMEOWNER
PROPERTY TAX
CUT UNDER I-1098

1.2%

PERCENTAGE OF
TAXPAYERS WHO
WILL PAY INCOME
TAX UNDER I-1098

under I-1098, and those up to \$2 million will see their taxes reduced. According to the Office of Financial Management, 118,000 businesses will be newly exempt from B&O taxes, nearly doubling the current number. An additional 39,000 companies will receive a tax reduction.³⁵

EFFECTS OF I-1098 ON BUSINESS TAXES

	Gross Receipts Exempt Now	Gross Receipts Exempt with I-1098
Service business (1.5% rate)	\$28,000	\$320,000
Retail business (0.471% rate)	\$89,172	\$1,019,108

Source: Department of Revenue

Income tax | The tax reform proposed by I-1098 will lower taxes for most Washington residents and raise taxes for 1.2% of the state's wealthiest residents – 38,400 taxpayers. Couples will pay 5% on income between \$400,000 and \$1 million and 9% on income over \$1 million. Individuals will pay 5% on income over \$200,000 and 9% above \$500,000.

Washington's wealthiest now pay a far lower share of their income to support public services than do middle- and lower-income families, and far less than their counterparts in almost every other state.³⁶ The wealthiest households have also enjoyed the fastest growth in incomes over the past decade.³⁷

Washington residents paying the new tax would be able to deduct it from their federal taxable income. In states with an income tax, wealthy residents typically take far higher federal deductions than residents of non-income tax states. As a result, under our current system Washington State is contributing more than its share to federal revenues, compared to other states.³⁸

EFFECTS OF INITIATIVE 1098 ON WASHINGTON HOUSEHOLDS³⁹

Family/ Income	Total State Income Tax	Federal Tax Savings	Avg. Property Tax Reduction	Net Tax Change	Percentage of Income Paid
Median single female/\$38,000	-	-	-\$153 (Kent)	-\$153	-
Median single family/\$70,500	-	-	-\$206 (Shoreline)	-\$206	-
Couple/\$500,000	\$5,000	-\$618	-\$247 (Issaquah)	\$4,136	0.8%
Single/\$500,000	\$15,000	-\$2,949	-\$181 (Seattle)	\$11,871	2.4%
Couple/\$1.2 million	\$48,000	-\$8,924	-\$242 (Bellevue)	\$38,834	3.2%
Couple/\$3 million	\$210,000	-\$46,184	-\$368 (Mercer Island)	\$163,449	5.4%

Sources: IRS; United for a Fair Economy, "Leaving Money on the Table"; U.S. Census Bureau; Washington State Department of Revenue

\$260

MILLION

AMOUNT SAVED
ANNUALLY BY
SMALL BUSINESSES
UNDER
I-1098

5¢

AMOUNT PAID IN
STATE INCOME
TAX BY A COUPLE
EARNING
\$400,001 UNDER
I-1098

New revenues for education and health care | Seventy percent of new revenues will be dedicated to the Education Legacy Trust Account – about \$1.6 billion annually. The Education Legacy Trust Account, created in 2005, provides dedicated funding for:⁴⁰

- Expanding access to higher education through funding for new enrollments and financial aid.
- Student achievement under I-728⁴¹:
 - Reduce class sizes in grades K-4;
 - Make selected class size reductions in grades 5-12;
 - Provide extended learning for students in K-12;
 - Provide additional professional development for educators;
 - Provide early learning for children who need pre-kindergarten support;
 - Provide improvements or additions to school facilities directly related to class size reductions and extended learning opportunities.
- Other educational improvements.

Thirty percent of net new revenues from I-1098 – about \$700 million annually – will be dedicated to the Basic Health Plan, state and local public health services, and long term care for seniors and disabled people.

Accountability | I-1098 requires the state to prepare and post annual reports summarizing how funds are spent and the number of state residents benefited, as well as monthly reports on deposits, withdrawals, and fund balances. I-728 already requires school districts to provide for citizen comment on planned distributions of student achievement funds and to report annually on how funds were used. I-1098 also requires any income tax rate increases to be approved by a vote of the people.

HOW I-1098'S INCOME TAX COMPARES TO OTHER STATES

Washington's tax rates will be well within the norm of other states. Top state rates range from 3% in Illinois to 11% in Hawaii and Oregon. Five states have top rates above 9%, and an additional 4 have rates above 8% in 2010.⁴² Because of our exceptionally high exemption threshold, Washington's average effective tax rate for the top 1% of filers will rank 26th out of 44 states.⁴³

Most state income taxes are general, applying to all income and most households. Federal adjusted gross income (AGI) is the common starting point. AGI includes income from wages and salaries, interest, dividends, capital gains, businesses, and most other sources. States usually either allow taxpayers to take the same deductions from AGI allowed on federal returns, or apply their own exemptions and deductions. The exceptions are Tennessee, which only taxes interest and dividend income, and New Hampshire, which taxes income from interest, dividends, and S corporations.⁴⁴

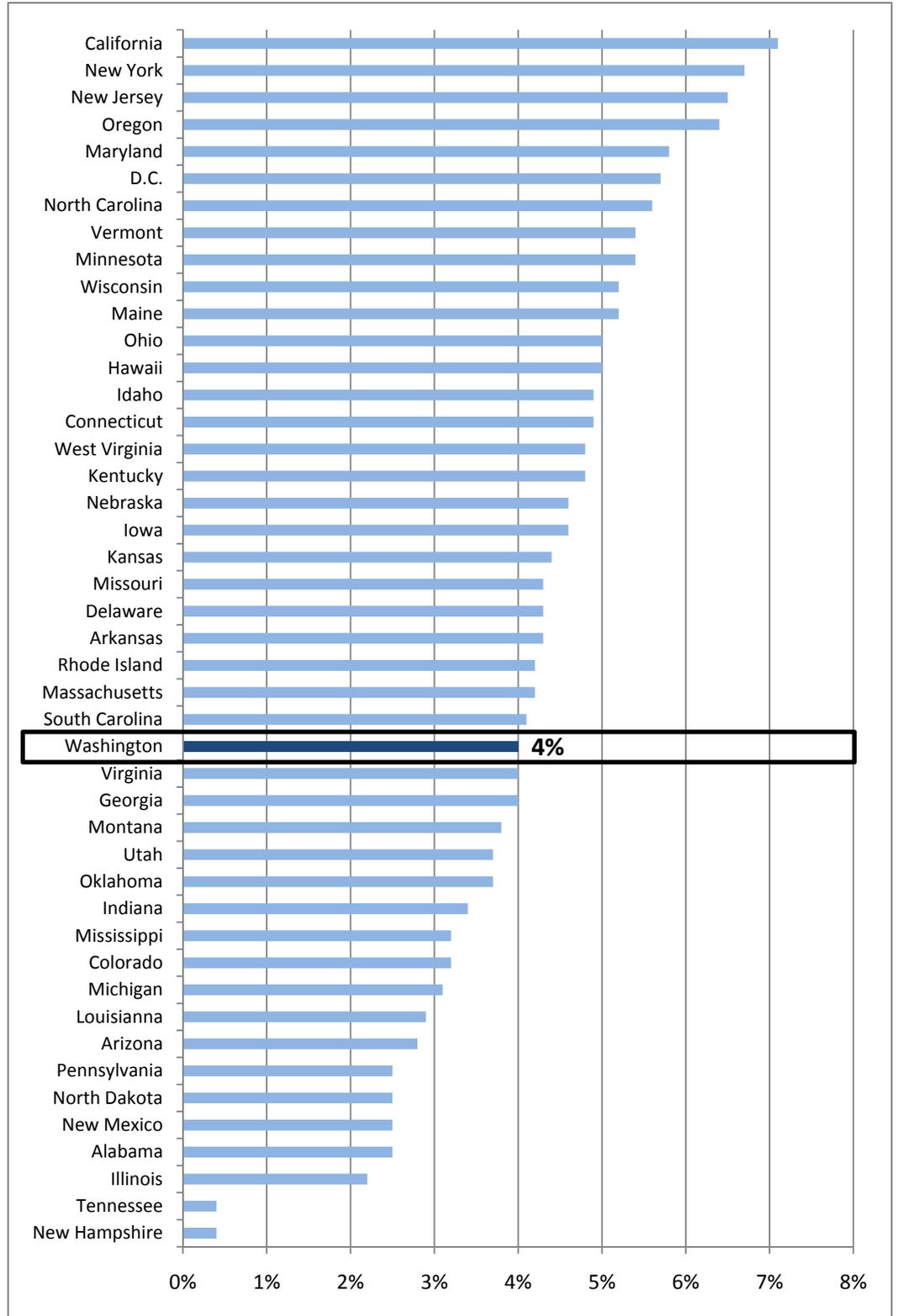
\$1.6

BILLION

PROJECTED NEW
REVENUE FROM
I-1098 DEDICATED
TO EDUCATION IN
2013

Washington, like most states, will start with federal AGI. We will differ in having a far higher exemption – completely excluding the first \$200,000 of an individual's income and the first \$400,000 for couples.

EFFECTIVE STATE INCOME TAX RATE ON TOP 1% OF FILERS UNDER I-1098



Source: Institute for Taxation and Economic Policy, Who Pays?, 2009

43

NUMBER OF
STATES LEVYING A
STATE INCOME
TAX

26TH

WASHINGTON'S
RANK AMONG THE
STATES IN
EFFECTIVE INCOME
TAX RATE UNDER
I-1098

What I-1098 Means for Washington's Businesses

Main Street businesses struggling to survive the recession are among I-1098's biggest beneficiaries. Many of them will be exempt from the B&O tax. Most businesses of all sizes will also realize savings from the property tax cut, which applies not only to real property, but also to the personal property tax that companies pay on tools, trucks, computers, and other equipment.

The state's wealthiest business owners with incomes over the \$200,000 individual/\$400,000 couple exemption may find themselves paying income tax on the portion of business profits that flows to them as personal income. However, business expenses and investments are fully deductible before an individual's business income is calculated, whether the business is organized as a sole proprietorship, partnership, LLC, or S corporation. Moreover, federal rules that govern the calculation of AGI allow business losses to be carried backward and forward over multiple years, to the taxpayer's advantage.⁴⁵ Therefore, a business owner who saves profits from one year to invest later will not pay any "extra" taxes in the long run.

Businesses thrive and investment occurs in the 43 states with a state income tax now. The same will be true in Washington. I-1098's new investments in education and health care will also help address two of the biggest concerns for Washington businesses coming out of the recession: a well educated workforce and escalating health care costs.

CONCLUSION

Initiative 1098 will be a big step in the right direction for all the people of Washington. It will provide \$650 million in tax cuts annually – money that middle class families and small businesses can turn around and spend to stimulate the local economy. It will create a more fair and balanced tax system, while providing badly needed revenue to build the comprehensive education system and health services that Washington needs for a more prosperous future.

157

THOUSAND

NUMBER OF SMALL
BUSINESSES WITH
AN EXEMPTION
FROM OR
REDUCTION IN
B&O TAXES
UNDER I-1098

Endnotes

- ¹ U.S. Census Bureau, Public Elementary-Secondary Education Finances, <http://www.census.gov/govs/www/school.html>.
- ² Office of the Superintendent of Public Instruction, "About I-728," viewed August 24, 2010, <http://www.k12.wa.us/i728/>.
- ³ I-728 was originally funded by lottery proceeds, existing property taxes, and budget reserves. Funds dedicated to the Student Achievement account have varied over the years, including a portion of the state property tax, some lottery revenues, and funds from the Education Legacy Trust Account, augmented by allocations from the General Fund. In 2009, the legislature incorporated the student achievement account, along with other "near general" funds that were also subject to the 601 state expenditure limit, into the General Fund. Future I-728 allocations will be directly appropriated. The Education Legacy Trust Account, created in 2005, provides dedicated funding "Used only for deposit into the student achievement fund and for expanding access to higher education through funding for new enrollments and financial aid, and other educational improvement efforts," from a portion of a cigarette tax, estate taxes, and interest earnings. Office of Financial Management, Fund Reference Manual, <http://www.ofm.wa.gov/fund/detail.asp?fund=299>, and <http://www.ofm.wa.gov/fund/detail.asp?fund=08A>.
- ⁴ Washington Legislative Evaluation and Accountability Program Committee, Budget Notes for 2010 Supplemental Budget, Public Schools, p. 221-23, http://leap.leg.wa.gov/leap/budget/index_lbns.asp; U.S. Census Bureau, Public Elementary-Secondary Education Finances, <http://www.census.gov/govs/www/school.html>.
- ⁵ Washington Legislative Evaluation and Accountability Program Committee, Budget Notes for 2009 and for 2010 Supplemental Budget, Public Schools, http://leap.leg.wa.gov/leap/budget/index_lbns.asp.
- ⁶ Washington Higher Education Coordinating Board, "Increasing the Future Capacity of Higher Education in Washington," Presentation to the House Higher Education Committee, January 2009.
- ⁷ Washington Learns, Global Challenge States, viewed April 20th, 2009, <http://www.washingtonlearns.wa.gov/materials/GlobalChallengeStates.pdf>.
- ⁸ Washington Higher Education Coordinating Board, "Washington Educational Pathways – Annual Report on State Financial Aid Programs," January 2010, executive summary, <http://www.hecb.wa.gov/news/newsreports/documents/AnnualReport-SFAUpdate-2010.pdf>.
- ⁹ The cut would have been higher, but was partly offset by \$81.5 million in federal stimulus money. Washington Legislative Evaluation and Accountability Program Committee, Budget Notes for 2010 Supplemental Budget, Higher Education, p. 245-46, http://leap.leg.wa.gov/leap/budget/index_lbns.asp.
- ¹⁰ Median household income for 2010 is based on Current Population Survey 2-year average for 2008-09.
- ¹¹ Washington Higher Education Coordinating Board, "Washington Educational Pathways – Annual Report on State Financial Aid Programs," January 2010, p. 23, <http://www.hecb.wa.gov/news/newsreports/documents/AnnualReport-SFAUpdate-2010.pdf>.
- ¹² Washington Higher Education Coordinating Board, "Key Facts About Higher Education in Washington", Chapter 4, Higher Education Finances, p. 53, 2008, <http://www.hecb.wa.gov/keyfacts/>.
- ¹³ U.S. Census, <http://www.census.gov/hhes/www/hlthins/historic/hihist4.xls>; <http://www.census.gov/hhes/www/hlthins/historic/index.html>. Number of uninsured calculated from state population estimate for 2008 of 6,549,224 reported in U.S. Census, American Community Survey, Selected Social Characteristics.
- ¹⁴ U.S. Bureau of Labor Statistics, "States and selected areas: Employment status of the civilian noninstitutional population, January 1976 to date, seasonally adjusted," <http://www.bls.gov/lau/ststdsadata.txt>.
- ¹⁵ Washington Legislative Evaluation and Accountability Program Committee, Budget Notes for 2009 and for 2010 Supplemental Budget, Human Services, http://leap.leg.wa.gov/leap/budget/index_lbns.asp.
- ¹⁶ Data provided by Washington Basic Health Plan.
- ¹⁷ Washington Legislative Evaluation and Accountability Program Committee, Budget Notes for 2009 and for 2010 Supplemental Budget, http://leap.leg.wa.gov/leap/budget/index_lbns.asp.
- ¹⁸ Washington Office of Financial Management, Washington Trends, Projected Change in Budget Driver Populations, December 2008, www.ofm.wa.gov.
- ¹⁹ Institute for Taxation and Economic Policy, "Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States," 3rd edition, 2009, <http://www.itepnet.org/whopays.htm>. ITEP's model is standard across all the states and includes general sales, utility, gasoline, and "sin," taxes, and the portions of property and business taxes passed on in rent and prices. A separate analysis with somewhat different assumption but similar conclusions about regressivity is available from the Washington Department of Revenue, "Washington Tax Alternatives Model," <http://www.dor.wa.gov/Content/AboutUs/StatisticsAndReports/Default.aspx>.
- ²⁰ Small firms in this Department of Revenue analysis have less than \$5 million in annual gross income, medium size firms have \$5 to \$25 million. Department of Revenue, "Incidence of Washington Taxes," presentation to the House Finance Committee, February 15, 2005. These numbers are for established firms.
- ²¹ Federation of Tax Administrators, "2009 State Tax Collections by Source," <http://www.taxadmin.org/fta/rate/09taxdis.html>.
- ²² Washington Department of Revenue and U.S. Bureau of Economic Analysis.
- ²³ House Ways & Means Committee Chair, "Proposed 2009-11 Biennial Operating Budget & 2009 2nd Supplemental Summary, March 31, 2009 (ESHB 1244); Senate Ways & Means Committee Chair, "Proposed Senate 2010 Supplemental Operating Budget Overview," February 23,

2010 (ESSB 6444); Washington Legislative Evaluation and Accountability Program Committee, Budget Notes, www.leg.wa.gov. Letter from Governor Gregoire to Members of Governor's Committee on Transforming Washington's Budget, June 15, 2010.

24 "Near General Fund" includes related accounts, including (in 2007-09) General Fund-State, Health Services Account-State, Violence Reduction and Drug Enforcement Account-State, Public Safety and Education Account-State, Equal Justice Subaccount-State, Water Quality Account-State, Pension Funding Stabilization Account-State, Education Legacy Trust Account-State, and the Student Achievement Fund-State. The 601 expenditure limit applies to the Health Services Account, the Student Achievement Fund, the Water Quality Account, the Public Safety and Education Account (including the Equal Justice Subaccount), and the Violence Reduction and Drug Enforcement Account. Beginning with Fiscal Year 2010, which started July 1, 2009, these various accounts were all merged into the State General Fund. See Washington Expenditure Limit Committee, <http://www.elc.wa.gov/default.asp>.

25 Washington Economic and Revenue Forecast Council, Economic Review, September 16, 2010, <http://www.ercf.wa.gov/forecast/documents/rev20100916color.pdf>.

26 Washington Office of Financial Management, Press Release, "Washington quarterly revenue projection down \$1.4 billion," September 16, 2010, <http://www.ofm.wa.gov/news/release/2010/100916.asp>.

27 Governor Gregoire Press Release, "Gov. Gregoire moves forward with across the board cuts," September 16, 2010, <http://www.governor.wa.gov/news/news-view.asp?pressRelease=1574&newsType=1>.

28 Washington Office of Financial Management, Transforming Washington's Budget, "The State's 2009-11 Budget Expressed as Six Values," July 2010, http://www.governor.wa.gov/priorities/budget/2009_11_budget_six_values.pdf. Washington Legislative Evaluation and Accountability Program Committee, Budget Notes, http://leap.leg.wa.gov/leap/budget/index_lbns.asp.

29 House Ways & Means Committee Chair, "Proposed 2009-11 Biennial Operating Budget & 2009 2nd Supplemental Summary, March 31, 2009 (ESHB 1244); Senate Ways & Means Committee Chair, "Proposed Senate 2010 Supplemental Operating Budget Overview," February 23, 2010 (ESSB 6444); Washington Legislative Evaluation and Accountability Program Committee, Budget Notes, http://leap.leg.wa.gov/leap/budget/index_lbns.asp.

30 Washington Secretary of State, Initiative filed 2010, <http://www.sos.wa.gov/elections/initiatives/people>.

31 Office of Fiscal Management, Fiscal Impact of Initiative 1098, www.ofm.wa.gov.

32 Washington Department of Revenue, Tax Reference Manual 2010, www.dor.wa.gov.

33 King County Department of Assessments, Assessed Value and Taxes by City, 2009 and 2010, <http://www.kingcounty.gov/Assessor/Reports/AnnualReports/2010.aspx>.

34 EOI calculations based on data provided by Washington Department of Revenue for 2009 local and state levies and average taxes by county.

35 Washington Office of Financial Management, personal communication and Fiscal Note Initiative 1098, <http://www.ofm.wa.gov/initiatives/2010/1098.pdf>.

36 Institute for Taxation and Economic Policy, "Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States," 3rd edition, 2009, <http://www.itepnet.org/whopays.htm>.

37 In Washington State between the late 1990s and 2006, the top fifth gained 11.6% while the bottom fifth lost 4.2%. Center on Budget and Policy Priorities and Economic Policy Institute, "Pulling Apart: A State-by-State Analysis of Income Trends," 2008 edition, www.epi.org.

38 Current, people who itemize deductions on their federal income tax returns can choose to deduct either sales tax or state income tax – but not both. For the wealthiest, the income tax deduction typically results in a much higher deduction. United for a Fair Economy and Institute for Taxation and Economic Policy, "Leaving Money on the Table," April 2010, http://www.faireconomy.org/news/Leaving_Money.

39 Federal tax reduction assumes substituting state income for state sales tax in itemized deductions, with current sales tax deductions of \$2,315 for couples and \$2,180 for singles with incomes of \$500,000 (from 2010 IRS table), and of \$9,202 for higher income families, based on average deduction for wealthiest households. Sources: IRS Instruction for 1040 Schedule A, 2010; United for a Fair Economy, "Leaving Money on the Table"; U.S. Census Bureau American, Community Survey; Washington State Department of Revenue.

40 Office of Financial Management, Fund Reference Manual, <http://www.ofm.wa.gov/fund/detail.asp?fund=299>, and <http://www.ofm.wa.gov/fund/detail.asp?fund=08A>.

41 Office of the Superintendent of Public Instruction, "About I-728," viewed August 24, 2010, <http://www.k12.wa.us/i728/>.

42 7 states have a flat rate. Others are graduated. Federation of Tax Administrators, "State Individual income Taxes," as of January 1, 2010, www.taxadmin.org.

43 Based on effective state income tax rates paid by the top 1% of payers in: Institute for Taxation and Economic Policy, "Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States," 3rd edition, 2009, <http://www.itepnet.org/whopays.htm>.

44 State of New Hampshire, FAQs, "What is the Interest and Dividends Tax," viewed September 1, 2010, http://www.nh.gov/revenue/faq/dra_900.htm; Federation of Tax Administrators, "State Individual income Taxes," as of January 1, 2010, www.taxadmin.org.

45 See IRS tax forms and rules at www.irs.gov.

ABOUT US

The Economic Opportunity Institute (EOI) is a nonpartisan, non-profit public policy organization founded in 1998 and based in Seattle, Washington. Our mission is to forge realistic public policies that promote long-term economic security and opportunity for Washington's middle-class and low-income workers and families, ensuring the benefits of prosperity are broadly available to all those who contribute to it. We utilize research, education and advocacy to shape public debate and advance new policy ideas that support high-quality education, modern work-life standards, retirement security, and shared investments in our common future.

CONTACT US

Economic Opportunity Institute
1900 N. Northlake Way, Suite 237
Seattle, WA 98103

P: 206-633-6560

F: 206-633-6665

info@eoionline.org

www.eoionline.org
