

Higher Opportunity Promise for Education (HOPE) Act

By Chris Reykdal and David Frockt

Problems:

- Not enough Washington students are attending and completing higher education, especially among low-income, first generation, and students of color;
- The current tax structure is inadequate to sustain long-term investments in higher education and other critical services;
- The current tax structure is unstable and not equitable across income brackets;
- Current B&O tax suppresses business growth and is overly complex with over 160 exemptions, preferences, and varying rates.

Opportunities:

- Dramatically increase higher education access;
- Create a more stable, adequate, and fair tax code;
- Encourage business growth by lowering business tax burdens, simplifying the tax code, and providing employers with a better trained workforce;
- Lower Washington citizens' federal tax burden with a permanent offset to federal income taxes.

Solution:

- Dedicate funding to universal access to higher education and fully fund current financial aid obligations;
- Completely eliminate the State B&O Tax (and the over 160 exemptions to B&O taxes);
- Reduce Sales and Use Tax from 6.5% to 5.0%;
- Broaden the new 5.0% Sales and Use Tax to all personal and professional services;
- Create the Higher Opportunity Promise for Education (HOPE) Income Tax at 1.0% on adjusted gross income and corporate gross profit (Dedicate all funds to the Education Legacy Trust Account).

Impacts:

- Substantial growth in higher education access and completions;
- Stabilizes Washington's tax code by diversifying the tax base – lowers consumption taxes;
- Lowers tax burden on businesses; creates a fairer system by broadening sales and use tax – The economy has shifted from goods to services, our tax code should move with it;
- Creates greater fairness in the tax code for low-income earners relative to high-income earners.
 - Lowering sales tax is the most significant fairness issue;
 - A small income tax on adjusted gross income will, by default, exempt the poor;
 - Applying sales and use tax on services slightly shifts the burden from goods to higher end services (legal services, accounting services, consulting, etc.)

Balance Sheet Changes:

Annual State Budget Impact (in 2012 dollars)	Action
- \$3.1 billion	Eliminate State B&O Tax Completely
- \$1.5 billion	Reduce Sales and Use Tax from 6.5% to 5.0%
+ \$1.6 billion	Apply Sales and Use Tax to all personal and professional services at new 5.0% rate
+ \$2.2 billion (personal) <u>+ \$1.3 billion (business)</u>	HOPE Income Tax, 1.0% on Federal Adjusted Gross Income (AGI) for individuals and families; 1% on gross profit for businesses.
\$500 million	Dedicate \$250 million to universal college access for first year (No tuition 1Yr at CTC or apprenticeships, 2 quarters at comprehensive universities, 1 quarter at research universities. *Dedicate \$250 million to State Need Grant for low- and middle-income students (fully funds current SNG obligation)

*Frees up approximately \$400 million per biennium in existing General Fund resources for other purposes.