

## **The Higher Opportunity Promise for Education (HOPE) Act.**

As the Legislature struggles to solve another budget crisis, the call has come from many to reform state government. While state spending per capita on vital public services is at a 25-year low, state government spending per person as a share of personal income has shrunk 23% over the last fifteen years, and state support for higher education is at an all time low, there is no doubt that public confidence requires a constant attention to ways to create a more efficient and effective state government.

But lost in this discussion of “reform” is any debate about the most critical structural reform that our state should be considering: our outdated, special interest protecting tax code that swells state coffers in the good times and squeezes vital public investments, like access to higher education, in the bad times.

If government needs to be reformed, than the mechanism that funds that government should also be part of that conversation particularly since our state is funded by a tax system unique from virtually every other state in the union. We believe that our tax code cries out for holistic reform. It is a system that is biased against startup businesses struggling to make a profit. And, of course, it is highly regressive – ranked as the 50<sup>th</sup> most regressive tax system in the country according to the [Institute on Taxation and Economic Policy](#).

Very simply, in a state economy that has shifted from manufacturing in the to services, the current tax code no longer reflects the best or most equitable way of maintaining essential public investments like schools, colleges, environmental protection, and services for the most vulnerable.

A stable and effective tax code should provide three things:

1. Adequacy of revenue – The tax code should provide the revenue necessary to fund the legal obligations established in law.
2. Revenue stability – The tax code should provide adequate resources in good times and in bad, and should not be substantially more volatile than overall economic performance.
3. Tax Fairness – The system should be fair to all citizens and businesses.

The non-partisan Tax Foundation also lays out some additional basic

principles of sound tax policy:

*Simplicity:* Administrative costs are a loss to society, and complicated taxation undermines voluntary compliance by creating incentives to shelter and disguise income.

*Transparency:* A good tax system requires informed taxpayers who understand how tax assessment, collection, and compliance works.

*Neutrality:* The fewer economic decisions that are made for tax reasons, the better.

*Broad Bases and Low Rates:* As a corollary to the principle of neutrality, lawmakers should avoid enacting targeted deductions, credits and exclusions. If such tax preferences are few, substantial revenue can be raised with low tax rates. Broad-based taxes can also produce relatively stable tax revenues from year to year.

Washington State's tax code falls short on virtually every one of these principles.

*Simplicity/Neutrality:* Our state tax code contains nearly 600 separate exemptions and deferrals including at least 167 that relate to the business and occupation tax that, itself has five separate base rates. As recent political history in Olympia has shown, each exemption has its supporters and its justifications. Elected officials and lobbyists fight like crazy to create and give exemptions to favored activities and industries. We are all guilty of it and no one can claim complete purity on this front. This is why we believe that structural reform must be built on a comprehensive foundation and not a piecemeal approach that eliminates, not tweaks, this unfair tax on the gross receipts of businesses, irrespective of their profitability.

*Stability:* The volatility experienced in revenue in our State is substantially greater than the volatility of the overall economy due to our high dependence on consumption taxes (Sales Tax and Business and Occupation Tax).

*Fairness:* Washington State's system also fails when it comes to tax fairness. Our poor pay (especially senior citizens on fixed incomes) pay in excess of 15% of their income in state taxes, predominately regressive sales taxes.

If Washington State was designing a tax code today, we would likely adopt

a powerful lesson from private sector financial advisers – diversify your portfolio! Too much dependence on one industry or one stock is dangerous and irresponsible if you are saving for retirement or your child's higher education. In the same vein, a balanced state tax portfolio would focus on low-rates that are broadly applied across the economy. More specifically, the State would tax consumption, property, and income in a balanced and simple way. Today we overtax consumption in the form of the sales tax and the business and occupation tax. In short, we are out of balance.

In Washington State, we can and should do better. From public education, to higher education, to the essential social safety net, our long-term economic progress depends on stable, adequate, and fair taxation that works in partnership with a growing economy.

The Higher Opportunity Promise for Education (HOPE) Act is offered as one example of how we can partially solve the long-term structural problem with our tax code while making new investments in higher education to ensure our long-term success. The HOPE Act:

- Eliminates - completely - the Business and Occupation Tax, including the perpetual fight over its 167 exemptions; No more tax on gross receipts;
- Reduces the state portion of the sales tax by 23% while broadening its base to reflect the reality of a 21<sup>st</sup> century economy. This is the only tax proposal to date that lowers the sales tax rate in this state thereby reducing the overall regressivity of our tax code;
- Creates greater tax fairness by establishing a simple 1% tax on gross corporate *profits* as well as personal income; and
- Makes an unprecedented commitment to higher education access for our children and grandchildren.

Some may ask why the corporate profits tax and the income tax are limited to 1% and are not graduated. There is a serious constitutional debate about whether a graduated income tax for corporations or individuals complies with the uniformity clause of our state constitution (Article VII, Sec. 2) which limits any property tax to no more than one percent of the property. The Washington Supreme Court held decades ago that income is property. There is a vigorous legal debate over whether that would still be the rule today given various precedents that have occurred in the intervening years. Our proposal takes no position on

that legal question but instead works within the 1% constitutional framework that represents current law today.

Overall, this proposal establishes a balanced structure that taxes consumption, property, and income to reduce volatility. It reduces the sales tax rate. It will stabilize our budget over time; and target critical investments in higher education to ensure our competitiveness.

There is no perfect tax system, but we offer this to you as an example of how we can meet broad interests, make serious structural reforms, and reclaim responsibility for our moral obligation to provide safety, security, and opportunity for our citizens.

We are progressive Democrats but we come at this problem with our hand extended to moderates and conservatives in the vision of other great progressive Democrats like Bill Bradley and Dick Gephardt who championed federal tax reform in 1986 working with a conservative President – Ronald Reagan. The vision then was as clear as the one we propose for our state today. Simplify, with lower rates and a broader base in order to help expand the paths of opportunity to all our citizens in the 21<sup>st</sup> century.

Please send us your thoughts, ideas, and comments. With passion, vision, and sacrifice, we can achieve our highest aspirations.

Yours in service,

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