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The Basic Tax System in Washington

The most basic tax question of all is "Why do we have taxes?" A common answer is that *governments assess and collect taxes in order to fund activities that benefit the common good* -- activities that could not be funded as well, if at all, through private enterprise. Included in this category are such things as roads, police, common schools, parks and social services.

To understand taxes, the distinction between a tax base and a tax rate must be clarified. The tax base deals with the number of people taxed, the tax rate refers to how much each taxpayer is assessed. As an example, if \$100.00 is needed, 10 people could be assessed \$10.00 each, or 100 people could be assessed \$1.00 each. A broad tax base means that the burden is lighter for each taxpayer. The money a given tax can raise is expressed by the equation:

$$\text{Tax Revenue} = \text{Tax Base} \times \text{Tax Rate}$$

The state gets money from a number of sources. These sources are divided into two basic groups. The first is "general" revenues which are the revenue sources typically available for program expenditures. Budgetary decisions over the use of these funds are determined by the various governments involved -- state legislature, county commissioners, city council, etc. The other basic category consists of revenue sources which are usually not available for general programs but are dedicated to specific purposes. Major sources of revenue to the state not included in the general fund are some federal funds and State Department of Transportation funds. The DOT funds originate in the transportation committee, general funds raised by the state originate either in the House Revenue committee or the Senate Ways and Means Committee.

State taxes account for approximately 72% of state/local taxes in Washington, while local government represents approximately 28%. The ratio of state to local taxes is much higher in this state than in other states because Washington finances a greater proportion of governmental services at the state level, particularly the funding of K-12 education, vocational and community college education and public assistance programs.

Raising public money through taxes can take place in a number of ways. Each type of tax has advantages and disadvantages. Taken together the various taxes make up the tax system we love or hate as the case may be.

It is possible to measure our tax system against some standard criteria. The League of Women Voters of Washington concurs with most authorities that a high quality state revenue system should be:

Fair Fairness means that the burden of payment should not fall unequally on taxpayers when the ability to pay is taken into consideration.

Adequate A tax system must raise enough money in bad times and good times to cover the services requested by the citizens.

Balanced Tax revenues should be obtained from a variety of sources to help achieve fairness and stable revenue.

Flexible A flexible system does not have too many restrictions. It can meet the strains brought on by increases in population, fluctuating job rates and changes in society.

Manageable The tax system should be easily understood by the taxpayer, should encourage voluntary compliance and be easily administered by the state.

Economically Sound The tax system should not cause business to be at a competitive disadvantage with similar businesses located elsewhere.

Safeguarded The system should contain proper safeguards and limits to raising money without the taxpayers' approval and protect against uncontrolled spending. (Distrust of tax increases has been a major source of resistance to tax reform.)

Non-Burdensome A tax system should not take more money from the taxpayer than he can afford.

How Does the Washington State Tax System Measure Up?

To answer this question it helps to consider Washington State's major sources of general revenue and their advantages and disadvantages.

Washington's major revenue sources are the property tax and various excise taxes. An excise tax is simply a tax on the manufacture, sale or consumption of a commodity. Together these taxes made up about 75% of the state general fund in 1990. Receipts from the federal government made up about 20% of the general fund and miscellaneous licenses and fees made up about 5%.

An important factor in the Washington State tax system is that our tax base has become smaller over the years due to exemptions and deductions.

The Retail Sales Tax

The largest excise tax is the retail sales tax. It is Washington's principal source of revenue. Alone, this tax makes up nearly half of the state general fund. City and county governments and transit systems also depend on the tax. It is their second leading revenue source. The state rate is 6.5%. Local governments can impose additional percents. Most items of tangible personal property purchased by consumers are subject to the tax. Currently there is no sales tax on food.

The sales tax has positive features . . .

It is a large and efficient revenue producer. Since it is usually paid in small increments, it is relatively painless. The tax assures that all persons contribute toward the cost of government. It is one of the few ways we have to obtain tax money from non-residents who are in the state temporarily.

. . . and negative features

Despite the exemption of food, the tax remains regressive. Low-income families pay a greater share of their income for state and local taxes than wealthier families.

Collections fluctuate. In good times people buy a lot, and the state has an easy time balancing the budget, but when the economy is bad people cut their spending. This causes revenue to drop precipitately just when money is most needed to supply state services.

High tax rates prompt people to evade Washington taxes by purchasing items in other states which have lower tax rates. Citizens are supposed to pay a substitute tax on items bought out of state, but of course, few people do, and the state so far has not found it cost effective to collect this "use tax," costing the state millions in lost general funds each year. Also, the high tax in border areas makes it difficult for retail businesses to compete with other states and provinces and causes serious problems for financing local governments.

The Business and Occupation Tax

The B&O tax is the second leading source of state revenue in the general fund. It accounts for nearly 15% of state tax revenue sources supporting the general fund. It is a tax unique to Washington State in that it is a tax on the gross income of a business.

The B&O tax has positive features . . .

The tax is a very stable revenue source. It assures that all firms, even unprofitable ones, pay something for the government services they use. The tax treats both corporate and non-corporate businesses alike.

... and negative features

The tax imposes a very heavy burden on new firms that have not yet reached maximum operating efficiency. In many instances, the tax favors established, profitable business activities at the expense of start-up firms and those with low profit margins such as grocery stores.

Since no other state levies a B&O tax, firms which are located in other states and do business in Washington are not used to it.

The burden of the tax varies widely, not only among different types of businesses, but also among firms within the same business sectors. The details are complex because the B&O tax is afflicted with more exemptions and deductions than any other area of taxation except the property tax.

Other Excise Taxes

There are other excise taxes aside from the two big ones. These include the tax on cigarettes, the gasoline tax, taxes on liquor and other taxes such as utility taxes which you will probably not notice unless you examine your bill carefully. These taxes have been assessed over the years because Republicans and Democrats alike recognize that the state needs a certain amount of money. We do not have an income tax -- excise taxes are comparatively cheap politically. The result is that in 1989 our liquor taxes were the highest in the country, our cigarette tax ranked second and our gas taxes ranked sixth.

Excise taxes have positive features . . .

Some people would argue that these taxes help achieve social goals (e.g., fuel conservation or reduced liquor consumption). Taxes are paid by non-residents as well as residents. Consumers have some discretion over their tax liability by avoiding purchases of some of the items that are taxed, and revenues from specific taxes are easily designated to pay for particular programs.

. . . and negative features

These taxes tend to be regressive since they are based largely on consumption. Some of them are levied on necessities such as utilities and gasoline. As a result they can impose hardships on low-income families and elderly people living on fixed incomes. High tax rates, as mentioned previously, encourage citizens from Washington to evade paying taxes by making purchases in other states.

Since revenues from specific taxes are allocated for particular programs, these funds cannot be used for alternate funding needs. This situation reduces flexibility in budgeting money for state services. There is also a tendency to use the tax for items not related to the tax. For example, the cigarette tax is used for water quality improvements although there is no perceivable relationship between water quality and smoking except that smokers are easy to dump on these days!

The Property Tax

The property tax is the oldest revenue source in Washington. It was established before statehood. It is second to the sales tax in total revenues produced each year. It is the chief tax of local government. State and local levies due in 1989 raised more than \$2 billion. The state monies are chiefly for schools, while the local portion of the property tax is used by cities, counties and junior taxing districts for a multitude of services, from emergency services to schools, parks and libraries.

The tax mainly applies to the current value of real property -- land and buildings -- as determined by county assessors, and to personal property -- mainly business equipment, boats and RV's -- *as listed by the owners!*

Some categories of property are taxed at a reduced "current use" value or are exempt. Certain agricultural, timber and open space lands are valued at their current use. Exempt areas include government property, intangible property, property owned by churches and schools, and household goods. Taken together, more property is exempt from taxation than is taxed.

The property tax has positive features ...

The tax is levied in all states so property owners are familiar with it. Property ownership correlates well with the demand for certain local services such as police and fire protection and county governments largely administer the tax, so taxpayers can exert a certain amount of local control. A variety of rate limits protect against large tax increases.

. . . and negative features

Although the tax in Washington is in the middle range of all the states, people perceive it as being very high. Tax rates can vary throughout the state because of voter approved levies (mostly for schools). Administrative costs are high because of the appraisal process. Owners often disagree with the assessed value assigned by the appraisers, leading to additional costs through disputes and appeals.

Property owners in some counties pay higher rates than taxpayers in other counties for generally the same level of government services. This is because some counties have more industrial property which has a higher value than residential and other types of property. It is also possible that assessors work differently in different counties although state law is moving to make the process more even handed.

The Income Tax

Washington State does not have an income tax. In 1991 only six other states had no personal income tax -Alaska, Florida, Nevada, South Dakota, Texas, and Wyoming -- although Alaska and Florida tax corporations.

The income tax has positive features . . .

An income tax is considered a fair tax by many in the sense that it is closely in accord with the ability to pay. When a taxpayer's income goes down, then his/her taxes are less. State income taxes are deductible in calculating federal income taxes. It responds to growth, the yield increasing as the economy expands. Even when the tax is withheld, the taxpayer is clearly aware of the amount paid. It reaches income from stocky, bonds and other intangible properties which are not currently taxed in Washington. It is affected less by depression than the sales tax.

. . . and negative features

Taxpayers in the state emphatically feel that an income tax is TOO MUCH in addition to our other federal and state and local taxes. They do not have any faith that the government will act in a responsible manner to lessen other taxes as an income tax is added to the total tax system.

Opponents say it would take a constitutional amendment to make it available in Washington. It requires individuals to report, which is a burden on the taxpayer, and in general it is complicated to administer and enforce.

Summary

Our state has the unhappy distinction of being one of the ten worst states in the union in the area of tax fairness because our system is so regressive. The lowest 20% of taxpayers contribute nearly 18% of family income to state taxes, while the top 1% contribute less than 4% of family income, and the next 4% contribute less than 6% of family income to state taxes. Our system relies vary heavily on excise taxes and property taxes. There is no income tax, there is no tax on intangibles. Even those taxes which are levied suffer from a narrowing of the tax base due to many exemptions and deductions. Wealthy citizens retire to Washington State where their taxes are among the lowest in the country while business and the poorer people pay more than their fair share. Nevertheless, it does work -- at least it raises enough money to limp along. Everyone pays something towards the services we all need, including the poorest.

Why Did We Say That?

**An Updated Review of LWVWA Thinking on State
Taxes**

The League of Women Voters of Washington has been studying the state tax system since the 1950s. We have studied how we are taxed, how we spend the taxes, how we prefer to be taxed, what is taxed, what isn't taxed, and even some of the "terrible tales" of how heavily we are taxed.

In the forty years since we have studied taxes we have worked for a fair tax system, including an income tax. Ironically, we have never looked at the B&O tax, especially in regards to exemptions and deductions, we have not examined the proliferation of excise taxes, and we have not directly addressed the problems of tax loopholes.

It is time to review our position with care, so we know why we said what we did, so we can find our own "loopholes," and most especially, so we can bring all of our members up to date on our thinking over these many decades. The following section covers our positions sentence by sentence.

The basic LWVWA tax statement calls for *"Action to support a balanced state tax system that is adequate, flexible, equitable, and conducive to a sound economy."*

Each type of tax has its own characteristics. The previous section dealt with our taxes in some detail. A balanced tax system includes a variety of taxes so that the characteristics of each type mesh to produce a total system that satisfies all or at least most of the criteria explained in the previous section -- a tax system that is fair, adequate, balanced, flexible, manageable, economically sound, non-burdensome, and that includes safeguards.

Tax Structures (1959,1965)

"Inequities in the distribution of the tax burden should be removed."

Taxes, we agreed, should be borne evenly by all groups of people. No individual or group should have to bear a heavier proportion of the tax burden than another. Occupation, status, location or level of income should not be a factor or an advantage.

"Flexibility and recognition of changing times and needs is important in tax policy."

State tax policy should be reviewed periodically to determine whether economic, demographic or social change has resulted in inequities or inadequacies in the system. Flexibility of the tax structure tends to reduce inequities by allowing adjustments in rates and the tax base to accommodate changing needs. However, the property tax is limited to 1% of the value of the property, there is a 20% lid on excess levies, and increases in expenditures in tax districts cannot be more than 6% per annum. At the same time the value of money erodes through inflation. This process of limiting revenues, while the cost of government rises results in reduced services or finding other means of producing revenue. The effect is most noticeable in such taxes as the gasoline tax, where less is collected while at the same time a given amount of money covers fewer services. This happens because the tax is a certain amount per gallon rather than a certain percent per cost of gasoline and cars are more efficient and use fewer gallons. The success of Initiative 402 which repealed the state gift tax and eliminated almost all revenue from inheritance taxes erased another part of the tax base.

"Only broad general principles of taxation should be included in the state constitution."

Specific details spelled out in the state constitution tend to make a tax system inflexible. Constitutional change is difficult and time-consuming. Our constitution includes great detail on

how taxes are levied, limitation, validation of special levies -- all of which leave few alternative sources available to the legislature and the people. This is a basic problem.

"Income should be part of the tax base, preferably through a graduated net income tax."

In the 1930s the State Supreme Court ruled that income is a form of property and therefore subject to the constitutional limit imposed on real estate and personal property. In general, people with discretionary income tend to invest more in intangible property such as stocks, bonds, money market funds, and such, than people with lower incomes. Such intangibles are specifically exempt from property or other taxes. Household property is also exempt.

In March 1988, the District of Columbia based organization "Citizens for Tax Justice" released a study showing that Washington State's reliance on sales and other excise taxes puts a tax burden four times heavier on low income families and almost three times heavier on middle income families than the largest income families. This situation exists because almost everything that low and middle income families consume (with the exception of food and prescription drugs) is taxed.

"The sales tax should not be levied on food."

League members agreed that those who must live on a low income spend a greater proportion of their money on food than others who have more discretionary money. Those who must pay 35% of their income on food are more burdened than those for whom only 5% or 10% of income is required for food. Money directed to taxes cannot be used for the necessities of life. Humanitarian reasons as well as equity prompted the League to support this stand.

"Business should be taxed on net income rather than on gross sales."

The call for equity is the basis for our position on the business and occupation tax. The "gross receipts" of a firm are no sign of the ability to pay taxes, since one business may have a very large gross income with a very small profit margin, while another with a large profit margin may have a smaller gross income. Such a tax places Washington businesses at a competitive disadvantage to out-of-state firms which may pay taxes on net income. New businesses which do not make a profit in the first years are also at a disadvantage. Such competitive disadvantage does not provide a warm climate for business growth and development.

Property Tax Administration (1965)

"Specific figures and details such as assessment levels, millage limits, classification, etc., should be left to legislative determination according to the needs of the times."

Constitutional limitations on assessment, millage, etc. leave no flexibility as conditions change. Thus, in times when financial need rises or falls, the property tax burden remains static. As with most limitations, the tendency is for tax rates to stay at the top of the limit. Flexibility is lost.

"Constitutional provisions should be enforced with Affective penalties or regulation from the state level."

The constitution calls for uniform taxation on property within the borders of a taxing district. One method presently used to handle the enforcement of this requirement has resulted in

providing tax advantages to some taxable property located in jurisdictions with assessment levels below the mandated level. It is a matter of conflict between equity for some and equity for others.

The state assesses property in two kinds of jurisdictions:

- ◆ Property belonging to public service businesses that cross county lines such as high tension wires, and
- ◆ A statewide district formed to tax property for school purposes.

County assessors, who are independently elected officials, perform their duties in taxing districts wholly within county lines. Since appraising is not an exact science, sometimes the two assessment levels do not coincide.

The relationship between a county's version of "true and fair value" (the constitutional standard) and the state's version is the "indicated ratio" for the county expressed as a percentage. On the state-assessed property of the qualified public service businesses, the indicated ratio is multiplied by the state assessment figure, thus reducing the tax base to the level of the rest of that county if it is lower than the state standard.

county value/state value x state assessment = tax base

It follows that similarly valued properties in two different counties could be subject to different tax burdens. The result is inequities for other taxpayers in both counties, political encouragement to keep assessment levels low, and increasingly complicated efforts to improve the system. Each time the tax laws malfunction, another patch is put in place and each patch contributes to complicated and confusing laws and regulations. The message here seems to be "assess it right the first time! "

On the other hand, for purposes of the school tax, the indicated ratio is used to equalize assessments across the state. The county assesses the property and the figure is divided by the indicated ratio for that county thus raising the figure to the state's level.

"Training and quality of personnel and adequate budgets and staff should be a concern at both state and local levels."

Picture a county which, through inadequate and untrained staff, as well as inadequate administration of the property tax, is asked to add money to the budget of the assessor's office for more personnel, more training and new equipment. The question of "where do we fund the money since our property tax revenues are inadequate?" will arise. Politically it is a difficult problem. Any excess levy is based on the county assessment. Only when the state and local governments work together in improving assessment practices and informing the public will the public have confidence in these activities.

"The assessor should be a technical administrative officer and should not have tax policy-making powers. Qualifications should be set for the position of assessor. The decision as to whether or not the assessor's position is elected or appointed should be determined by the legislature and not specified in the constitution."

In the state of Washington no requirements or qualifications are provided by state or local legislation. Control of assessment levels controls the tax revenues, which in turn controls the policy of the county. The state of Washington is not known for excellence in the administration of

the property tax. In some cases, the assessor is a technician hired by the state. Recently, legislation has been introduced to improve the quality of assessors and to improve the training for the assessor and staff.

"The taxpayer should have a greater role in the taxing process, and information should be more readily and understandable. More information should be included on, or along with, the tax statement. True and fair value (100% value) should be listed on the tax rolls and on the tax statement. Each taxpayer should receive tax statements."

Many of the recommendations in these statements have come to pass. Mortgagees do (or should) receive copies of the tax statements and generally the value is listed. Often, however, the information on a tax statement is difficult to interpret. Most county assessors do provide more information to taxpayers if requested. Tax law, however, has become so complicated that it is difficult to capture the attention of many long enough to explain the issues and the problems. An example is the length of this paper!

"The appeals procedures should be simple, convenient and responsive to the taxpayer. The taxpayer should be notified of revaluation in ample time to appeal should he or she desire to do so. Appeal boards or courts or boards of equalization should be separate, qualified boards at county and state levels."

Much has been done to improve the appeal procedures and their administration. Here, too, budget constraints inhibit the attainment of a "perfect" appeal process. Still while studies continue to show that many assessments are still not at 100% of value (a requirement for a 4-year assessment cycle), one wonders at the number of appeals which continue to reduce the assessment of the property in question.

Property Tax Exemptions (1969)

"Exemptions from property tax should be limited, but may be valid when used to further public policy such as to encourage education, culture or humanitarian causes."

The number of properties exempt from the property tax is staggering. Less than half of the property in the state is taxed. It is generally agreed that schools, roads, parks, governmental facilities, churches and other public service institutions should not be taxed. We allow tax exemptions to certain of the elderly and disabled with limited income. Some businesses also receive property tax exemptions, including some businesses run in or by churches. Each exemption further narrows the tax base, which means that more of the tax burden falls on that property which continues to be taxed. As with other areas of taxation where the base has been reduced, we must take care that we do not reduce the property tax base to the point where the few pay and the many benefit. The balance is tenuous. When seeking exemptions, charitable and opportunistic arguments can be convincing.

"Property tax exemptions should not be used to encourage location of industry or as a reward for public service; nor should property of private or non-profit groups used for business activities be exempt."

It was agreed that industries leasing sites and buildings from governmental units, businesses owned by property tax-exempt organizations, and other activities such as church-sponsored retirement homes or apartments were some examples of the misuse of exemptions. Some examples have been corrected but not all.

"The state should assume the responsibility for revenue lost to local governments because of property tax exemptions granted by the state; in any case, property otherwise exempt should pay for direct public services such as fire and police protection."

The state has not only restricted the options for local government taxation but also has placed such stringent limitations on the property tax that necessary services provided by local governments are in jeopardy. Only recently have the outcries from local jurisdictions forced the state legislators to accept, in principle at least, the necessity to provide state funding whenever the state requires that local governments provide services which they otherwise would choose not to provide.

"When exemptions are used, the state must assure uniform application. Exemption provisions should be carefully and periodically examined. There should be a periodic inspection of exempt property to assure compliance with tile law. Exempt property and its valuations should be listed, and the list be made available to the public."

The biennial report on tax exemptions, exclusions, etc., prepared by the State Department of Revenue, points up the magnitude of the amount of taxes not paid in the state. Little attention is paid to these exemptions with the result that they are increasing. When exemptions are used as loopholes to circumvent taxation, they create unfair competition with others who do not have the privilege, and inequity to all other taxpayers who must pick up the extra burden. This is particularly true since the 106% limitation was enacted. The limitation is placed on the taxing authority not the property owner. For example, if state-granted exemptions amounted to 1% of the total tax base, that 1% would be shifted to the other taxpayers. The local government would still get its share of last year's tax revenue plus an additional 6% for the succeeding year. It follows that no matter how worthy an original exemption seemed to be, the bottom line is that all exemptions narrow the tax base, and misuse of the exemption creates inequity in the tax system. Yet each year the legislature attempts new exemptions in response to requests from constituents while rarely, if ever, does it remove any exemptions. That has probably happened only once or twice in the state's history.

"Property on which the tax is unduly difficult or expensive to administer should be taxed in some other way --for example, income tax on intangibles, excise tax on boats and cars."

While the premise of maintaining a tax base as broad as possible in order keep rates low and still obtain adequate revenue is theoretically the most equitable method of taxation, taxation may be so expensive and difficult to administer that its economic good no longer exists. The statement proposes that, while one kind of tax is not economically feasible, another may be, and shifting to another kind of tax will not reduce the total tax base.

"Ability to pay is an important criterion of the tax structure. As reform of the tax structure is considered, methods other than exemption should be investigated for the purpose of relieving the property tax burden on low income families."

Scattered over the state are numerous households where property has increased in value so much that the owners cannot pay, although it is in the interest of the state that these people remain in their homes rather than being forced on to welfare. While no such proposals have been suggested for property tax in Washington, Michigan has enacted a measure which allows certain low income individuals to deduct amounts paid in property tax from the amount owed in income tax. Arguments are rife on this issue.

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The study of taxes is a truly taxing undertaking. However, it is so critical to the quality of our daily life that we gladly embark on the struggle to understand the details. The League of Women Voters of Washington has looked at the basics of taxation, at our tax structure, property tax administration and property tax exemptions. There is still much to do. We have not looked at the B&O tax and its exemptions and deductions. We have not addressed the problems of loopholes specifically and other measures that could be taken without an income tax in our search for an equitable tax system. The tax system is dynamic. We need to keep ourselves current on what is happening in the state and be ready to take action when the time is ripe.

The ordinary taxpayer is currently so angry at what is happening in the country as a whole, and is so dead set against any kind of tax increase, or perception of tax increase, that the conventional wisdom in Olympia is that any kind of tax reform is dead for the foreseeable future.

A Brief Summary of the Tax History of Washington

1854 The first legislature imposed a head tax of \$1.00 pa each male in the territory and then imposed the first property tax.

1889 The state constitution said that the legislature shall provide by law a uniform and equal rate of assessment and taxation on an property in the state according to its value in money.

Various Income Tax Attempts

1929 Net income tax of 5% on financial institutions approved by the legislature. Overturned by the court on grounds of equal protection, since the tax did not apply to non-corporate banks and interest paid by banks was deductible, but not savings and loan dividends.

1930 Voters approved the 14th Amendment to the Constitution allowing classification of property. Intended to permit taxation of income at a rate different than real estate, but this distinction was not upheld by the court.

1931 Personal income tax with rates from 1% to 5% and corporate net income tax of 5% was adopted by the legislature as recommended by the 1929 Tax Investigation Commission. The tax was vetoed because the Governor felt administration costs would be too high.

1932 Personal and corporate net income tax with rates from 1% to 7% was adopted by initiative of the voters by a 70% margin. Overturned by the court in a 5 to 4 decision in *Culliton v. Chase*, declaring that income is property and thus subject to constitutional uniformity requirements.

1970 HJR 42 was submitted to the voters but defeated by a 2 to 1 margin. It included a single rate personal and corporate net income tax of 3.5% with reductions in existing taxes.

1973 HJR 37 was submitted to the voters but defeated by a 3 to 1 margin. It included graduated 2% to 6.5% personal and 10% corporate net income taxes with reduction and limitations on existing taxes.

1975 Initiative 314, containing a corporate net income tax of 12%, was defeated by the voters by a 2 to 1 margin.

1982 Initiative 435, containing a corporate net income tax of 10%, was defeated by the voters by a 2 to 1 margin.

1989 The League of Women Voters of Washington joined the Governor to put an income tax on the books. In spite of a year of hard work, this effort was also repulsed. It never even made it out of the Senate.

League of Women Voters of Washington Tax Actions

League records indicate that state taxes have been on our agenda since 1953.

During the 1950s the legislature increased the sales tax, B&O tax, and cigarette tax creating a renewed interest in the tax structure. League's publication, *The Tax Primer* (1957), produced a position favoring an income tax and repeal of the sales tax on food.

In the late 1970s, tax collections boomed. High inflation with its consequent high tax base and a growing population with its habit of spending money on taxable goods contributed to filling the state coffers.

At the same time, two events occurred with major impacts on the state's financial status:

1. The state under court order assumed financial responsibility for funding K-12 education. Collection of that portion of the property tax due to schools was transferred from local authorities to the state and dispersed through the general fund.
2. In 1978 a successful initiative exempted food and prescription drugs from the sales tax. Although this action reduced the regressive nature of the tax system it also removed a large stable source of state revenue.

League continued to update and expand its positions and in 1980 voted to review state tax policies.

During the 1981-1983 biennium state revenue collections were below projections. This led to the reimposition of the tax on food and an increase in most tax rates and fees. Per capita income rose, but business and personal spending, which are the basis of excise taxes, declined. Many people who still had discretionary funds switched from acquiring taxable goods to interest bearing investments. But since these intangibles (stocks, bonds, and various funds) and the income from them are exempt from state laws, the state revenue suffered. The League feels that the state's unduly heavy reliance on excise taxes has been proven to be not appropriate. However, recommendations made by the Governor's Tax Advisory council were not acted on and a proposal for a constitutionally limited income tax was not reported out of committee.

In 1985 the League convention called for an update of positions which was accomplished through articles in the *VOTER*.

In 1989 the League cooperated with the Governor's tax force to push for tax reform. This effort never got out of the Senate.

It is now 1992 -- the current bad times have driven home the inadequacy of our state tax system, but the current political climate makes any tax change or increase unpopular. Far from pushing a progressive tax reform, the League feels lucky to have recently helped to defeat Initiative 559 which would have seriously and negatively affected property tax values and administration.