



2021 Issue Paper: Adequate and Fair Revenue and Budget

Position Statement

The LWV of the United States, as stated in its [Impact on Issues 2018-2020](#), believes that “federal fiscal policy should provide for: adequate and flexible funding of federal government programs through an equitable tax system that is progressive overall and that relies primarily on a broad-based income tax; responsible deficit policies; and a federal role in providing mandatory, universal, old-age, survivors, disability, and health insurance.”

The LWV of Washington’s State Tax Policy, as defined in the [Program in Action 2019-2021](#), states: “Action to obtain a balanced tax structure that is fair, adequate, flexible, and has a sound economic effect.” More specifically, the LWVWA’s position states:

- Inequities in the distribution of the tax burden should be removed. Ability to pay is an important criterion. Flexibility and recognition of changing times and needs is important in tax policy. Only broad general principles of taxation should be included in the constitution. Income should be part of the tax base preferably through a graduated net income tax. The sales tax should not be levied on food. Business should be taxed on net income rather than gross receipts. (TS-1)
- Any tax exemption proposal should be carefully evaluated for purpose, benefit and cost; and, all tax exemptions should be periodically reviewed. (TE-1)

Another position that will be in play in 2021 that relates to the proposed public bank is a section of the privatization position:

- Core services, functions and assets critical to the well-being of the people, should remain with government and not be transferred to the private sector. Public agencies are required to make a documented finding of adequate return on investment for the public for any government contribution of funds or assets to the private sector. (PR-1)

The criteria listed in this position for deciding whether services, functions, and assets should be transferred to the private sector are whether the act of privatization would:

1. Serve the public interest today as well as for future generations.
2. Align with public health and safety concerns.
3. Assure quality of life for residents in the region.
4. Ensure adequate government control and oversight including performance audits.
5. Include provisions for transparency, public involvement and competitive bidding
6. Protect individuals from abuse. (PR-1)

Summary of Issues for the 2021 Legislative Session

Progressive tax reform

The State of Washington has the most regressive tax structure in the United States. Lower income taxpayers in Washington pay 17.8% of their income in sales and property taxes, while those at the top 1% of the income spectrum pay only 3% of their income in taxes. Because the state has no income tax or capital gains tax, each additional measure that adds property tax (including that paid by renters through their rent) or sales tax increases this disparity. Forty-six percent of the state budget is generated by retail sales tax. When taxes increase, those at the lower end of the income spectrum pay even more of their income in tax. The current tax structure also penalizes racial minorities more than White people. That is because native American, Black, and Hispanic households are more likely to be in the lowest income group.

In 2019 and again in 2020, a capital gains tax was proposed but did not pass. Had it passed, it would have tipped the imbalance more toward equality by creating a revenue source paid only by the highest income groups and would have raised an estimated \$975 million in fiscal year 2021 from 42,000 taxpayers, approximately the top 1.5 percent of households. Sales of homes, IRAs, and other necessary investments would have been excluded.

At the end of the 2020 legislative session, the COVID pandemic began to affect Washington State. As of September 2020, more than 556,000 people in the state had registered for unemployment benefits, a substantial increase over the previous year.¹ The state revenue forecast projects a shortfall of \$8-9 billion for the next biennium. The cost of COVID and the loss of tax revenue combined, even with the federal aid that has been provided, will be devastating for state services if not addressed with new, progressive revenue sources. Progressive revenue is based on the taxpayer's ability to pay and imposes a lower tax rate on low-income earners than on those with a higher income. In other words, such measures as the capital gains tax that were already needed are even more important now.

In the interim, a state Tax Structure Work Group including legislators and others has been examining a wide range of options for reform and will be making recommendations to the legislature in December 2021.

In the upcoming 2021 session, the League will support legislation that would make our tax system less regressive, close loopholes that do not clearly benefit the people of Washington State, make tax breaks given to businesses transparent to the public, make the business and occupation (B&O) taxes less onerous on small businesses, and fund the already approved Working Families Tax Rebate program as well as support other options consistent with the League's position.

¹ See <https://esdorchardstorage.blob.core.windows.net/esdwa/Default/ESDWAGOV/labor-market-info/Libraries/Economic-reports/Unemployment-benefits-and-trust-fund-reports/UI-benefits-august-2020.pdf>.

The League will oppose legislative proposals that reduce or eliminate programs that protect democracy, regulate pollution, protect public health, safeguard natural resources and the environment or protect the future against inevitable economic downturns as a means to balance the budget or would change Washington's Constitution to require a two-thirds vote to raise taxes or fees thereby empowering one-third of legislators to stop any proposals.

Public bank

A new issue in the 2021 legislative session that the League will support is the proposal to establish a public bank. This has been proposed previously but is likely to have greater momentum in 2021. The League was unable to support this (and did not oppose it) previously because there was no position. In 2020, the Public Bank Task Force released its [Recommendation on Public Banking report](#), and the LWVWA Board approved action in support of a public bank pursuant to the privatization fiscal policy positions. A public bank would leverage state funds, generating higher returns and decreasing expenses, and would be an additional source of public financing when the state is at or near its constitutional debt limit. Specific proposals that the League would support include those that would require the bank be owned by the state or by the state and local governments jointly, receive state and local government tax revenues and use them as the basis for lending in support of state and local government financing needs (potentially infrastructure, housing, student loans, economic development), and return profits and interest from the bank's financing operations to the state.

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