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FROM THE DESK OF

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COMMITTEES

HIGHER EDUCATION
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APPROPRIATIONS

PUBLIC INSTITUTIONS AND

YOUTH DEVELOPMENT

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The past 60 days have been the busiest I have ever experienced in the Legislature. As chairman of the Public Higher Education Committee I have had two major pieces of legislation to guide through the Legislature: the new four-year college and the total separation of community colleges from the K-12 program. Both of these bills were started in my committee and were passed first in the House. The four-year college bill has been approved by both houses and signed by the Governor. The community college measure is now in conference to work out differences between the House and Senate. We hope to get this settled very shortly.

I am also a member of the Appropriations Committee which has had a very busy schedule. For the first 40 days I spent three hours every afternoon and every night, usually until about 11:00 p.m., listening to various groups who were interested in parts of the budget. In addition, state department heads appeared before the committee to explain their requests and answer any of our questions. All told we had 78 budgets to review--an impossible task in that short space of time. In my opinion, we will never be able to do an adequate job with the budget until the Legislature has the staff to do the basic research work and provide us with the information we need to determine whether or not budgets are padded and where programs can be cut.

It's easier to talk about cutting budgets than actually doing it. And for many good reasons. We are now the fastest growing state in the country and growth does bring problems; needs that have to be met today rather than putting them off for several years. This, of course, leads to the main topic of conversation now before the Legislature: tax reform.

Governor Evans has clearly pointed out that under our present system of hodge-podge taxation, the amount of money produced does not keep pace with our rate of population growth. While many of you have written to tell me that you want no new services and that we should cut back, the same mail will bring dozens of letters from Grandview and surrounding areas requesting a new community college. Others ask that the new school for mentally retarded be started in Spokane. Many of you tell me you are concerned that we get the community mental health and mental retardation center started. Still others want Highway 82 to be completed and the state to be responsible for the old canyon road. I've received many, many letters asking that the state patrol be increased to stop the massacre on our highways; another group wants more money for child care agencies, nursing homes and hospitals. All of which add up to one thing: Money.

To meet this challenge, the Governor has proposed a tax reform program that would be responsive to the demands of the economy and, at the same time, provide a more equitable tax system for our state. Basically, the Governor's proposal calls for :

1. Reducing the sales tax to 3.5 percent with food and drugs completely exempt from the tax
2. Reducing the present constitutional 50 percent property tax assessment level to 25 percent
3. Reducing the business and occupation tax by 50 percent
4. Establishing a single-rate income tax of 3.5 percent with the same deductions and exemptions as permitted on federal income taxes.

Reducing the property tax assessment level and enacting an income tax require constitutional amendments which means a two-thirds vote in both houses of the Legislature and a vote of the people. You would have the final say as to what form of taxation you want in our state. Under Governor Evans' proposal these two amendments would be submitted to the voters as separate propositions.

It now appears likely, however, that if these measures are passed by the Legislature they will be on the ballot as a single proposition. Another change in the initial bill would provide that the sales tax and income tax shall be at the same rate.

Because so much has been said about the Governor's tax reform program, I believe that it is important for all of us in the Yakima area to understand it and to recognize what is likely to happen if some type of reform is not enacted. First, our present sales tax will undoubtedly continue to be increased by future Legislatures. There is a strong possibility that the business and occupation tax would be extended to include agriculture. Property taxes will, by a recent ruling of the supreme court, be assessed at the 50 percent rate required by our state constitution. And the threat of a graduated net income tax would still be hanging over our heads.

You may not agree completely with the Governor's approach but, in all honesty, you must recognize that he has shown political courage in trying to bring before the people the problems we are facing, without allowing us to sweep them under the rug until we find ourselves in the position that California is in today. I can only hope that every citizen of this state will seriously consider these proposals and not look at them with a closed mind.

I hope this letter will give you a better insight into what the Legislature is thinking about in the area of taxation. It looks like we will be here for another ten days or so before this and other issues are settled and we can all head for home. I am looking forward to returning to Yakima so we may discuss the actions taken by this session of the Legislature in more detail.

Marjorie Lynch

PROPOSED 3.5 PER CENT SINGLE-RATE INCOME TAX FOR WASHINGTON STATE*

Examples of Impact on Married Taxpayers Filing Joint Federal
Income Tax Returns with Itemized Deductions

Annual Gross Income	State Income Tax				Per Cent State Income Tax is of Disposable Income**			
	Dependents				Dependents			
	2	3	4	5	2	3	4	5
\$ 1,500	\$ ---	\$ ---	\$ ---	\$ ---	n.a.	n.a.	n.a.	n.a.
2,000	11	---	---	---	.56	n.a.	n.a.	n.a.
3,000	39	18	---	---	1.37	.61	n.a.	n.a.
4,000	67	46	25	4	1.80	1.21	.64	.10
5,000	96	75	54	33	2.09	1.60	1.13	.68
6,000	125	104	83	62	2.29	1.87	1.47	1.08
7,000	154	133	112	91	2.44	2.07	1.72	1.38
8,000	183	162	141	120	2.56	2.23	1.91	1.61
9,000	213	192	171	150	2.67	2.34	2.08	1.80
10,000	243	222	201	180	2.75	2.48	2.22	1.96
11,000	274	253	232	211	2.84	2.59	2.35	2.11
12,000	304	283	262	241	2.90	2.67	2.44	2.23
13,000	335	314	293	272	2.97	2.75	2.54	2.33
14,000	363	342	321	300	3.00	2.80	2.60	2.40
15,000	396	375	354	333	3.07	2.88	2.69	2.51
16,000	425	404	383	362	3.10	2.92	2.74	2.57
17,000	454	433	412	391	3.13	2.96	2.79	2.62
18,000	483	462	441	420	3.16	2.99	2.83	2.67
19,000	513	492	471	450	3.19	3.03	2.88	2.72
20,000	547	526	505	484	3.25	3.10	2.95	2.80
25,000	702	681	660	639	3.41	3.28	3.15	3.03
30,000	851	830	809	788	3.51	3.40	3.28	3.17
35,000	999	978	957	936	3.61	3.50	3.40	3.30
40,000	1,148	1,127	1,106	1,085	3.70	3.61	3.51	3.42
45,000	1,297	1,276	1,255	1,234	3.79	3.70	3.61	3.53
50,000	1,446	1,425	1,404	1,383	3.88	3.80	3.71	3.63

*From the Washington State Research Council Monthly Report, February, 1967, p. 2.

**Gross income less federal income tax.

n.a. -- Not applicable.

Technical Note: For each gross income level, the state income tax was determined by multiplying taxable income by 3.5 per cent. Taxable income was determined by subtracting exemptions and deductions from gross income. For exemptions, the \$600 per dependent (including the taxpayer himself) allowed for federal income tax purposes was used. Deductions were computed as a percentage of gross income. These percentages were obtained by finding, for each gross income bracket, the percentage which itemized deductions are of gross income of taxpayers itemizing deductions for federal income tax purposes. This national data was obtained from a 1966 U.S. Internal Revenue Service publication entitled "Statistics of Income 1963--Individual Income Tax Returns." This publication indicates that deductions are itemized on 44 per cent of all returns and that 59 per cent of all returns are joint returns. Federal income tax for each taxable income level was computed by using the 1966 rate schedule for married taxpayers filing joint returns.

Why the people of Washington should choose **TAX REFORM**



In January, 1967, this administration went before the 40th Legislature to request long overdue reform in Washington's antiquated tax structure—a structure which every day becomes less adequate to the needs of a swiftly growing state.

At the heart of the reform proposal are two constitutional amendments; one designed to institute a single rate income tax on individuals and corporations, the other to establish a reduced, but realistic, constitutional base for the levying of property taxes.

What is at issue now is not whether the new taxes are put into effect, but whether the Legislature will see fit to place the constitutional amendments on the ballot for the people to vote upon. I firmly believe in tax reform, but I also believe that the people should have the right to choose, and this is why it is vital that the Legislature authorize the two amendments.

This booklet is designed to provide the citizens of Washington with information on the basic tax reform proposals, to show what tax reform will mean to them, as individuals and families, and to their state government.

Daniel J. Evans
DANIEL J. EVANS
Governor

Olympia, Washington
February, 1967

What are the TAX REFORM proposals?

The tax reform proposals are six in number, two requiring voter approval of constitutional amendments and four requiring legislative action.

Constitutional Amendments

The first proposed amendment would authorize the state to levy a single rate state income tax, *with the 3.5 per cent requested rate to be established independently by statute.* The second proposed amendment, aimed at property tax revision, would be written in *either-or* language: either the present 40-mill rate levied on 25 per cent assessed valuation (as against 50 per cent now required by the constitution) *if the income tax passes; or a new 50-mill rate on 25 per cent assessed valuation if the income tax fails.*

Legislative Proposals

Four legislative tax reform proposals are contemplated: 1) a reduction in the sales tax to 3.5 per cent, with food and prescribed drugs specifically exempted; 2) a reduction in the business and occupation tax to two-tenths of one per cent; 3) administrative measures to assure uniform rates of property taxation and uniform standards of property assessment; and 4) submitting state-wide issues at a general election in November of odd-numbered years to coincide with city and school district elections. *The enactment of the first two proposals would depend on approval of the state income tax amendment.*

What REFORM means to Washington

Increased Revenue

The proposed tax reform measures, if approved on the 1967 ballot, would provide an estimated \$100,000,000 in additional revenues to the state during each biennium.

Less Reliance on Special Levies

The additional revenues gained would then be used to replace an equivalent amount in special levies, *reducing substantially the present burden on the property taxpayer.*

Revenue Tied to Growth

State income tax revenues would grow approximately thirteen per cent with every ten per cent increase in total personal income of Washington citizens. By contrast, the present sales tax *provides only eight and one-half per cent in increased revenues for every ten per cent growth* in costs of required services—an increasingly serious “income gap.”

Ten Typical Family Examples of Tax Impact Under the Proposed Reform

Source: Research Division, Washington State Tax Commission

Family Description		Property Tax ¹	Sales Tax ²	Income Tax ³	Total
Husband & Wife, Retired \$2,500 gross income \$12,000 house	Present	\$114 ⁴	\$ 72	...	\$186
	Proposed	84 ⁴	29	...	113
	Difference	-\$ 30	-\$ 43	...	-\$ 73
Husband in College & Wife Working \$4,000 gross income \$10,000 house	Present	\$137	\$111	...	\$248
	Proposed	111	51	\$ 78	240
	Difference	-\$ 26	-\$ 60	+\$ 78	-\$ 8
Husband & Wife, Retired \$4,000 gross income \$14,000 house	Present	\$191	\$ 98	...	\$289
	Proposed	156	45	...	201
	Difference	-\$ 35	-\$ 53	...	-\$ 88
Husband, Wife & Three Children \$5,000 gross income \$12,000 house	Present	\$164	\$170	...	\$334
	Proposed	134	75	\$ 46	255
	Difference	-\$ 30	-\$ 95	+\$ 46	-\$ 79
Husband, Wife & Two Children \$6,000 gross income \$15,000 house	Present	\$205	\$179	...	\$384
	Proposed	167	84	\$ 97	348
	Difference	-\$ 38	-\$ 95	+\$ 97	-\$ 36
Husband, Wife & Four Children \$7,000 gross income \$15,000 house	Present	\$205	\$240	...	\$445
	Proposed	167	110	\$106	383
	Difference	-\$ 38	-\$130	+\$106	-\$ 62
Husband, Wife & Two Children \$8,000 gross income \$16,000 house	Present	\$218	\$228	...	\$446
	Proposed	178	111	\$157	446
	Difference	-\$ 40	-\$117	+\$157	...
Husband, Wife & Two Children \$10,000 gross income \$22,000 house	Present	\$300	\$269	...	\$569
	Proposed	245	139	\$217	601
	Difference	-\$ 55	-\$130	+\$217	+\$ 32
Husband, Wife & Four Children \$10,000 gross income \$22,000 house	Present	\$300	\$317	...	\$617
	Proposed	245	153	\$175	573
	Difference	-\$ 55	-\$164	+\$175	-\$ 44
Husband, Wife & Two Children \$15,000 gross income \$30,000 house	Present	\$408	\$355	...	\$763
	Proposed	334	206	\$368	908
	Difference	-\$ 74	-\$149	+\$368	+\$145

¹Property tax reduced by 12.0 mills (2.5 mills in state levy and 9.5 mills in excess school levies).

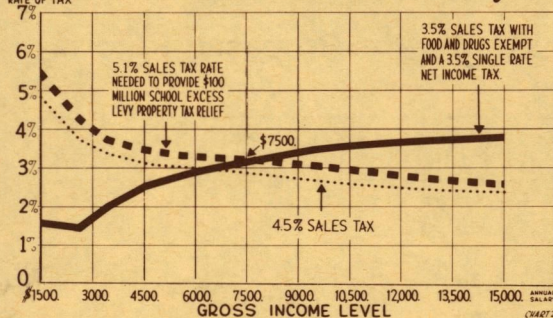
²Present sales tax on basis of 4.5 per cent and proposed sales tax at 3.5 per cent with food and drugs exempt.

³3.5 per cent single-rate net income tax.

⁴The \$50 exemption granted to certain retired persons has been deducted from both the present and proposed tax.

EFFECTIVE
RATE OF TAX

What REFORM means to you



A Personal Income Tax

With passage of the income tax amendment, beginning January 1, 1969, each individual and corporation in the state would pay a single rate net income tax. This form of income tax, although applied at a uniform rate (requested: 3.5 per cent) has many *graduated features* because essentially the same exemptions and deductions you take on your federal income tax are applied before the state income tax is figured. *In effect, lower income families will be taxed at a lower rate than higher income families.*

A Revised Property Tax

With passage of the property tax amendment, a new *assessment rate* of 25 per cent of true and fair property value would become the Constitutional base, the *tax rate* remaining at the 40-mill limit. This would replace the 50 per cent assessment level presently required by the Constitution. With uniform rates of taxation and uniform standards of assessment, each citizen would be assured that every other citizen was pulling his fair share of the property tax load. Only if the income tax measure fails would the property tax rate increase to 50 mills, *and then only to assure sufficient revenues to provide some relief from special levies, or to provide local government with additional revenue.* However, much greater relief can be obtained from passage of the income tax.

A Reduced Sales Tax

With passage of the income tax amendment, the State Sales Tax would be reduced from its present rate to 3.5 per cent. In addition, food (except in restaurants) and prescribed drugs would be specifically exempted from the sales tax. Particular advantage from this reform will be gained by families with modest incomes.

A Reduced Business Tax

With passage of the income tax amendment, the Business & Occupation Tax would be reduced from its present level to two-tenths of one per cent, thus relieving the present burden on individual companies and businesses and improving Washington's chances to attract new payrolls and increase job opportunities.

The Most Asked Questions

Why is reform really necessary?

For four reasons. First, to provide the state with a tax structure which is responsive to growth—one that will produce enough revenue to support the services which people demand of government. Second, to create a tax structure which does not place such a large burden on lower income families. Third, to establish realistic constitutional limits on the property tax and then enforce them. Fourth, to eliminate our increasing reliance on special levies.

Why choose an income tax?

Basically because the income tax is the only tax which is responsive to state growth. It is the only tax which will, in effect, provide at least 10 per cent increased revenues for each 10 per cent increase in the economy. If you don't have this capacity, the ability of a state to provide services falls behind the rate at which these services are needed.

Why not a graduated tax?

Since the federal income tax is steeply graduated and starts at a high rate, the addition of any state income tax, whether graduated or not, results in the total of all income taxes being levied at graduated rates. Moreover, the proposed single rate tax *itself* has many graduated features, since exemptions and deductions similar to those under the federal income tax are allowed before the tax rate is applied. The single rate tax, levied in this manner, conforms closely to a family's ability to pay; and the *effective rate* of the tax is much lower on low income families than on high income families.

What assurances do we have that the income and property tax rates won't be increased in the next few years?

Since the income tax grows with the economy, *rates* do not have to be raised to produce income to the state comparable to increases in the cost of providing needed services. For example, salaries of teachers, workers in state hospitals and other state employees can keep pace with salary levels generally *without* an increase in the tax rate. Property taxes will increase only if the people decide to vote extra taxes upon themselves.

PREPARED BY
THE OFFICE OF THE GOVERNOR OF THE
STATE OF WASHINGTON