

Policy Brief



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Tax cuts may define bottom line

Special session budget discussions so far have resembled efforts to slice the pie before it's been baked. Critical decisions regarding compensation, education, and welfare spending cannot be addressed successfully until conferees determine the bottom line for general fund spending. Likewise, the amount of tax relief that can be provided hinges on the adopted spending level.

The balance sheet tells the story.

Table 1
1995-97 General Fund-State Balance Sheet

	House	Senate	Difference
Beginning Balance	\$575	\$575	\$0
March Forecast	17,945	17,945	0
Legislative changes			
Tax cuts	(738)	(264)	(474)
Adjustments*	(201)	(34)	(167)
Total Available	17,581	18,222	(641)
Proposed Spending	17,279	17,897	(618)
Ending Balance	302	325	(23)

* Adjustments include the 1993-95 supplemental budget, reversions, budget-driven revenue and other miscellaneous items.

Source: WRC Calculations. House Fiscal Committees.

The House has passed \$738 million in taxpayer relief, all contained in HB 2089, an omnibus measure incorporating 26 separate House bills; the Senate cuts taxes about \$264 million. As the House moves closer to the Senate level of expenditure, the margin available for tax reduction is likely to decrease proportionately.

Most of the House tax relief, \$668 million, comes in three areas:

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| 1) Reductions in business and occupations tax rates | \$298 million |
| 2) Sales tax exemption for manufacturing | \$186 million |
| 3) 10 percent reduction in the state property tax rate | \$184 million |

About \$252 million of the Senate tax cuts come in two areas:

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| 1) Sales tax exemption for manufacturing | \$147 million |
| 2) Sales tax exemption for medical products | \$105 million |



Both houses have endorsed the sales tax exemption for manufacturers, which also has received the governor's support. Relatively minor differences between the two chambers could be easily resolved. However, its final passage may be jeopardized by end-game maneuvering. It now must be considered in the context of a comprehensive tax package. And the differences between the House and Senate, with regard to the magnitude and the distribution of tax relief, are substantial.

Senate Democrats counsel caution, warning of impending economic slowdown. They want to provide "broad based" tax relief. So, they balance the manufacturing tax exemption with a break for individuals in the form of a health care tax exemption. The Senate takes the sales tax off over-the-counter drugs, including vitamins, common household medical supplies (e.g., thermometers, first aid supplies), eyeglasses, wheelchairs, hospital beds, and the like. The Senate budget pushes spending to the Initiative 601 limit, and leaders warn that spending less will result in even tighter budgets in future years, as education and human service demands grow faster than the spending limit. The Senate also proposes a system for using revenues collected by the state in excess of the 601 limit to reduce the state property tax levy. No money is expected to be available in the 1995-97 biennium for this purpose, however.

House Republicans see things differently. Although they increase spending by nearly \$1 billion, they stop \$665 million short of the 601 limit. By spending less than the Senate, they can afford nearly \$500 million more in the way of tax relief. House leaders sought to undo the tax increases imposed in 1993, and much of the business tax relief comes simply as a result of rolling back the B&O rate hikes imposed by the last legislature. Half the increase is rolled back effective July 1, 1995; the second half comes off July 1, 1996. Proponents argue that those businesses that took the biggest tax hit in 1993 should be the first in line for tax relief in 1995. In addition, the House provides direct property tax relief through a 10 percent reduction in the state levy, amounting to about \$0.38 per \$1,000 of assessed valuation.

Comments: So far, no conference committee has been designated to sort out the two chambers approach to tax relief. Meanwhile, the open discussion of budget line-items provides spending interests the time to mobilize whenever their turf is challenged. It's easy to conclude that this new "openness" simply prolongs the process, and to suspect that the size of the revenue pie will be determined in closed discussions.

A group of conservative House members can be spotted wearing buttons declaring "equal to or less than \$17.3." Agree or disagree with the number, at least they recognize that proper budgeting begins with an appreciation of limits.

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