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Policy Brief

House Republicans Look at Tax Cuts

BRIEFLY

As part of their \$158 million tax relief package, House Republicans propose freezing the inflation factor in the state property tax and eliminating the sales tax on over-the-counter medication.

Consistent with their stated intent to increase state spending for education and employee compensation House Democrats are not proposing substantial tax relief.

As they have before, House Republicans want to cut taxes again this year. Democrats, while agreeing with Republicans on some minor tax code revisions, have less room for tax cuts as they attempt to increase state spending.

The Republican proposal, paired with their expenditure plan, leaves a reserve of about \$790 million at the end of the 1999-2001 biennium; the Democrats leave a reserve of \$654 million.

House Republicans propose tax cuts totaling about \$158 million. About half the relief (\$76.5 million) comes from eliminating the sales tax on over-the-counter medication; another \$75 million comes from eliminating the inflation factor in the state property tax.

The Democrats' revenue proposal reduces revenues by about \$6 million.

From the outset, Republicans had in mind tax cuts totaling about \$150 million. They settled on a combination of property and sales tax reductions as elements of what they feel is an affordable package.

The property tax relief in the Republican plan comes from freezing the state portion at its current level for 2000 and 2001. During those years, the state's take would not automatically rise at the rate of inflation. Under Referendum 47, adopted by the voters in 1997, the state property tax can rise at the rate of inflation, but not more than 6 percent. During the five-year period beginning in 2002, the inflation factor would phase out altogether.

On six legislative proposals affecting state revenue, House Republicans and Democrats agree. Four would decrease revenue, two increase it. None apparently resulted from the tax philosophy and priorities of either party.

The largest revenue loss among these bipartisan measures comes from a bill that increases the distressed county local option sales and use taxes from 0.04 to 0.08 for sparsely populated counties. The tax comes out of the state's 6.5 percent sales tax so the overall rate in the county does not increase. The cost to the state treasury of the benefit is expected to be about \$12.4 million.

Another measure, requested by the Department of Revenue, would clarify machinery and equipment tax exemptions, reducing revenues by about \$400,000.

House Revenue Proposals

	Democrat	Republican
Real estate excise tax	5.3	5.3
License fraud	1.7	1.7
Landslide victims/tax relief	(0.1)	(0.1)
Nonprofit homes for aging/tax	(0.1)	(0.1)
Machinery & equipment tax	(0.4)	(0.4)
Rural county tax incentives	(12.4)	(12.4)
Non-prescription drugs sales tax exemption		(76.5)
Property tax relief		(75.5)
	(6.0)	(158.0)

A third, reducing state revenues by about \$100,000, would grant some tax relief for homeowners hit by landslides.

And a fourth, also about \$100,000, would exempt senior housing developed by nonprofit organizations from property tax.

Two measures supported by both Republicans and Democrats would increase tax revenue. One would modify a real estate excise tax on real property, increasing taxes by about \$5.3 million. The other, expected to increase revenues by \$1.7 million, would decriminalize license fraud and set fines of \$1,000 to \$10,000 for intentionally avoiding payments of Washington taxes and fees.

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