

# **Washington's tax code could be a tool for economic and racial justice**

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Washington State Budget & Policy Center

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**SOUND RESEARCH.  
BOLD SOLUTIONS.**

# About us



# COVID-19 Policy Principles

- 1) **Lead with equity.**
- 2) **Provide immediate, impactful, and sustained relief** in the form of direct cash assistance and bolstering public services.
- 3) **Make permanent fixes to underlying structural failures.**
- 4) **Implement policy responses rooted in trust and dignity, not paternalism.**
- 5) **Reject a scarcity mindset:** There is enough wealth in our state to invest in our people.

# Overview of today

1. Basics of WA budget & tax code: How does it impact us?
2. How did (and didn't) the legislature respond to systemic issues and COVID-19 this session?
3. Resources available to communities
4. What work is still needed? (Discussion)

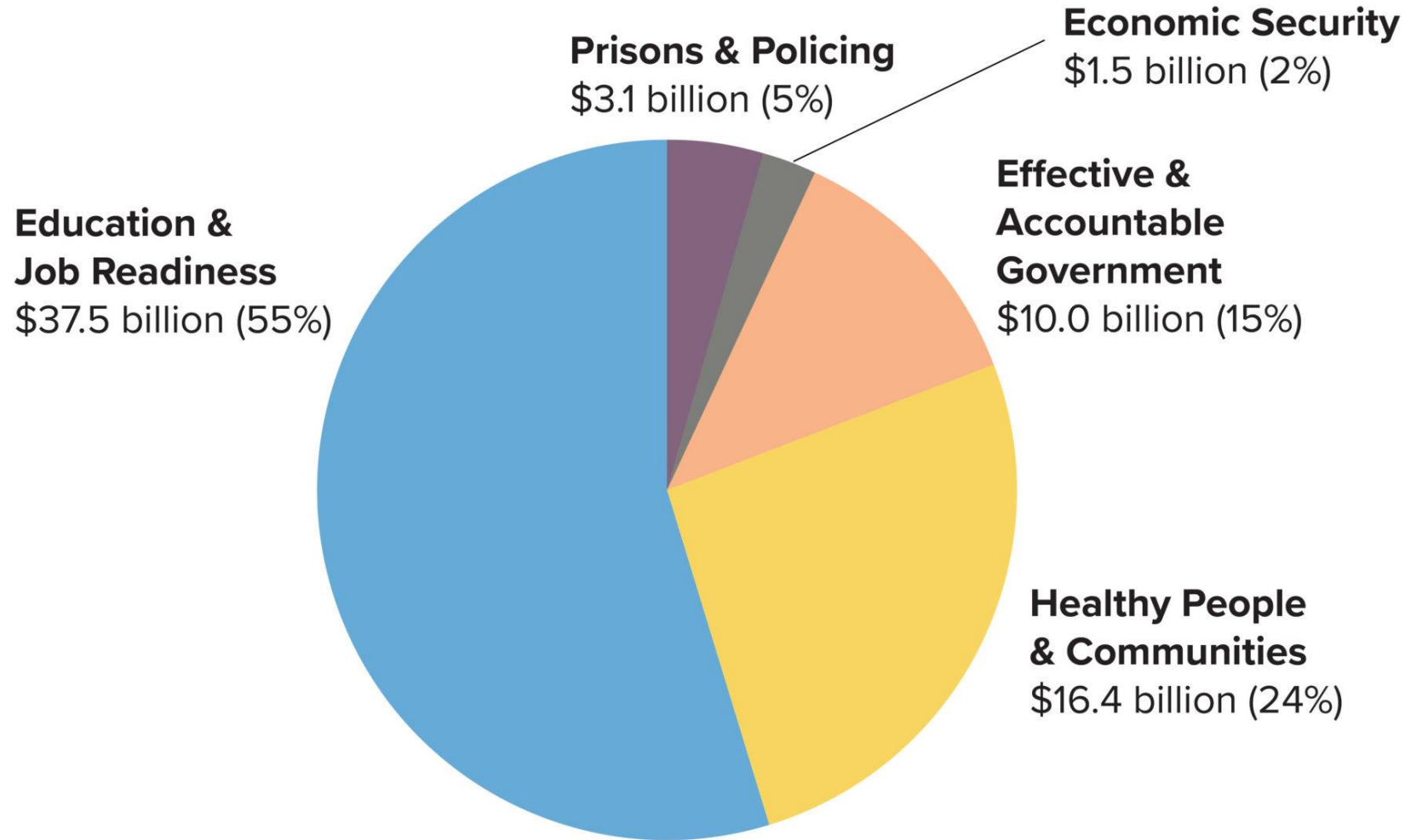


**We apologize in advance  
for all the charts**

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# State budget reflects legislative values

Budget investments by funding area, 2021-23 operating budget (enacted), includes federal aid\*



\*Source: Budget & Policy Center calculations; data from the Legislative Evaluation and Accountability Program (LEAP) Committee; 2021-23 operating budget (NGF-O) plus combined federal aid from the Coronavirus Aid, Relief, & Economic Security (CARES) Act, Coronavirus Response & Relief Supplemental Appropriations (CRRSA) Act, and American Rescue Plan Act (ARPA).

# We're in last place

## Washington

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### ITEP Tax Inequality Index Ranking

According to ITEP's Tax Inequality Index, Washington has the most unfair state and local tax system in the country.

RANK **1**



# How does Washington raise revenue?

## **Consumption (about 80%)**

- Sales taxes
- Business & Occupation tax
- "Sin" taxes

## **Property & Wealth (about 20%)**

- Property tax
- Estate tax
- Real estate excise tax
- And soon, a capital gains tax



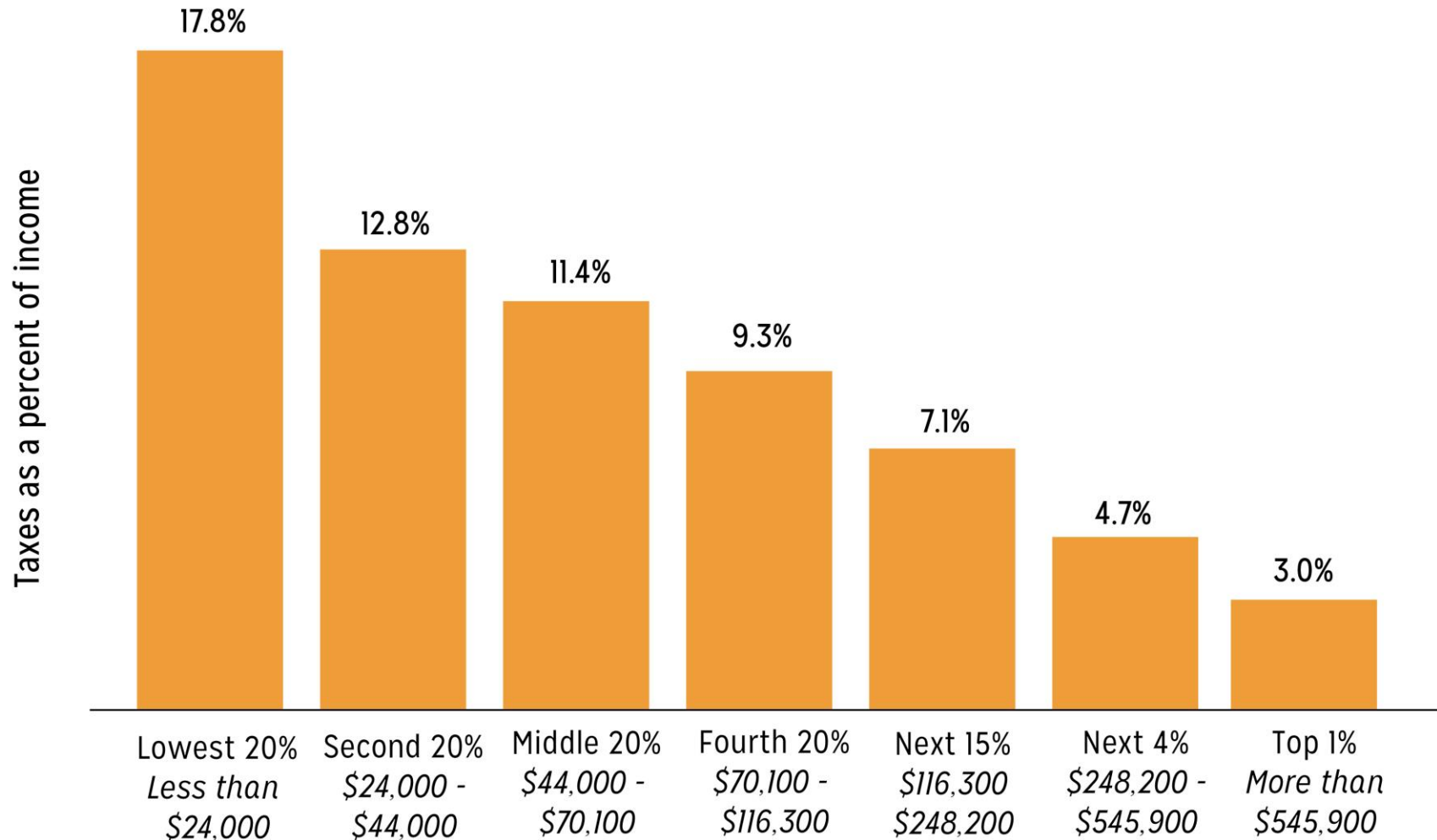
**Washington's upside-down tax  
code exacerbates racial &  
economic injustices**

# What do we mean when we say "upside down tax code?"

In Washington, people with the lowest incomes pay up to **6 times more in taxes** as a share of their incomes than the wealthiest!

# Washington's worst-in-the-nation tax code: Highest rates for those with the least

Washington state and local taxes as a share of annual income by income group



Source: Institute on Taxation and Economic Policy, update to Who Pays, 6th edition, provided January 2021

# Tax code reinforces inequality

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“

While the richest 20% of white households claim nearly *half* of all the income generated in Washington state, they contribute *less than one-third* of the taxes that support schools, health care, infrastructure, and other investments that support the common good.

”

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# Washington's tax code benefits richest, white households at the expense of everyone else

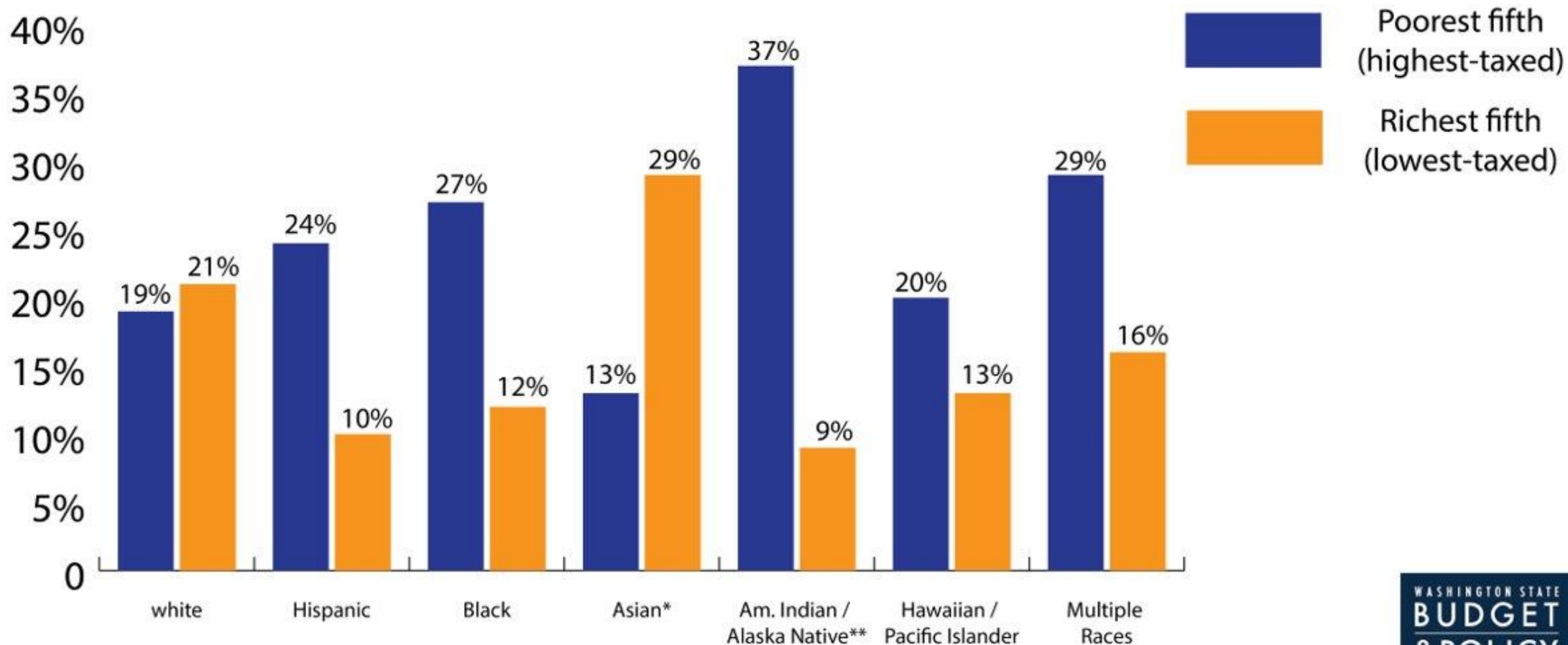
Share of total state income vs. share of Washington state and local taxes paid for richest white households (top 20% of income)



Source: Institute on Taxation and Economic Policy, update to Who Pays, 6th edition, provided January 2021

# Inequitable policies push too many Washingtonians of color into the lowest-income, highest-taxed portions of the population

Distribution of income groups in Washington state within race/ethnicity category in 2015



Source: Source: Institute on Taxation and Economic Policy, update to Who Pays, 6th edition, provided January 2021

\*Aggregate data obscures significant variation in effective tax rates by ethnic groups within the "Asian" category

\*\*Includes only those tax units living away from federally recognized reservations

# Washingtonians of color face higher effective tax rates:\*

**7.7%**

State average for all  
races & ethnicities

**8.4%**

American  
Indian/Alaska Native  
households

**8.4%**

Native  
Hawaiian/Pacific  
Islander households

**8.3%**

Hispanic\*\*  
households

**8.1%**

Black  
households

**7.8%**

Multiracial  
households

**7.6%**

Asian\*\*\*  
households

**7.6%**

White  
households

\*Effective tax rate means taxes as a share of income; \*\*Hispanic classification used in source data;

\*\*\* Asian classification needs further disaggregation



# What does this translate to in dollars?

**\$522/year**

for a typical  
Hispanic\* household

**\$462/year**

for a typical  
AI/AN household

**\$349/year**

for a typical Black  
household

**\$510/year**

for a typical  
Native Hawaiian/Pacific  
Islander household

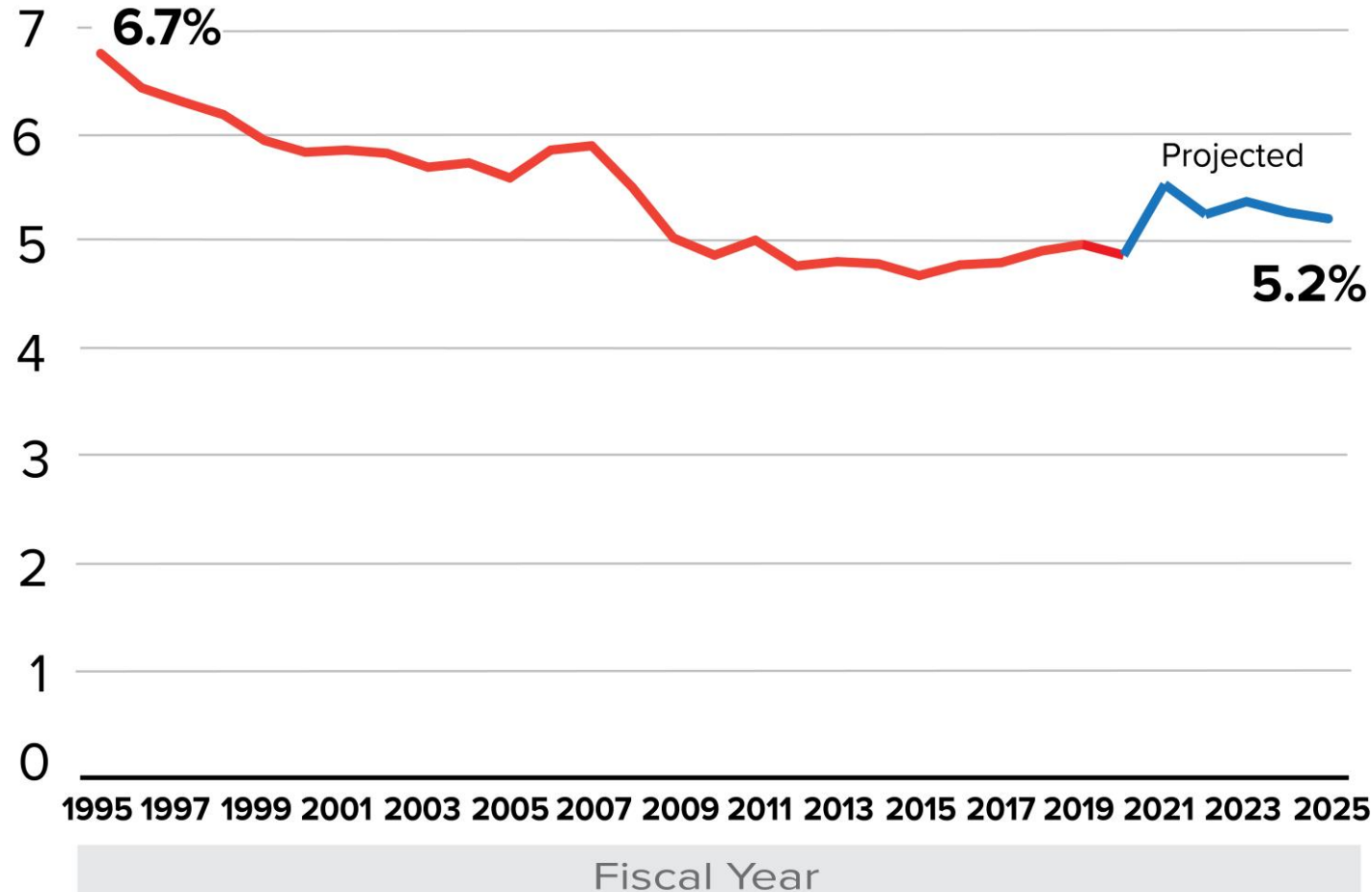
\*Hispanic classification used in source data

# **What is the community-level impact of our state tax code?**

State revenues aren't sufficient  
for funding public services!

# Washington can't move ahead with declining state tax revenues

Washington state tax revenue as a share of total state personal income by fiscal year, 1995-2025



Source: Washington State Budget & Policy Center calculations; data from the Washington state Economic and Revenue Forecast Council and the U.S. Bureau of Economic Analysis; state-only, near-general fund (GF-S+OPA+ELTA+WEIA) tax revenues; updated June 23 2021

# Fines & Fees – Form of "Shadow" Taxation

- Local and county governments rely on raising revenue from criminal legal system fines and fees
- Fines and fees are additional costs for households
  - Households of Color
  - Households with lower incomes
- Two-Tiered criminal legal system
- Many damaging legal and economic impacts
- Estimated at least **\$2.5 billion** owed in fines and fees debt

# **2021 Legislative Session and Beyond**

**What are legislators doing to fix the problems we just outlined?**

# What policies became law?

- Capital Gains Excise Tax
- Working Families Tax Credit
- Fair Start for Kids Act
- Healthy Environments for All (HEAL) Act
- And more!



**Washington state will  
finally have a tax on  
extraordinary profits!**

# Federal action critical

- Total, **\$10.9 billion** state federal aid to WA allocated so far (does not include aid to tribes, localities)
- About **\$1 billion American Rescue Plan** dollars still on the table
- Federal aid to states enabled lawmakers to be bolder on state investments





**Office of Financial Management**  @WA\_OFM · Jun 23



State revenue forecast update:

21-23 (starting July 1) is up by \$1.8 billion

19-21 (current) is up by \$838 million

[#waleg](#)



State revenue projection for 2021–23 increased by ...  
Washington's projected Near General Fund revenue  
collections for the 2021–23 state budget have ...

[ofm.wa.gov](https://ofm.wa.gov)



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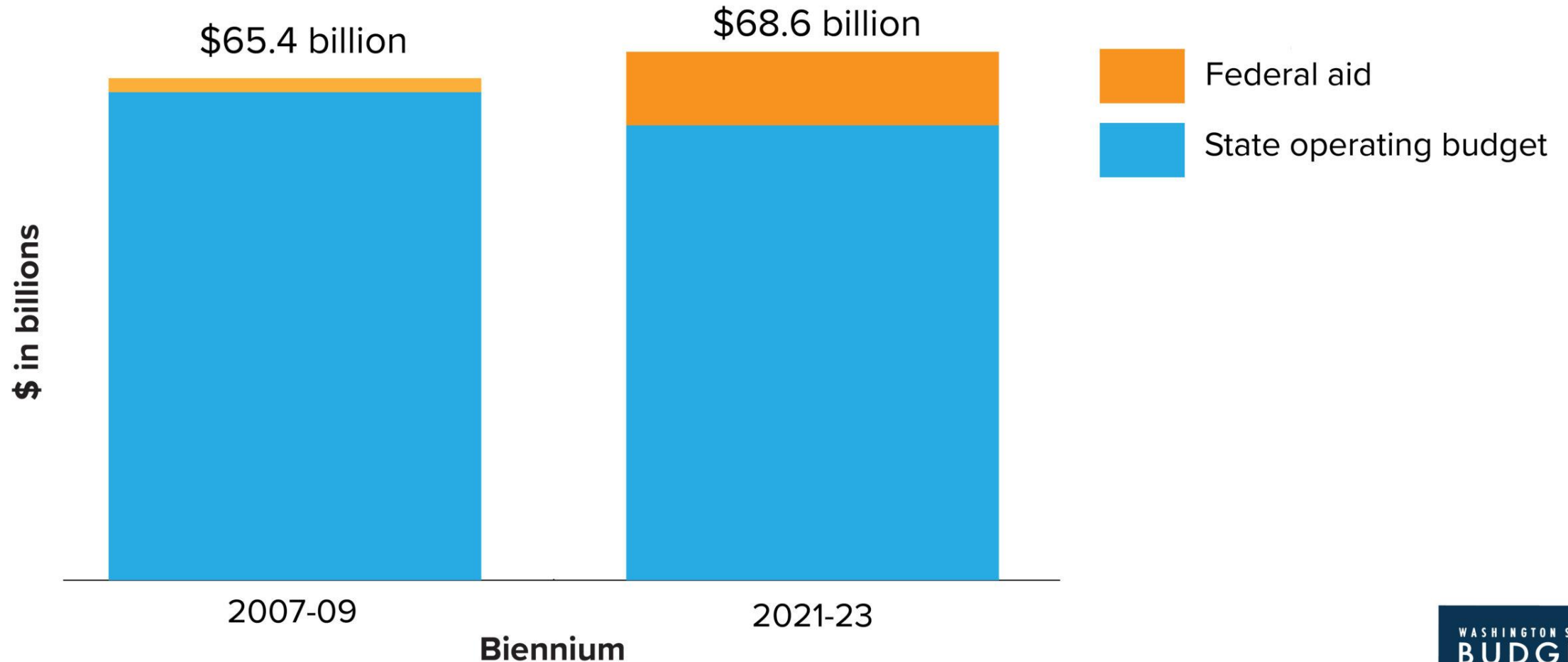


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# Federal aid brings budget back to Pre-Great Recession levels

State operating budget plus federal aid by biennium, adjusted for economic growth\*



\*Source: Budget & Policy Center calculations; data from the Legislative Evaluation and Accountability Program (LEAP) Committee and the Economic Revenue and Forecast Council; 2007-09 operating budget (NGF-O) plus American Recovery & Reinvestment Act (ARRA) federal aid, adjusted for economic growth using state personal income; 2021-23 operating budget (NGF-O) plus combined federal aid from the Coronavirus Aid, Relief, & Economic Security (CARES) Act, Coronavirus Response & Relief Supplemental Appropriations (CRRSA) Act, and American Rescue Plan Act (ARPA).

# Capital gains wealth tax

- Less than 1/10th of 1% of taxpayers subject to 7% excise tax on gains of more than \$250,000
- Will generate **\$500 million/year** for the Fair Start for Kids Act
  - Child care and early learning access
  - Support for child care providers
  - School construction

# **Taxes that might impact you and your communities**

# Working Families Tax Credit

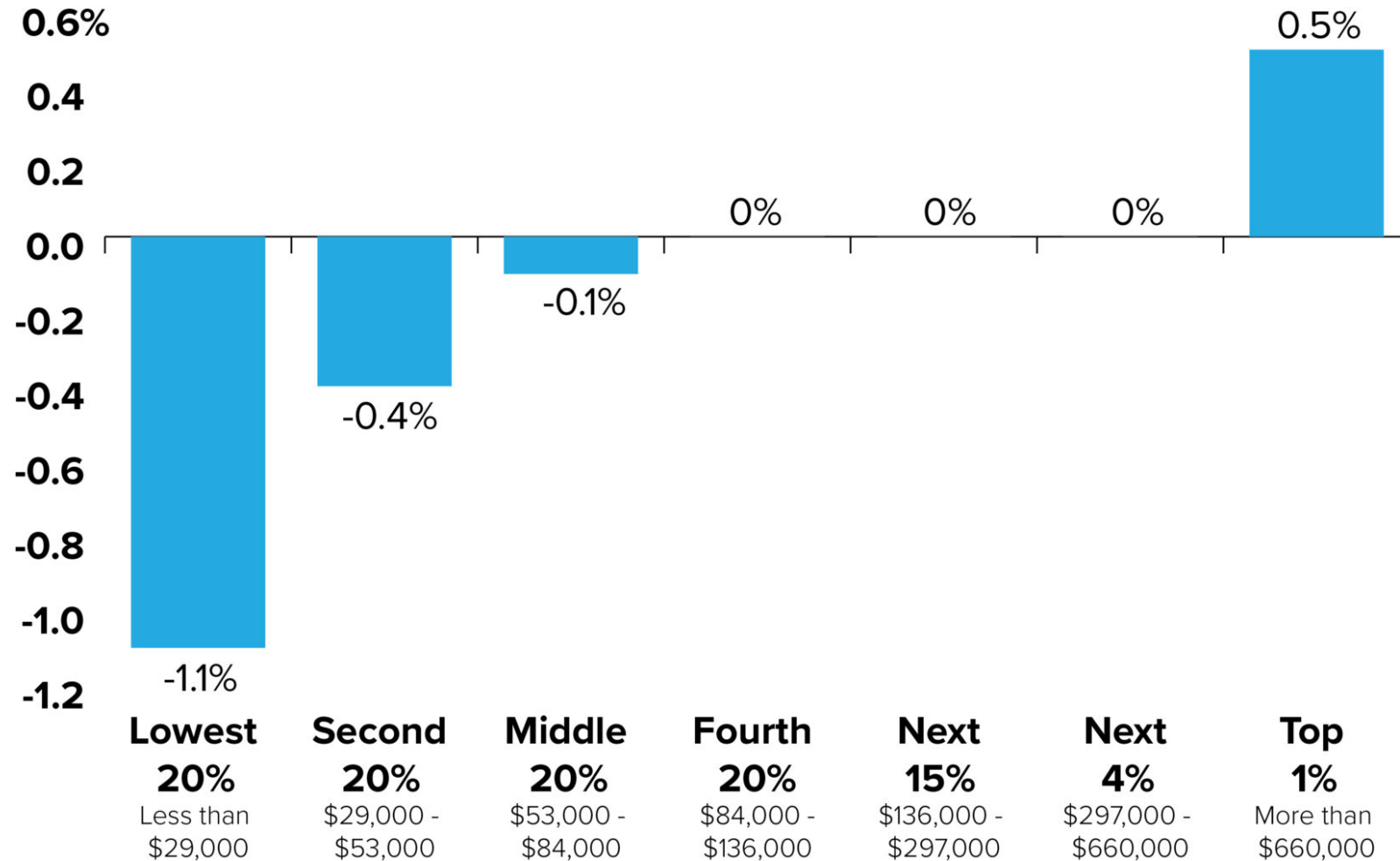
- Starting in 2023, families & people with lower incomes will be eligible to apply for tax rebates of up to:
  - \$300 (no children)
  - \$600 (1 child)
  - \$900 (2 children)
  - \$1,200 (3 or more children)
- Massive outreach campaign!

# Federal Child Tax Credit

- Larger payments (up to \$3,600)
- Half of the refund going out in advance monthly payments
- No minimum income to qualify
- Available to immigrant taxfilers, if child has Social Security Number

# Capital gains excise tax and Working Families Tax Credit will begin to balance Washington's upside-down tax code

Change in Washington state taxes as a share of annual household income by income group





# Long term policy commitments

- Wealth Tax, closing estate tax loophole, progressive payroll tax
- Working Families Tax Credit Expansions
- SNAP or Basic Food extensions and expansions
- Debt cancellation & increased protections (from rent/medical/fines and fees/etc.)
- Fines and Fees reform
- Continued COVID-19 recovery efforts!

What do you want to see at the state level?

# Questions?

Thank you, SESEC!

# Questions

- What types of policies have been most helpful for families and neighbors before and since the pandemic?
- What would you like to see at the state level?
- How can we (Budget & Policy Center) and legislators be more accountable?

# Contact:

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- [MargaretB@budgetandpolicy.org](mailto:MargaretB@budgetandpolicy.org)

## Social Media:



**@budget\_policy**



**budgetandpolicy**

# Resources:

- **Child Tax Credit** outreach factsheets
  - [English](#)
  - [Spanish](#)
  - [Russian](#)
  - [Chinese \(simplified\)](#)
- Child Tax Credit [\*\*non-filer website portal\*\*](#)
- For more info/to join **Working Families Tax Credit Coalition**, email Emily Vyhnanek, [\*\*Emilyv@budgetandpolicy.org\*\*](mailto:Emilyv@budgetandpolicy.org)

# Resources:

- **Washington Immigrant Relief Fund:**  
<https://www.immigrantreliefwa.org/>
  - The application is closed right now, but you can [sign up for updates on the next funding cycle here](#).
- **[Information about the state's TANF program](#)**
  - And to practice color brave norms, [more context on the program's history](#)