



## Initiative 1098: The Right Tax Reform for Stronger Schools and Health Care

### Why Washington needs tax reform:

- **Washington’s tax system is upside down.** Middle-class and low-income residents pay too much in tax, and the wealthiest pay far less than in other states. Small businesses pay a much larger share of their revenues in state taxes than do the largest businesses.
- **Public revenues are unstable** and do not grow as fast as the state economy and need for services.
- **Quality of public services is slipping.** Washington’s rank among the states in per-pupil funding for K-12 education fell from 17<sup>th</sup> in the early 1990s to 37<sup>th</sup> in 2006. We rank 37<sup>th</sup> in awarding college B.A. degrees and 39<sup>th</sup> in graduate degrees. People are losing health insurance, but budget shortfalls have forced the state to cut the Basic Health Plan by 40%.

### Tax Reform Elements:

**I-1098 will lower taxes for most state residents.** The average homeowner will save \$111 annually in property tax. Over 80% of businesses will be exempt from the business and occupation tax (B&O) – retail businesses with revenues up to \$1 million and service businesses up to \$320,000. A new tax on the wealthiest 1.2% of filers will replace lost revenues and generate an additional \$1.58 billion per year.<sup>1</sup>

• Property Tax	Cut 20% of state levy (local levies not affected)	(\$383 million)
• B&O	Raise small business credit from \$420 to \$4,800 per year	(\$250 million)
• Income Tax	5% on income over \$200,000 singles/\$400,000 couples 9% on income over \$500,000 singles/\$1 million couples	\$2,213 million

**Estimated net new annual revenue: \$1,580 million**

### Dedicated new funding for education and health care:

- **Education Legacy Trust Fund:** 70% of net new revenue will go to class size reduction, extended learning opportunities, prekindergarten, and expanding access to higher education.
- **Health Trust Account:** 30% of net new revenue will go to the Basic Health Plan, public health services, and long-term care services for seniors and people with disabilities.

### Accountability:

- New revenues must be spent on specified educational and health priorities.
- Income tax rates may not be increased without a vote of the people.
- Annual report will summarize how funds were spent and estimate the number of people benefited.
- Monthly reports on deposits, withdrawals, and balances on all funds will be posted on the web.
- School districts must allow citizens to comment on planned distributions and report annually on how funds were used. (Existing requirement.)

<sup>1</sup> Washington State Office of Financial Management. "Fiscal Impact for Initiative 1098." <http://ofm.wa.gov/initiatives/2010/1098.pdf>.