



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 17th in the early 1990s to 37th in 2006. We rank 37th in awarding college B.A. degrees and 39th 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.¹

- | | | |
|----------------|--|-----------------|
| • 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.)

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