

Policy Note

A look back on Governor Inslee's 2015-17 tax proposals

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Key Findings

1. In December 2014, the governor proposed net tax increases totaling \$1.4 billion, including creation of a capital gains income tax and a carbon cap and trade system.
2. By May, however, a continually-improving economy and the steadfast opposition of the Republican Senate to new taxes induced the governor to drop his \$1.4 billion tax-increase package.
3. Though he still thought taxes should be increased the governor was unable to say how large of a tax increase he thought was still necessary.
4. By June, the governor said his capital gains income tax was no longer being considered – it had failed to be scheduled for a floor vote even in the Democratic-controlled House.
5. Instead he wanted lawmakers to focus on closing a series of unspecified tax preferences.
6. The legislature ultimately agreed to a net revenue increase of \$180.3 million by closing several tax preferences.

In 2012, Governor Jay Inslee campaigned on a promise that if elected, he would not propose new taxes.¹ Despite this promise the 2015 legislative session started and ended in perfect symmetry with him calling for tax increases, including creation of a capital gains income tax and carbon cap and trade system.

The size of the tax increases Governor Inslee wanted, however, changed significantly from his budget announcement in December 2014 to when he signed the completed 2015-17 budget in June. The purpose of this paper is to review how the tax debate unfolded and to report its results.

When proposing his nearly \$39 billion in state spending for 2015-17 (up from \$33.6 billion for 2013-15) in December Governor Inslee said that Washingtonians needed to “buck up” and accept his proposed new taxes.² The governor said he wanted to impose net tax increases totaling \$1.4 billion.³

Below is a summary of the tax proposals from Governor Inslee's December budget announcement:

- Creation of a capital gains income tax - \$798 million
- Create state carbon cap and trade system - \$380 million (another \$549 million for transportation budget)
- Cigarette/e-cigs tax increase - \$56 million
- Remove sales tax exemption for trade-ins - \$105 million
- Remove use tax exemption for extracted fuel - \$51 million
- Charge sales tax on non-residents - \$52 million

1 “Governor Inslee on McCleary and tax increases: 2012 versus 2014,” by Jason Mercier, Washington Policy Center, November 7, 2014 at <http://www.washingtonpolicy.org/blog/post/governor-inslee-mccleary-and-tax-increases-2012-versus-2014>.

2 “Inslee tells state to ‘buck up’ and accept new taxes,” by Ben Miller, *Puget Sound Business Journal*, December 19, 2014 at http://www.bizjournals.com/seattle/morning_call/2014/12/inslee-tells-state-to-buck-up-and-accept-new-taxes.html.

3 “Governor's Proposed Budget,” Office of Financial Management, December 18, 2014 at http://www.ofm.wa.gov/budget15/highlights/201517_highlights_balance_sheet_detail_expenditures.pdf.

- Charge sales tax on bottled water - \$44 million
- Change B&O tax rate for royalties - \$30 million
- Also had new, extended or expanded tax preferences - (\$94 million)

By May, however, a continually-improving economy and the steadfast opposition of the Republican Senate to new taxes induced the governor to drop his \$1.4 billion tax-increase package, saying it was no longer needed, though he was unable to say how large of a tax increase he thought was still necessary.⁴

By June, the governor said he had decided to drop his capital gains income tax – it had failed to be scheduled for a floor vote even in the Democrat-controlled House – and said instead that lawmakers would have to focus on closing a series of unspecified tax preferences.⁵

Ultimately the legislature agreed to a net revenue increase of \$180.3 million and spending of \$38.3 billion for 2015-17, far less than the \$1.4 billion in new taxes and \$39 billion in spending the governor initially wanted. The revenue actions the legislature passed are listed below.⁶

- Marijuana market reforms - \$14.9 million
- Unclaimed property laws - \$1.3 million
- Unclaimed lottery prizes - \$15.2 million
- Click through nexus - \$28.3 million
- Nexus/Wholesaling - \$45.4 million
- Software M&E - \$57.2 million
- B&O royalties - \$31.4 million
- Late penalties - \$23 million
- Server farms - (\$12.5 million)
- Food processors - (\$13.2 million)
- Manufacturing sales tax/deferral - (\$3.2 million)
- Aluminum - (\$2.7 million)

4 “Inslee Says \$1.4 Billion Tax Package No Longer Needed,” by Austin Jenkins, NW News Network, May 19, 2015 at <http://nwnewsnetwork.org/post/inslee-says-14-billion-tax-package-no-longer-needed>.

5 “Inslee: Democrats’ proposal for new taxes now off the table in state budget talks,” by Associated Press, Q13 News, June 19, 2015 at <http://q13fox.com/2015/06/19/inslee-democrats-proposal-for-new-taxes-now-off-the-table-in-state-budget-talks/>.

6 “Proposed Operating Budget Compromise,” Washington State Legislature, June 29, 2015 at http://leap.leg.wa.gov/leap/Budget/Detail/2015/cOverview_0629.pdf.



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- Newspaper - (\$0.5 million)
- Log trucks - (\$1.8 million)
- Nonresident vessels - (\$1.6 million)
- Aircraft excise - (\$0.6 million)
- Veterans tax - (\$0.2 million)
- Honey bees - no net impact

With the exception of changing the B&O tax rate for royalties, neither the House nor Senate voted on any of the other tax increases originally proposed by the governor (several House committees did, but not the full House).

Between when the governor first proposed his \$1.4 billion tax package and the \$180 million net revenue increase was agreed to by the legislature, the state's economic outlook changed with improvements to the revenue forecast as well as a reduction in caseloads.

As previously noted, however, Governor Inslee concluded the 2015 Session by once again calling for new tax increases such as a capital gains income tax or carbon cap and trade system.⁷ This new tax debate will likely unfold the next time the legislature is in session.

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7 "Governor Inslee Media Availability," TVW, July 10, 2015 at http://www.tvw.org/index.php?option=com_tvwplayer&eventID=2015070039#start=465.