

## Revenue forecast shows it's time for a sales tax cut

By Jason Mercier, Director, Center for Government Reform

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### Key Findings

1. Over the last ten years state revenues will have grown by 75%, from \$28.5 billion in 2009-11 to the forecasted \$50 billion for 2019-21
2. With state tax revenues projected to rise by more than \$4 billion for the next budget, lawmakers should reduce the financial burden they impose on families with a sales tax cut.
3. When it was first imposed in 1935, Washington's sales tax rate was just two percent.
4. It is currently at 6.5%, more than three times higher, and citizens have not seen a rate reduction since 1982.
5. Cutting the state sales tax rate would reduce the tax burden for families and provide savings for every household and business in Washington state.

### Introduction

Washington's growing economy is generating more tax money for state lawmakers, providing them the opportunity when they adopt the new state budget during the 2019 Legislative Session to provide families a sales tax cut.

The state's projected total budget reserves are more than \$3 billion and taxpayers continue to provide record amounts of revenue. In fact, according to the state Economic Revenue and Forecast Council on Washington's November revenue forecast:

"Forecasted Near GF-S revenue for the 2017-19 biennium is now \$45.799 billion, 17.3% more than that of the 2015-17 biennium. Forecasted Near GF-S revenue for the 2019-21 biennium is now \$50.002 billion, 9.2% higher than expected 2017-19 biennial revenue, and forecasted Near GF-S revenue for the 2021-23 biennium is \$53.795 billion, an increase of 7.6% over expected 2019-21 biennial revenue."<sup>1</sup>

### Forecasted GF-S revenue

Year	Forecast	Increase
2017-19	\$45.799 bil.	17.3%
2019-21	\$50.002 bil.	9.2%
2021-23	\$53.795 bil.	7.6%

These numbers illustrate state revenues continue to increase substantially under current tax rates. Over the last ten years state revenues will have grown by 75%, from \$28.5 billion in 2009-11 to the forecasted \$50 billion

1 "Revenue Review," by Steve Lerch, Executive Director, Washington State Economic and Revenue Forecast Council, November 20, 2018 at <https://erfc.wa.gov/sites/default/files/public/documents/forecasts/rev20181120.pdf>

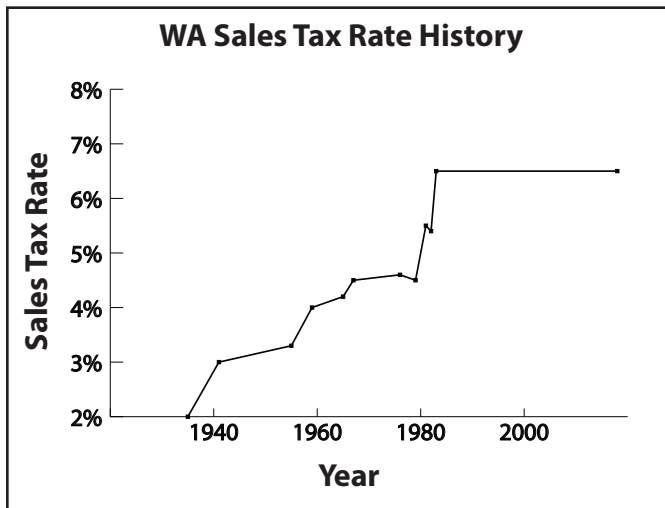
for 2019-21.<sup>2</sup> This growth rate is far above the 17 percent inflation rate during that time.<sup>3</sup>

During this time of increasing revenue, however, the legislature has not provided significant tax relief to Washingtonians, other than a temporary, one-time property tax reduction planned for 2019 (the one-year reduction comes after higher tax rate imposed in 2017).<sup>4</sup>

With the state Supreme Court having approved the legislature’s long-term K-12 McCleary funding plan and state revenues continuing substantially to increase, lawmakers should now provide families tax relief with a sales tax cut.

### State sales tax rate hasn’t been reduced since 1982

When it was first imposed in 1935, Washington’s sales tax rate was just two percent. It is currently at 6.5%, more than three times higher, and citizens have not seen a rate reduction since 1982.<sup>5</sup> The following chart shows the steady rise in the sales tax burden imposed by Washington lawmakers.



<sup>2</sup> IBID.

<sup>3</sup> “Economic Forecast Data (Excel) – November 2018 update,” Budget Resources Fiscal.wa.gov, at <http://fiscal.wa.gov/OtherResources#budres>

<sup>4</sup> “Senate Bill 6614: Concerning funding for the support of common schools,” Washington State Legislature, March 27, 2018, at <http://apps2.leg.wa.gov/billsummary?BillNumber=6614&Year=2017&BillNumber=6614&Year=2017>

<sup>5</sup> E-mail to the author from Anna Gill, Communications Manager, Washington State Department of Revenue, August 17, 2018, copy available on request.

With state tax revenues projected to rise by more than \$4 billion for the next budget, lawmakers should reduce the financial burden they impose on families. According to the state Department of Revenue, here are the potential 2019-21 taxpayer savings people would receive at various levels of sales tax rate cuts:<sup>6</sup>

### WA Sales Tax Cut Savings

Rate	Reduction	Savings
6.25%	0.25%	\$851 million
6.0%	0.50%	\$1.7 billion
5.75%	0.75%	\$2.57 billion
5.50%	1.00%	\$3.43 billion

- 0.25% rate reduction (to 6.25%) - \$851 million in savings
- 0.50% rate reduction (to 6.0%) - \$1.7 billion in savings
- 0.75% rate reduction (to 5.75%) - \$2.57 billion in savings
- 1.00% rate reduction to (5.50%) - \$3.43 billion in savings

With the current projected increase in the state revenue forecast, lawmakers should consider passing and sending to the governor a sales tax rate cut of at least 0.25%. A larger sales tax cut could also be enacted to include a policy mechanism by which any large revenue increases the state receives due to the new U.S. Supreme Court ruling allowing state online sales taxes could be passed on to consumers.

### U.S. Supreme Court’s online sales tax ruling will likely result in more revenue growth

On June 21, 2018, the U. S. Supreme Court issued a ruling in the case *South Dakota v. Wayfair, Inc.* and overturned the longstanding prohibition on states imposing a tax on the online sales of out-of-state businesses. As a result of this ruling, the Washington Department of Revenue announced that as of October 1, 2018 it “will require some

<sup>6</sup> E-mail to the author from Beverly Crichfield, Communications Consultant, Washington State Department of Revenue, September 14, 2018, copy available on request

out-of-state retailers to begin collecting sales tax” and sending the money to the state.<sup>7</sup>

This U.S. Supreme Court ruling means the state has the potential to see even more growth in its sales tax collections.

## Conclusion

Washington’s growing economy, the continued increases in state revenue growth (with over 9% forecasted for the 2019-21 budget), and the U.S Supreme Court’s ruling that allows states to impose online sales taxes means state lawmakers have the opportunity to make tax relief for Washington families a priority during the 2019 Legislative Session. Cutting the state sales tax rate would reduce the tax burden for families and provide savings for every household and business in Washington state.

*Jason Mercier is the director of Washington Policy Center’s Center for Government Reform.*

*Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body*

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<sup>7</sup> “Washington to begin collecting sales tax from out-of-state sellers,” Washington State Department of Revenue, August 3, 2018, at <https://dor.wa.gov/about/news-releases/2018/washington-begin-collecting-sales-tax-out-state-sellers>