



## Closing 4 tax breaks is key to Democrats' state budget plan

The House has approved a budget that needs new revenue to help schools and teachers.

**By John Stang**

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**A slightly slimmed-down** e-cigarette tax and closure of four tax breaks have moved into the final stages of play in the Washington House.

The House Democrats have based their \$236 million 2014-2015 supplemental budget proposal on the tax bills' passage to help the state improve its schools. Meanwhile, House Republicans argued that Tuesday's 54-43 party-line vote approving the budget was premature, because those tax bills have not come up for consideration yet.

The new tax and the closure of the four exemptions are expected to go to the House floor later this week.

"This budget is predicated on one thing: That's raising taxes," argued Rep. Charles Ross, R-Naches, in Tuesday's budget debate.

Tuesday's supplemental budget passage sets up a tax-related showdown between the Democrat-controlled House and the Republican-oriented Senate, which has voted for a much smaller supplemental budget of \$96 million. Republicans are dead set against raising any taxes or closing any exemptions, while Democrats counter that court-ordered education improvements cannot be accomplished without new revenue.

**The biggest differences between the two sides** include the Senate budget's call for \$38.5 million for preparation in 2014-2015 for court-ordered education improvements, while the House proposal is \$60 million. Also, the House budget allocates \$55 million to revive long-dormant cost-of-living raises for teachers, while the Senate budget appropriates zero dollars for that purpose.

On Tuesday morning, the House Finance Committee recommended 8-5 along party lines Tuesday to close the tax breaks, and 7-6 to tax electronic cigarettes. Rep. Chris Reykdal, D-Olympia, joined the committees' five Republicans to oppose that tax.

These measures are to help the state chip away at the extra \$3 billion to \$3.5 billion needed over the next five years to meet the requirements for upgrading schools under a 2012 Washington Supreme Court. The McCleary decision includes a mandate for improvements in the teacher-to-student ratios for grades K-3.

If the House and Senate close those tax breaks this session, then slightly more than \$100 million of the new revenue would go to the Supreme Court and cost-of-living measures in 2014-2015. The e-cigarette tax money is earmarked for reviving long-dormant cost-of-living raises and supporting additional early learning programs. The tax-break closures would help fund McCleary ruling school improvements.

**Rep. Reuven Carlyle argued that the Senate's plan** for dealing with the Supreme Court ruling has depended so far on one-time budget shifts with no long-term revenue sources identified. Meanwhile, the 2015-2017 budget biennium faces at least \$1.5 billion in new court-ordered education improvements. Carlyle said the Republican approach amounts to "a balloon payment of bitcoins," a reference to the struggling Internet currency system.

Carlyle, D-Seattle and House Finance Committee chairman, introduced a bill this session to tax electronic cigarettes similarly to tobacco cigarettes. Carlyle's bill originally would have installed a 95 percent "Other Tobacco Product Tax" on e-cigarette wholesalers. The bill has been revised to make the tax 75 percent instead, and it would allow e-cigarettes to be tax-free if a doctor prescribes them to a patient.

An e-cigarette, which looks a little like an actual cigarette, is really just a tube with a heated atomizing device in it. A flavored liquid — either laced with nicotine or nicotine-free — is poured in and the heating atomizer turns the fluid into vapor, which is then inhaled or "vaped." The devices cost anywhere from \$35 to \$200. Ten milliliters of the vaping liquid costs only about \$8, but that amount of fluid can provide as much nicotine as five packs of tobacco cigarettes. A pack of cigarettes on the other hand costs between \$7 and \$10, of which slightly more than \$3 is the state tax on tobacco products.

Finance committee members on both sides of the bill said more information is needed to get a handle on the whether vaping helps the health of a cigarette smoker. "It appalls me where we have a situation where e-cigarettes are heavily promoted to youth," said Rep. Gerald Pollet, D-Seattle.

"We want to encourage this business, not discourage it," said Rep. Terry Nealey, R-Dayton. Rep. J.T. Wilcox, R-Yelm, charged, "This is a tax bill. It's a red herring to talk about safety and health when it's just a tax bill."

The finance committee's 8-5 vote in favor of closing the tax breaks went along party lines.

**Carlyle's bill would close a tax break** used almost exclusively by five oil refineries; force visiting out-of-state residents to pay Washington's sales tax; create a sales tax on bottled water; and eliminate a B&O tax for drug resellers. Altogether, the tax breaks would raise \$106 million in 2014-2015 and \$203 million in 2015-2017 to finance educational improvements and cost-of-living increases for teachers.

For years, Democrats have proposed closing these four exemptions, always to be stopped by Republican legislators.

Some Democratic committee members thought some of the four proposed tax-break closures should be replaced by other closures. But they pointed at the \$3 billion to \$3.5 billion needed to be raised for school improvements from 2015 to 2019, and said raising that money must begin this fiscal year.

"We believe we need to make a significant downpayment on McCleary," said Rep. Larry Springer, D-Kirkland. Carlyle said school children should get priority over tax exemptions.

Wilcox countered, "This is a tired, worn-out set of proposals that comes up year after year. It's not going anywhere this year."

Rep. Ed Orcutt, R-Kalama, said forcing out-of-state buyers to pay Washington sales taxes will drive away customers from stores near the Oregon and Idaho borders. He said: "Please, please, please, please don't do this to the border areas of our state."

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