



Evergreen Freedom Foundation
A Non-Profit Public Policy Organization
PO Box 552, Olympia, WA 98507
(360) 956-3482, www.ewff.org

...Because Freedom Matters!

April 23, 2009

EFF Policy Highlighter
Volume 19, Issue 10

Temporary sales tax increase would cost thousands of jobs

By Amber Gunn

A bill proposed by the legislature to temporarily increase the state sales tax to 6.8 percent would cost the private sector approximately 6,800 jobs and result in less disposable income for Washington residents.

The below chart shows the estimated job impact if HB 2377 is passed by the legislature and approved by voters. The current proposal for a three-year temporary increase of 0.3 percent is set to expire automatically at the end of 2012, at which time employment levels would return to normal.

| Private-Sector Employment | | | | |
|---|----------|----------|----------|--------|
| | 2010 | 2011 | 2012 | 2013 |
| Jobs Created (with sales tax increase) | 32,170 | 44,610 | 12,883 | 19,774 |
| Jobs Created (without sales tax increase) | 38,755 | 51,331 | 19,702 | 19,836 |
| Net gain (loss) | (6,585)* | (6,721)* | (6,821)* | (62) |

*Statistics are cumulative, not to be added together

The employment estimates were derived using a Computable General Equilibrium (CGE) model, also called the State Tax Analysis Modeling Program (STAMP), created by the Beacon Hill Instituteⁱ (BHI) and designed to answer “What if?” questions related to tax policy. The model is a comprehensive, five-year representation of the state economy that can analyze the economic impacts of tax change proposals in Washington state. For more information about the model methodology, [click here](#).

The state’s Office of Financial Management has released its assessment of the proposed sales tax bill, but the fiscal note only includes analysis of the bill’s affect on state and local governments. The STAMP model provides another level of analysis that the fiscal note does not—mainly, the economic impact on the private sector.

In addition to sales tax proposal’s negative impact on private-sector employment, the model also predicts a 0.22 percent drop in real disposable income for Washington residents.ⁱⁱ Essentially, both drops are the result of an additional \$1.1 billion being transferred from the private sector to the

government over the life of the higher sales tax proposal. Because the cost of almost all goods in the state will rise, people will buy less. Revenues for businesses will likewise decrease, resulting in job losses.

The Legislature has carefully considered the impact of a temporary sales tax increase on state and local coffers, but not on Washington’s economy as a whole. The current recession is primarily consumer-driven. A sales tax increase will incentivize consumers to buy less, harming businesses and lengthening the current recession. The proposed Working Families Tax Rebate, which would be funded by part of the sales tax increase, would only partially offset this effect. In addition, the rebate is problematic since it is a new benefit with ongoing costs but only temporary funding.

Tax changes always have ripple effects beyond the initial impact to state revenues. Legislators would be wise to evaluate these impacts before making any decisions.

A sales tax increase, even a temporary one, would hurt Washington’s citizens and businesses and slow economic recovery.

ⁱ The Beacon Hill Institute is a research arm of the Department of Economics at Suffolk University in Boston.

ⁱⁱ Comments: Disposable household income is gross income, less taxes on household income and property (mainly personal income tax (USPITX, STPITX) and residential property tax (LOPRTX)), plus transfer payments (such as social security and unemployment benefits).

Eq. 2.
$$y_{t,h}^d = y_{t,h} - \sum_{g \in GI} t_{t,g,h} a_{t,h}^{hh} - \sum_{g \in GH} T_{t,g,h}^h a_{t,h}^{hh} + \sum_{g \in G} w_{hg} a_{t,h}^n T_{t,h,g}^{pc} \quad \square h \square H, t \square T$$