Wash. gov won't have full plate of tax hikes

CURT WOODWARD - Associated Press Writer - Associated Press

Gov. Chris Gregoire won't suggest a full roster of tax hikes to pay for the programs she wants rescued from the state's $2.6 billion budget deficit, deferring instead to the Legislature while state officials wait for word of another federal bailout.

But Gregoire will suggest closing some tax "loopholes," including a plan that could net about $100 million by adjusting tax policy for out-of-state companies that operate in Washington and home-state firms that do business elsewhere — including Microsoft Corp.

The Democratic governor is scheduled to present her second run at a balanced budget Tuesday, the second day of the 2010 Legislature. With that presentation and her State of the State speech earlier in the day, Gregoire officially hands over the state's budget woes to the Democrat-controlled House and Senate.

In December, as required by law, Gregoire outlined a budget that would fill the deficit by relying only on existing revenues. But she immediately rejected her own plan, saying deep cuts in education, health care and social services were intolerable for a state attempting to recover from a long recession.

Instead, Gregoire said she would propose a revenue package to pay for about $700 million worth of programs that she considers critical. But those plans have changed, administration officials and key legislators said Monday.

Gregoire still is expected to present a list of programs that she'd "buy back" from the hypothetical all-cuts budget — a list now expected to cost about $780 million. The details of how to pay for those programs, however, could largely be left to the Legislature.

Officials said there are two major factors driving that change: the possibility of a one-time windfall of federal aid, and the reality that lawmakers want to have all tax options at their disposal for the fast-paced election-year session.

"It might be more helpful, since we've been vetting the revenue pieces really thoroughly, not to get locked into what she might come up with," said House Majority Leader Lynn Kessler, D-Hoquiam. "So she's going to be, I understand, a little more generic about it."

One area where Gregoire seems ready to announce specifics is reform of the tax code, particularly in areas where she can make a case for fairness.

"It's about tax fairness, it's about loopholes, it's about people cheating the system when it comes to taxes. That's not fair," Gregoire said Monday. "I want a level playing field between those brick-and-mortar, in-state businesses, and those

businesses competing with us out of state. So those taxes, no matter the circumstances, I will ask the Legislature to move forward on."

One of Gregoire's plans would change the way business taxes are levied on companies that do business in other states. The proposed change, not yet drafted into a legislative bill, would charge the state's business-and-occupation tax on an out-of-state company's service or royalty sales in Washington.

That way, a service company with some presence in the state couldn't avoid the business-and-occupation tax just because its operations are technically headquartered in another state, state officials said Monday.

The change also could apply to Washington-based companies, such as Microsoft. The software company collects royalties on software licenses sold through a subsidiary in Nevada; if the law were changed as Gregoire proposes, Microsoft would have to pay state B&O taxes on royalties collected from Washington state customers.

The Gregoire administration says the proposed change could lower taxes for some in-state businesses, since their service or royalty sales in other states wouldn't be subject to B&O tax.

Gregoire and lawmakers also are awaiting word on whether the federal government will send another package of aid to the states. Last year, Washington state counted billions in one-time aid from Congress as a key part of its budget solution.

But Senate Majority Leader Lisa Brown, D-Spokane, said the possibility of federal help shouldn't stop the momentum for tax hikes at the Legislature.

"Even if there is federal revenue, that will be one-time only, and we all know we have a longer, more structural gap between revenue and expenditures," Brown said. "So I still think the state will need to step up on the revenue side."

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AP Writer Rachel La Corte contributed to this report.

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