



### KEY POINTS

- *Decreases in state capital spending is hurting architects and communities.*
- *New revenues could help the state invest in crucial services and projects.*
- *A healthy design & construction economy is necessary for a healthy state economy.*
- *Past B&O increases on architectural services have hurt firms.*
- *A temporary 0.5 cents sales tax hike would be the least impactful revenue option for design & construction.*

## *TAX IMPACTS ON THE DESIGN PROFESSIONS A TEMPORARY SALES TAX INCREASE*

### **A Healthy State Economy**

Our state economy continues to suffer from the impacts of the Great Recession. The reduced rate of revenue growth has forced difficult budget decisions impacting critical public services. Lower than expected revenue has also reduced the state's bonding capacity and its ability to fund much-needed capital budget investments. Cutting the State Capital Budget, which plays an important role in stimulating the building industry, has resulted in architects, engineers and construction workers losing their jobs and the state losing tax revenue.

The state's capital budget has been reduced by \$3.7 billion over the last three years. \$2 billion of that was due to lower general fund revenues, which lowered the bond limit. Another \$1.7 billion were transferred from the capital budget to the operating budget.

The building industry is the foundation of a healthy, growing state economy, which requires that we invest in our basic infrastructure and our educational, cultural and social institutions. The state capital budget, which has funded billions of dollars of construction projects to support these institutions and provides jobs for architects, engineers, building trades, contractors, and associated businesses, is directly linked to generating state tax revenues. Currently, the Capital Budget is near its statutory bonding capacity, meaning that many high priority projects cannot be funded. Our firms, statewide, are suffering from a lack of work. That situation will worsen if the basis for capital funding is not increased.

### **B&O Tax Hikes are Damaging to the Profession**

In 2010, the legislature tried to partially solve the budget problems by increasing B&O tax rates by 20% for service professions, including design services such as architecture. This came at a time when the design professions had lost over 7,500 jobs since July of 2008. The B&O tax is particularly burdensome since it difficult to pass these costs to clients.

If the legislature considers new tax revenues, the AIA|WA encourages lawmakers to consider the following points.

### **A Sales Tax Increase is the Least Impactful on Job Creation**

Although there are other options to consider in terms of increasing revenues, a temporary sales tax increase provides the most attractive opportunity to fill the budget gap in the near term. Once implemented it would generate new resources quickly.

Construction materials prices continue to be fairly low as do interest rates. A 0.5 cent sales tax increase, for a limited time, would provide lawmakers the opportunity to maintain critical services without hurting the design and construction economy.

A higher tax increase or one that is permanent could lead to long term problems for design and construction. It will be important that the increase be timed to expire before construction material prices spike during the economic recovery.

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