JAY INSLEE
Governor

STATE OF WASHINGTON
Office of the Governor

November 14, 2017

Dear Members of the Washington State Congressional Delegation:

I write today to inform you how the Republican tax proposals in Congress would adversely impact our state. It is clear this plan will be damaging to Washington in numerous ways, including hiking taxes on middle-class families, exacerbating homelessness, harming workers' retirement security, worsening student debt, and more. The plan represents a massive giveaway to the wealthy and special interests, and it blows a $1.5 trillion hole in the federal budget. I strongly urge the members of our Congressional Delegation in the House of Representatives to oppose H.R. 1 – the House version of the GOP Tax Plan – to be considered this week.

To start, I am gravely concerned that leaders in Congress are pursuing such an aggressive timeline for the enactment of sweeping, partisan legislation that has significant ramifications for our state's economy and its people. The decision to release these proposals publicly less than a month before they are scheduled to be voted on means federal lawmakers and our state — not to mention your constituents — have been given no meaningful opportunities for input on wide-ranging tax proposals that affect each and every Washingtonian. That should be considered an essential step to crafting thoughtful policy that benefits, rather than harms, our state.

Unfortunately, it has become clear the GOP Tax Plans constitute a massive giveaway to corporations and the wealthiest taxpayers at the expense of middle-class families. According to non-partisan analysis from the Tax Policy Center, nearly 50 percent of the financial benefits of H.R. 1 would accrue to the wealthiest one percent of taxpayers, while the vast majority of middle- and lower-income Americans — including Washingtonians — would either see little benefit or face negative consequences. Indeed, 31 percent of America's middle-class families would actually see a tax increase under the proposal. The proposal in the Senate, while marginally better, also represents an unacceptable windfall for special interests and the wealthy to be paid for by hard-working families. The Senate bill would increase taxes on more than 21 million middle-class households, according to an initial estimate from the Congressional Joint Committee on Taxation (JCT), while delivering a tax cut to 78 percent of millionaires.

Both the House and Senate proposals would also deliver massive tax cuts to high-income earners while ballooning the federal budget deficit by $1.5 trillion over the next decade — despite repeated attempts by Republican leaders in Congress to cut Medicare, Medicaid, Social Security, and countless discretionary programs under the guise of "fiscal responsibility." In fact, it was only two months ago that Senate leaders made yet another attempt to repeal health care for more than 20 million Americans using the false narrative of reducing the federal deficit. Under no circumstances should Congress cut taxes on millionaires and special interests only to later propose draconian cuts to infrastructure, health care, education, environmental protection, national defense, public safety, and other critical programs. Americans will not be fooled by this thinly-veiled sleight of hand.

Ultimately, I am deeply troubled by what the final GOP Tax Plan will mean for workers, families, and communities across Washington State, and I urge you, in no uncertain terms, to reconsider this partisan approach to tax reform.

Among the most concerning provisions in the GOP Tax Plans is the elimination of the state and local tax deduction, which is used by approximately 1 million hard-working Washington taxpayers to lower their federal tax bill. Eliminating this middle-class benefit would increase families' federal taxes by hundreds of dollars annually, on average. It would also place significant pressure on our state and local governments to slash important services like education, health care, and public safety, which are supported by sales tax revenues. Other provisions threaten to immediately halt the development of affordable housing units in Washington, put thousands of blue-collar workers out of work, slow innovation in clean energy technologies, limit our ability to advance vital transportation projects, and end incentives to hire veterans and people with disabilities.

I also have serious concerns about the proposed repeal of personal tax deductions for medical expenses, student loan debt, tuition assistance, teachers' classroom supplies, moving expenses, and other important benefits that support the middle class and our state's economy. The repeal of these deductions in the House proposal is particularly disturbing given that similar deductions are largely retained for corporations.

Additionally, I am troubled by the JCT estimate that charitable giving would drop dramatically under the proposal, threatening philanthropic organizations in Washington that do incredible work eradicating global poverty, developing life-saving treatments to cancer, improving public education, and expanding access to health care in developing nations. The estimate that 32 million fewer Americans will donate to charitable causes under the House bill — and that charitable donations will drop by $95 billion annually — should concern us all.

Enclosed, find a memorandum detailing some of our state's most significant concerns with the different versions of the GOP Tax Plan under consideration in the House and Senate. As you will see, the GOP Tax Plan would have far-reaching and damaging consequences for Washington families, businesses and communities, such as:

- Increasing federal taxes on working families and individuals who can least afford it by repealing the state and local tax (SALT) deduction;
- Exacerbating homelessness by immediately halting the development of affordable housing units, while limiting options for homeownership;
- Eliminating opportunities to advance highway, transit and other transportation projects;
- Threatening developments underway at Washington's colleges and universities, hospitals, charities, businesses, and non-profit organizations;

- Slowing deployment of wind energy and electric vehicles — clean energy technologies that create jobs and help our state fight climate change;
- Harming the retirement security of Washington's teachers, firefighters, law enforcement, and other public employees;
- Discouraging workers from advancing their careers, continuing their education, and pursuing 21st century apprenticeship programs;
- Worsening the student debt crisis;
- Ending incentives to hire veterans, people with disabilities, unemployed Americans and other vulnerable groups;
- Threatening historic preservation projects in every congressional district; and
- Eliminating critical supports for low-income and rural communities across our state.

This partisan plan does not reflect our state's values, and it threatens our state's economy. I urge you to reject this unfair and imbalanced proposal, engage meaningfully with state leaders from both sides of the aisle, and commit to a bipartisan process that follows regular order.

If you have any questions about Washington State's priorities in congressional discussions on tax reform or how the Republican proposals would impact our state, please contact my office in Washington, DC (Sam Ricketts, Director, Sam.Ricketts@gov.wa.gov, 202-624-3691, or Casey Katims, Deputy Director, Casey.Katims@gov.wa.gov, 202-624-3546).

Very truly yours,

Jay Inslee
Governor

Enclosure

WASHINGTON STATE IMPACTS FROM THE PROPOSED GOP TAX PLANS IN THE HOUSE AND SENATE

Increases Federal Taxes on Middle-Class Families Through Repeal of the State and Local Tax Deduction.

The House GOP Tax Plan – H.R. 1 – would eliminate the federal tax deduction for state and local taxes (SALT) for sales tax payments, which would result in increasing taxes on Washington middle-class families, and also placing pressure on state and local governments to slash the services they provide for their communities. The SALT deduction ensures that Washingtonians are not double-taxed by the federal government on the income they pay to state and local governments. Over 800,000 Washington taxpayers claimed the SALT deduction for sales tax payments in 2015, with the average claimant reducing their tax liability by more than $2,600.[1] The vast majority – 85 percent – of all SALT claimants in Washington are middle-income.[2] Eliminating this deduction would increase their federal taxes by hundreds of dollars per year. Furthermore, eliminating this deduction would place additional budget pressure on Washington's state and local governments, which use sales tax revenue to support essential services like schools, public housing, health care, public safety and more.

Unfortunately, the Senate GOP Tax Plan goes even further than the House proposal, in eliminating the SALT deduction for both sales *and* property taxes. If enacted, this proposal would increase the federal tax liability of around 1 million Washingtonians, by over $7 billion in total (or over $7,000 per claimant, on average).[3] This proposal would result in an even larger federal tax increase on even more Washingtonian than the House bill.

Halts Development of Affordable Housing, Limits Homeownership and Exacerbates Homelessness.

The House GOP Tax Plan would eliminate tax-exempt private activity bonds (PABs) and advance refunding bonds. Nationally, these bonds are increasingly being used to finance affordable housing. According to one recent analysis, the plan would reduce the production of new affordable housing units by more than 60 percent, or by more than 85,000 units each year.[4]

In Washington, these tax-exempt bonds are used in combination with the Low-Income Housing Tax Credit (LIHTC) program to support the development of much-needed affordable housing. Since the beginning of the LIHTC program, these bonds have supported the production of almost 55,000 affordable apartments across the state. The construction of these apartments has supported more than 87,000 jobs, $6.4 billion in local income and $1.2 billion in taxes and other local government revenue.[5] In Seattle alone, the Seattle Housing Authority (SHA) has built 2,056 units of low-income housing and rehabilitated 2,394 units using tax-exempt financing over the last 20 years.[6] Across all regions, the bonds are estimated to have brought in $3.3 billion to our state and leveraged an additional $2.3 billion in LIHTC equity, all raised by private investors.

Without these bonds, almost half of the LIHTC program will disappear, and thousands of jobs and millions of dollars for local economies will be lost. Nationally, it will result in the loss of nearly one million affordable rental units over the next 10 years.[7]

The impact will be felt immediately in our state. Last month, the Washington State Housing Finance Commission (WSFHC) received 18 applications to build affordable housing using tax-exempt bonds. If these bonds are eliminated, 2,088 apartments currently planned by developers across the state would not be built in the next two years, surrendering $297 million in private equity that could be put toward jobs and other revenue in local communities — while denying affordable housing to an estimated 4,000 families in Snohomish, King, Clark, Pierce, Whitman and Spokane counties. That includes 190 large households, more than 1,000 elderly households and over 300 people with disabilities.[8]

According to the Seattle Housing Authority (SHA), most construction and renovation of low-income housing in Seattle will cease if these tax-exempt bonds are eliminated, construction industry jobs will be lost and options will greatly diminish for individuals and families who are currently homeless or at risk of homelessness. For example, the redevelopment of housing for extremely low and low-income households at Yesler Terrace — 561 rebuilt units and 290 new units — will not be able to continue. Only half of the planned affordable units have been or will be completed under currently financed projects. In addition, construction of four new buildings with an additional 453 units, which would serve 1,250 Washingtonians, cannot go forward as planned if these bonds are repealed. That means $100 million in private equity and an estimated 4,000 construction jobs in Seattle will be lost.[9]

Private activity bonds have also been critical to helping people become homeowners for the first time. In Washington State alone, more than 46,000 families have used a bond-financed mortgage to buy their first home.[10] The Republican plan to eliminate these bonds threatens to limit homeownership for tens of thousands of middle-class families.

These tax-exempt bonds are also used by WSHFC to finance thousands of units of non-profit housing, mostly for seniors, as well as loans for new farmers to buy their first acres, and other non-profit facilities such as YMCAs and museums. Future financing of these facilities will be at risk if these bonds are eliminated.

As currently drafted, the Senate GOP Tax Plan retains tax-exempt PABs, including single-family and multifamily housing bonds. However, like the House proposal, it repeals the ability of state and local governments to use advance refunding bonds, increasing costs on taxpayers and threatening projects underway and under consideration across Washington State.

Limits Our Ability to Advance Vital Transportation Projects.

The House GOP Tax Plan would eliminate tax-exempt private activity bonds (PABs), which have been a useful tool for financing highway, transit and intermodal transportation projects across the country. Since 2005, the U.S. Department of Transportation (DOT) has issued more than $6.5 billion in tax-exempt bonds and allocated an additional $4.3 billion using PABs to support 24 projects across 15 states, benefiting millions of Americans who rely on highways and transportation systems nationwide.[11] These bonds are critical to increasing private investments in our country's infrastructure, thereby reducing costs to taxpayers, helping generate new ideas and increasing efficiencies in transportation projects.[12]

Although none have been issued in Washington thus far, the elimination of PABs would remove a financing option for potential future projects being considered by the Washington State Department of Transportation (WSDOT).[13] The elimination is also concerning given the Trump Administration's stated intention to finance $1 trillion in infrastructure based in large part on leveraging hundreds of billions of non-federal investments from private capital.[14] Without PABs, that level of private investment would become very unlikely.

As currently drafted, the Senate GOP Tax Plan retains tax-exempt PABs.

Threatens Developments at Colleges and Universities, Ports, Hospitals, Charities, Businesses and Non-Profit Organizations.

The House GOP Tax Plan would eliminate tax-exempt private activity bonds (PABs) and advance refunding bonds, which are relied on by the state and local governments, colleges and universities, hospitals, charities, businesses and non-profit organizations to foster economic development and finance a wide range of infrastructure projects in Washington State. The ability of state and local governments to advance refund bonds also saves taxpayers money.

According to the National Association of Health and Educational Facilities Finance Authorities (NAHEFFA), projects financed with tax-exempt bonds across the country include general acute care hospitals, continuing care retirement communities, children's hospitals, comprehensive cancer centers, general medical and surgical facilities, single specialty hospitals, higher education facilities, assisted living and nursing homes, and private nonprofit schools.[15] Not only does the House GOP Tax Plan threaten to delay or discontinue the development of future facilities in Washington, but it also jeopardizes the jobs and resulting revenue in local communities that come from such developments.

These bonds have been integral to the financing of important projects on college campuses across Washington State. Since 1983, the Washington Higher Education Facilities Authority (WHEFA) has issued tax-exempt bonds to finance 89 projects at 14 colleges and universities, enabling campus improvements such as new residence halls, science buildings, libraries, law schools and administrative facilities. In just the last eight years, Washington's colleges have saved almost $88 million in interest due to tax-exempt financing, which allows these institutions to put more of their own resources into educating and serving their students.[16] Importantly, tax-exempt bonds ensure institutions can access low-cost loans for construction even during challenging economic times, when they are needed most.

WHEFA's tax-exempt financing has created more than 580 jobs annually in a wide range of industries — over half of which are construction jobs — contributing an estimated $34 million in labor income and nearly $50 million in GDP annually over the last 20 years.[17] Without these PAB-financed projects, our state would have lost an average of 300 construction jobs each year.[18] Similar job losses can be expected in the future if this financing option is repealed.

Among the institutions of higher education that have benefited from tax-exempt financing are:

- Whitman College in Walla Walla, where construction of a new 60,000 residence hall and renovations to existing student housing are currently being financed with tax-exempt bonds — totaling $17.7 million and saving the institution $1.26 million;
- Pacific Northwest University of Health Sciences in Yakima, where acquisition and additions to their main campus building, Butler-Haney Hall, were financed with tax-exempt bonds — totaling $24.5 million and saving the institution $2.88 million;
- Seattle Pacific University in Seattle, where construction of a 5-story residence hall, Arnett Hall, was financed in part with tax-exempt bonds — totaling $85.5 million and saving the institution $8.16 million;
- Gonzaga University in Spokane, where construction of the new cutting-edge John J. Hemmingson University Center was financed using tax-exempt bonds — totaling $53 million and saving the institution $3.38 million;
- Seattle University in Seattle, where construction and equipping of the McGoldrick Learning Commons addition to the library, along with renovations to the Lemieux Library and the School of Law, were financed using tax-exempt bonds — totaling $41.8 million and saving the institution $7.98 million; and
- Whitworth University in Spokane, where construction of student housing and the Robinson Science Hall were financed using tax-exempt bonds — totaling $63.7 million and saving the institution $19.1 million.[19]

The Washington Economic Development Finance Authority (WEDFA) also finances a wide variety of manufacturing, waste disposal and non-profit institutions throughout Washington State using tax-exempt bonds. For example, WEDFA recently financed the construction of the Columbia Pulp I project near Dayton, Washington, which will provide a major stimulus to the area economy, employ 83 full-time employees and commercialize an innovative Washington-based technology — the conversion of wheat straw into paper pulp.[20]

Tax-exempt bond financing by WEDFA also:

- supported over 200 high-paying manufacturing jobs as part of a manufacturing expansion for VPI Quality Windows in Spokane, as well as more than 120 employees at Sonderen Packaging in Spokane;
- helped the UW Medical School finance its research facilities;
- financed Delta Marine, a boat manufacturer, which provides hundreds of good-paying jobs in Seattle;
- was instrumental in constructing a coal cleanup and coal recovery facility in Centralia, providing 24 high-income jobs in the area;

- financed enterprises such as Standard Plastic in Lewis County, Lamiglas in Woodland and Pacific Coast Shredding in Vancouver;
- will soon be used to finance the commercial air terminal at Paine Field in Snohomish County; and
- supported numerous other non-profit, manufacturing, processing and waste disposal enterprises across our state.[21]

Projects financed with WEDFA tax-exempt bonds employ many thousands of Washingtonians and have provided a tremendous asset to the recipient businesses. Many of these projects would not have happened at all without this financing option, while others would have faced significantly higher costs or had to curtail the scope of the projects and the number of workers who were employed.

Additionally, our state's Bond Cap Program has authorized the issuance of 46 tax-exempt bonds by ports, public utility districts, public corporations, industrial development corporations, economic development corporations and local governments in Washington since 2000. These bonds have financed more than $410.6 million in projects that have retained and expanded economic opportunities, reduced environmental impacts, enhanced safety and increased manufacturing efficiency. Approximately 2,400 jobs have been retained or created through these efforts.[22]

For example, a 2015 bond cap allocation to the Economic Development Corporation of Pierce County helped Shining Oceans Seafood Inc. finance upgrades to processing equipment, in order to enhance worker and food safety and meet current environmental standards for air emissions and water discharge. This financing helped retain 154 jobs in the community.[23]

Elimination of private activity bonds and the ability of the state and local governments to advance refund bonds would have a real economic impact on Washington State and future opportunities for these types of developments, while increasing costs on taxpayers. In the last year alone, advance refunding bonds saved U.S. taxpayers across the country at least $3 billion.[24] To make matters worse, the proposed legislation would create significant difficulties for projects with existing tax-exempt bond financing. Such projects would lose their ability to refinance at similar rates, and would effectively be prohibited from making any significant modifications to the covenants and structures of their existing projects.

As currently drafted, the Senate GOP Tax Plan retains tax-exempt PABs. However, like the House proposal, it repeals the ability of state and local governments to use advance refunding bonds, increasing costs on taxpayers and threatening projects underway and under consideration across Washington State.

Damages Washington's Leadership in Clean Energy Innovation and Job Creation.

By reducing the value of the Renewable Energy Production Tax Credit (PTC), and eliminating the Electric Vehicle Tax Credit, the House GOP Tax Plan would punish our state for its progress in deploying these clean energy technologies, and would threaten economic growth opportunities in these industries and the contributions they make toward addressing the urgent crisis of climate change.

The proposal to immediately reduce the value of the Renewable Energy PTC reneges on a bipartisan agreement reached less than two years ago to extend this important tax incentive until 2020. It would hit wind energy particularly hard, in our state and across the United States — increasing costs by $11 billion on the industry,[25] cutting wind energy development in half,[26] and threatening over $50 billion in private investment planned by industry under the terms of the current tax credit.[27] Currently, the wind energy industry is experiencing rapid growth and already employs 102,000 Americans,[28] while the U.S. Bureau of Labor Statistics has projected good-paying wind turbine technician jobs to be the second fastest-growing occupation in the country over the next ten years (only solar installation jobs are projected to grow faster).[29] In Washington, the Renewable Energy PTC and our state's voter-approved *Energy Independence Act* initiative have combined to help make Washington a national leader in wind energy – ranking in the top 10 in the country in jobs[30] and installed capacity.[31] The House GOP proposal would impair this progress.

Similarly, the House bill would eliminate the Electric Vehicle Tax Credit, which, coupled with supportive state policies, has helped make Washington a national leader in deployment of these vehicles. Electric vehicles (EVs) reduce consumers' fuel costs, harmful air pollution and our nation's oil dependence, while incentivizing growth in domestic advanced manufacturing. Consumers are demanding EVs; national sales of plug-in EVs jumped from just over 17,000 in 2011, to nearly 160,000 last year.[32] As of October 2017, more than 26,000 plug-in EVs were registered in Washington[33] — ranking it second in the nation in the percent of EVs-deployed.[34] This demand has driven job creation. Over the last decade, around 200,000 Americans jobs have been created in the electric drive industry.[35] The federal EV tax credit provides consumers with an important credit of up to $7,500 on their tax bill, helping to incentivize the deployment of EVs and the continued growth of this essential 21st century transportation industry.

It should be noted, meanwhile, that the House GOP proposal does not affect nearly any of the $14 billion-plus in federal tax breaks that benefit entrenched fossil-fuel industries each year — an amount that dwarfs all federal support for clean energy.[36] These tax incentives have been called wasteful, at best, as they go to wealthy businesses and mature technologies, and they have been credited with unduly advantaging dirty, outdated energy resources that contribute significantly to America's carbon pollution and climate change.[37]

Fortunately, as currently drafted, the Senate GOP Tax Plan does not include the same harmful anti-clean energy provisions as the House bill. The Senate bill does, however, also leave the fossil fuel subsidies in place.

Harms the Retirement Security of Teachers, Fire Fighters, Law Enforcement and Other Public Employees.

Both the House and Senate GOP Tax Plans would, for the first time, subject the investments of state and local government pension plans to the unrelated business income tax (UBIT).[38]

Historically, states and the federal government have been immune from taxing one another. This radical change would erode that immunity and effectively take money out of the pockets of nearly 320,000 current and future public workers in Washington State covered by public pensions, including teachers, fire fighters, law enforcement officers, public safety employees and judges.[39] It would also directly increase costs on the state and local governments that offer and contribute to these public pension plans.

Nationwide, investment earnings pay for approximately two-thirds of state and local government pension benefits.[40] Subjecting these earnings to the UBIT not only results in direct lost revenue to public pension plans, but also poses substantial compliance complications and costs that could limit how the portfolios are constructed, invested and diversified — potentially diminishing investment earnings that are essential to pensions' funding.[41] What's worse, the provision would subject public pension investment earnings to UBIT effective January 1, 2018, giving the Washington State Investment Board (WSIB) no opportunity to restructure investments or agreements that have already been entered into before the effective date.

Teachers, fire fighters, law enforcement officers, public safety workers and other public employees — along with their state and local government employers — already pay more than $3.6 billion each year toward their pensions. The state's Department of Retirement Systems (DRS) is gravely concerned about the impact of this provision, which would unnecessarily increase the cost of retirement for hundreds of thousands of public workers in every corner of our state.

Prevents Washingtonians from Advancing Their Careers, Continuing Their Education, Pursuing Apprenticeships and Lowering Student Debt.

The House GOP Tax Plan would eliminate several education-related tax benefits that have been critical to supporting innovation, growing our economy and enabling our state to be competitive in a global market. The repealed benefits include the student loan interest deduction, the qualified tuition deduction and the tax exemption for employer-provided tuition assistance programs. This hurts students attending both public and private non-profit, 2-year and 4-year institutions.

Under current law, employers can provide $5,250 per year in tuition assistance to help workers continue their education at the associate, undergraduate or graduate level. This tax benefit has helped tens of thousands of Washingtonians advance their careers, continue their education, participate in innovative apprenticeship programs and lower their reliance on student loans.[42] Eliminating the tax incentive for educational assistance programs threatens to undermine this progress and create substantial barriers for employers seeking to make educational benefits available to their workforce.[43]

Major employers in our region, such as Amazon and Starbucks, are leading examples of how employers are expanding educational benefits to frontline and entry-level workers. Nationwide, 70 percent of all companies are estimated to offer tuition assistance to their employees today.[44] Our state's public universities — including the University of Washington (UW) and Washington State University (WSU) — also use this tool to help employees take college courses and encourage promising students to pursue graduate level work. At UW alone, more than 690 employees are receiving tuition waivers valued at $4.5 million during the 2016-17 academic year using this tax benefit. Between 2013 and 2017, more than 3,000 waiver requests were also processed for UW employees using this tax benefit to take courses at other institutions in our state — such as Bellevue College, Central Washington University, Highline College, Lake Washington Institute of Technology and Spokane Falls Community College.[45]

The Washington Student Achievement Council (WSAC) is deeply concerned about the impact of repealing this important tax incentive. At best, it will shift the tax burden for educational benefits from employers to their workers — as these educational benefits could continue, but would be counted as taxable income for the hard-working Washingtonians who receive tuition assistance from their jobs. At worst, it would discourage Washington employers from providing educational assistance programs altogether. It may also undermine access to real world, hands-on career connected learning for thousands of students across our state, as cutting off this important tax incentive threatens to erode the expansion of innovative apprenticeship programs that prepare workers for 21st century jobs.

The House plan also eliminates the ability of colleges and universities to offer tax-free tuition reduction programs to their graduate students, removing an important tool in recruiting and retaining valued graduate students at Washington's institutions of higher education, including UW and WSU. Under current law, this incentive significantly lowers the cost of graduate education by providing many Ph.D. and Master's students with a non-taxable tuition reduction while serving as teaching or research assistants, a key component of their academic training.

The tax benefit is incredibly important to the research mission of our major universities, particularly in the crucial STEM (Science, Technology, Engineering and Math) fields. According to the U.S. Department of Education, 57 percent of tuition reductions went to graduate students in STEM programs.[46]

Repeal of this provision would either result in thousands of graduate students being subjected to a major tax increase, or significant tuition increases for those pursuing graduate-level education. In Washington, it would impact approximately 7,000 graduate students at UW who are receiving $32.4 million in tuition reductions during the current fall quarter, as well as 1,900 graduate students at WSU who are currently receiving just over $16 million in tuition reductions. Unfortunately, this would likely lead to increased student debt as many of these students — the vast majority of whom have very low incomes — would be forced to take out loans to pay these taxes and their increased tuition bills. In the 2011-12 academic year, nearly 87 percent of all Ph.D. and Master's students had adjusted gross incomes of $50,000 or less.[47] We should not be taking steps that deny opportunities for graduate students to continue their education, particularly given the significant workforce shortages faced by employers in high-skill industries.

Finally, the House plan eliminates the student loan interest deduction, which currently lowers federal taxes for nearly 12 million Americans by an average of $1,068 per year.[48] Importantly, this benefit is an above-the-line deduction, meaning it offers vital assistance even to taxpayers who claim the standard deduction on their federal taxes. Eliminating this critical benefit threatens to exacerbate our nation's student debt crisis and put a college education even farther out of reach for hard-working students. In Washington State, this would harm more than 275,000 taxpayers who currently claim the student loan interest deduction, increasing their yearly taxes by more than $1,000 on average. That includes more than 185,000 taxpayers who make less than $75,000 per year.[49]

Taken together, the elimination of education-related tax benefits in the House plan would hinder our state's economic growth, prevent hard-working Washingtonians from advancing their skills and their careers, worsen student debt and limit our state from leveraging private investments in our long-term education and career development goals.

As currently drafted, the Senate GOP Tax Plan retains the student loan interest deduction, and appears to leave unaltered the qualified tuition deduction and the tax exemption for employer-provided tuition assistance programs.

Ends Incentives to Hire Veterans, People with Disabilities, Unemployed Americans and Other Vulnerable Groups.

The House GOP Tax Plan eliminates the Work Opportunity Tax Credit (WOTC), effective December 31, 2017. WOTC is a federal tax credit available to employers for hiring individuals from certain target groups who have consistently faced significant barriers to employment — including veterans, people with disabilities and those struggling to find work. In conjunction with other workforce development programs, WOTC incentivizes workplace diversity and facilitates access to good jobs for tens of thousands of Washington workers.

Last year in our state, WOTC certified over 52,000 applications for a total value of over $163 million in tax credits for Washington employers. This includes tax credits helping more than 2,000 veterans gain employment, almost 500 of whom were unemployed for six months or more and over 40 of whom were veterans with disabilities.[50]

According to a 2013 study, WOTC saves the Temporary Assistance for Needy Families (TANF) program a net $17,722 for every hired employee.[51] The study also found the credit generates additional savings to taxpayers through crime reduction and community stabilization. The Washington State Employment Security Department (ESD) has grave concerns about efforts to end the WOTC program, which has shown tremendous success in increasing self-sufficiency and moving people from public assistance to employment.

As currently drafted, the Senate GOP Tax Plan retains WOTC.

Threatens Historic Preservation Projects in Every Congressional District.

The House GOP Tax Plan would eliminate the historic rehabilitation tax credit that has successfully helped preserve our nation's historic resources for more than three decades, generating economic growth and supporting architectural heritage across the country.

Between 2013 and 2017, the historic rehabilitation credit has promoted architectural preservation in every corner of our state, supporting 26 historic preservation projects in Washington State for a total value of $220 million. That includes projects in nine of our ten Congressional Districts.[52]

Currently, the credit is supporting 42 projects with pending certifications that are valued at more than $900 million.[53] That includes projects in all ten Congressional Districts:

- Washington's 1st District – $11,500,000
- Washington's 2nd District – $100,267
- Washington's 3rd District – $6,000,000
- Washington's 4th District – $1,200,000
- Washington's 5th District – $39,265,781
- Washington's 6th District – $104,450,000
- Washington's 7th District – $713,945,599
- Washington's 8th District – $4,890,056
- Washington's 9th District – $18,800,000
- Washington's 10th District – $300,000

The projects supported by the historic rehabilitation credit deliver a strong return on investment to taxpayers, help revitalize communities and generate economic development. In Washington, the program has been central to the revitalization of urban downtown cores in cities such as Tacoma and Spokane. It enables areas facing deterioration or abandonment to be reclaimed and transformed into multi-use, dynamic neighborhoods once again. Importantly, it is often used in combination with the Low-Income Housing Tax Credit (LIHTC) and the New Market Tax Credit (NMTC) programs to create robust affordable housing projects as part of larger neighborhood and community revitalization efforts.

Unfortunately, many of these projects will simply go unfunded if the credit is repealed, as they face significant challenges attracting private investment due to their cost, market value and design challenges. This is particularly true in small towns and rural neighborhoods, which would be decimated by repeal of the credit.

The Washington State Department of Archaeology and Historic Preservation (DAHP) has serious concerns about the implication of this proposal, which would have immediate impacts on many rehabilitation projects currently under development. In Seattle, the rehabilitation of Key Arena is being financed with the historic tax credit, and the entire stadium project would be in extreme jeopardy of falling through without it. Many low-income housing rehabilitation projects — such as the rehabilitation of Building 9 at Sand Point, valued at $45 million — also depend on the historic tax credit and face uncertain fates if the credit is eliminated.[54]

As currently drafted, the Senate GOP Tax Plan retains the historic tax credit but lowers the credit's value from 20 percent to 10 percent for qualified rehabilitation expenses, while repealing the non-historic rehabilitation credit for buildings placed in service before 1936. While the Senate bill is marginally better, it would still make many historic preservation projects in Washington cost-prohibitive and ultimately unfeasible.

<u>Eliminates Critical Supports for Distressed Communities</u>.

The House GOP Tax Plan repeals the New Markets Tax Credit (NMTC), which was created nearly two decades ago to spur private investment in low-income and rural communities across the country. Since its inception, this credit — which enjoys bipartisan support in Congress — is estimated to have created more than 750,000 jobs in some of our most economically-distressed regions, increasing economic growth and leveraging tens of billions of outside investments.[55]

In Washington State alone, the NMTC successfully generated more than $900 million in additional investments to support over $2 billion worth of projects between 2003 and 2014. Thanks to NMTC, 109 projects have been completed for Washington businesses and communities, creating more than 12,000 construction jobs and more than 11,500 additional full-time jobs across our state.[56] Our state's Department of Commerce has serious concerns about the repeal of NMTC, which may deny much-needed assistance to the cities and neighborhoods in Washington that need it most.

As currently drafted, the Senate GOP Tax Plan retains NMTC.

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[1] Washington State Department of Revenue analysis, Nov. 2017.
[2] National Association Counties (NACo), NACo County Explorer: State & Local Tax Deduction, http://explorer.naco.org/index.html?dset=State%20and%20Local%20Tax%20(SALT)%20Deduction&ind=County%20SALT%20Profiles#.
[3] Ibid.
[4] Novogradac & Company analysis, Nov. 2017.
[5] Washington State Housing Finance Commission (WSHFC) analysis, Nov. 2017.
[6] Seattle Housing Authority analysis, Nov. 2017.
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