

Washington Businesses Pay More Than Half of State and Local Taxes

Briefly

The upcoming legislative session will feature discussions about whether new revenues are necessary; inevitably there will be legislative proposals to increase business taxes. According to a report from the Council on State Taxation, businesses in Washington paid 50.1 percent of state and local taxes in 2017, well above the U.S. average of 43.7 percent. Additionally, Washington businesses paid \$5,700 in state and local taxes per employee, the seventh highest amount in the country and 16.3 percent more than the national average.

Washington businesses pay more in business and occupation (B&O) taxes than businesses in other states do in income taxes, on average. B&O tax revenues have increased by more than the other major state taxes since 2000 and Washington businesses pay more in sales and property taxes than they do in B&O taxes. Overall, compared to other states, Washington businesses face a tax burden that is significantly above average. Further, the size of the burden varies from city to city within Washington.

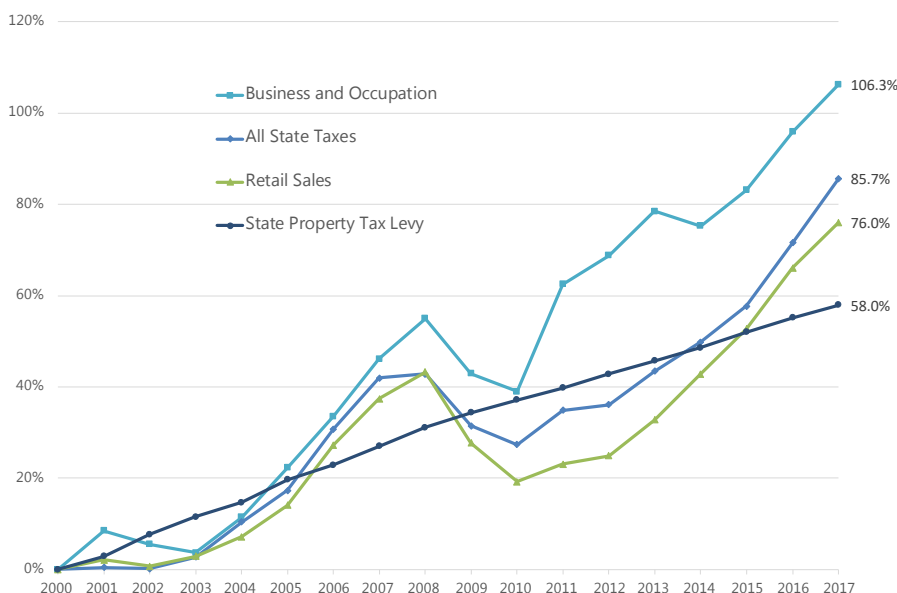
For 2019–21, Gov. Inslee has proposed increasing the business and occupation (B&O) tax rate for services from 1.5 percent to 2.5 percent (a 67 percent increase). Legislators will surely make other business tax proposals during the session. Given that, it is instructive to consider the amount Washington businesses

already pay in state and local taxes. Washington's tax structure yields substantial revenues for the state, as we noted in "[Washington Revenue Review: Revenues Are Still Growing Strong, But for How Long?](#)" Businesses are major contributors.

Washington raises more money from the B&O tax than other states do from their corporate income taxes (WRC 2018). Further, of the three top state tax sources in Washington (sales, property, and B&O), B&O tax revenue has increased the most on a percentage basis since 2000. B&O revenue has grown 106.3 percent, compared to 85.7 percent for all state taxes (DOR 2018).

Businesses do not only pay the B&O tax, however. They also pay sales and property taxes, as well as a host of other taxes at the state and local levels. In all, a national report finds that businesses pay more than half of Washington's revenues and that Washington businesses face a tax burden that is significantly above average.

Chart 1: State Revenue Growth Since 2000



State and Local Business Taxes, Compared

The annual study, prepared by Ernst & Young for the Council on State Taxation (COST), reports the shares of all types of taxes that are paid by businesses in each state.

The report summarizes state and local business tax collections, and the current report covers fiscal year 2017. State and local business taxes paid in Washington totaled \$20.4 billion, an increase of 2.1 percent over 2016. (The national average growth rate was 2.0 percent.)

The COST study provides three ways to compare taxes paid by businesses across states: business taxes paid per employee, the share of total state and local taxes paid by businesses, and the total effective business tax rate (or, total state and local taxes paid by businesses relative to private sector gross state product).

“Business taxes” are not just the B&O or corporate income taxes, but the amount businesses pay in all taxes.

First, according to the 2018 report, Washington ranked seventh highest nationally in state and local business taxes per employee in 2017. They were \$5,700 in Washington, 16.3 percent above the U.S. average of \$4,900 (see Chart 2).

Second, Washington businesses paid 50.1 percent of total state and local taxes. This was the 12th highest percentage in the country, and significantly greater than the U.S. average of 43.7 percent (see Chart 3).

Third, total state and local taxes paid by businesses were 4.8 percent of private sector gross state product in Washington, compared to a U.S. average of 4.5 percent. Washington ranked 16th highest in the country (see Chart 4 on page 3).

By all three of these measures, Washington’s business tax burden is significantly above average.

Note that Ernst & Young improved its sales tax model for the 2018 report. The 2.1 percent growth in business taxes

Chart 2: State and Local Business Taxes Per Employee, FY 2017

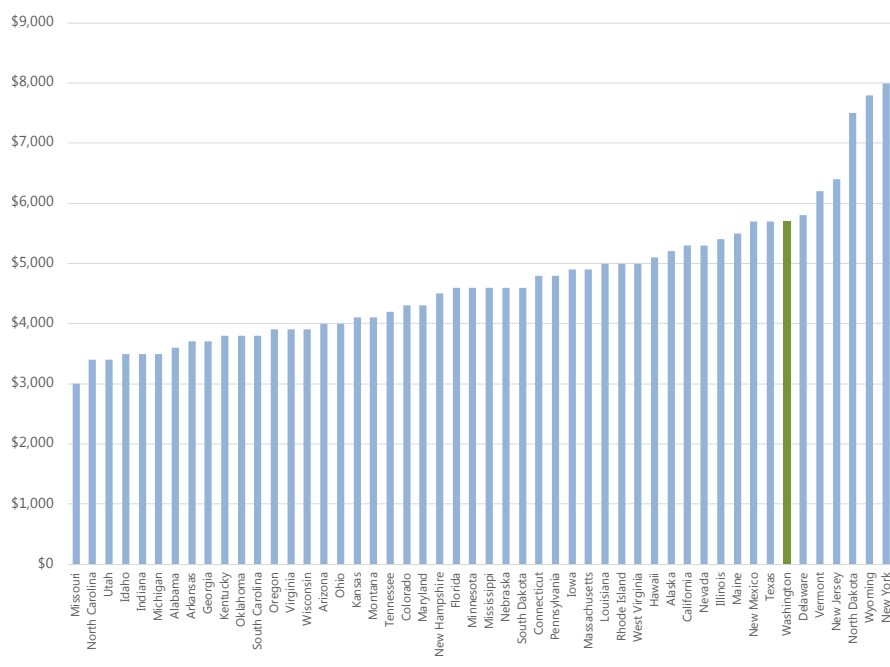


Chart 3: Share of Total State and Local Taxes Paid by Business, FY 2017

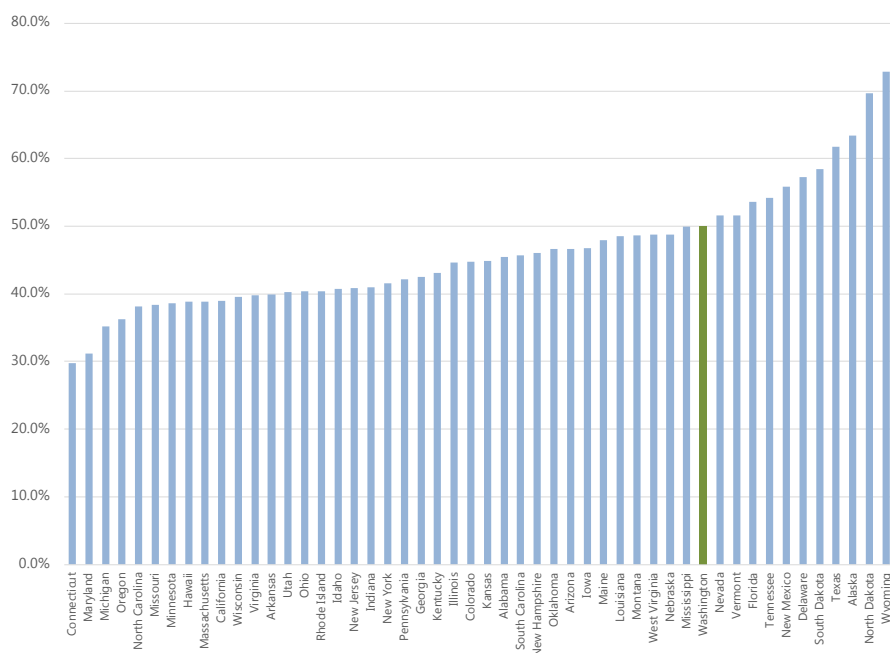
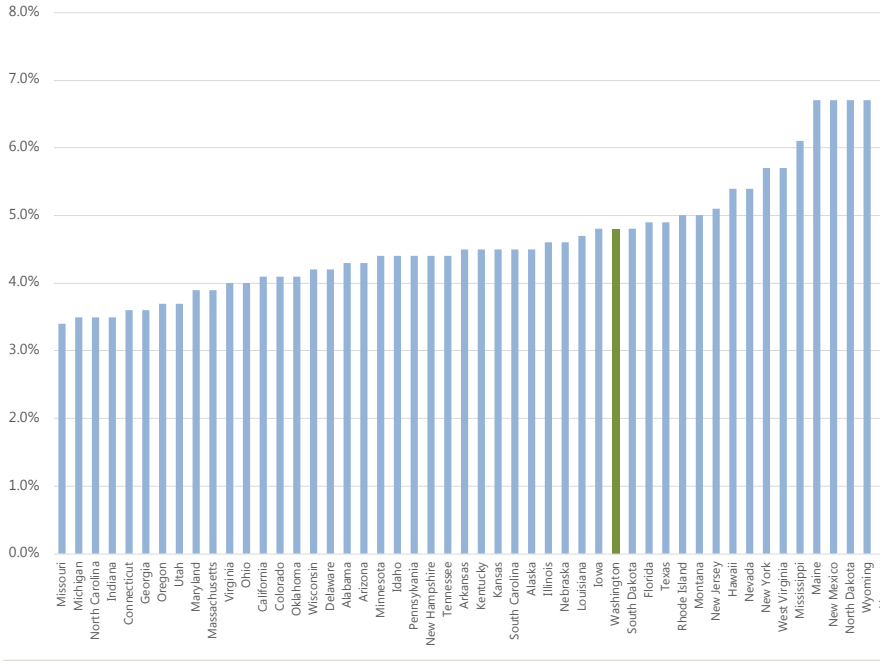


Chart 4: Total State and Local Taxes Paid by Businesses as a Percent of Private Sector Gross State Product, FY 2017



paid mentioned above is based on re-stated 2016 figures that reflect the new model. However, business taxes paid in Washington dropped in the 2018 COST report compared to the 2017 report (which was based on the old model). The revised sales tax model results in lower rankings for Washington’s business tax burden in the current report than we have seen in recent years.

Business Tax Categories

As noted above, the B&O tax is not the only tax Washington businesses pay. Indeed, Washington businesses pay more both in sales taxes and in property taxes than they do in B&O taxes, as the COST report shows (see Chart 5).

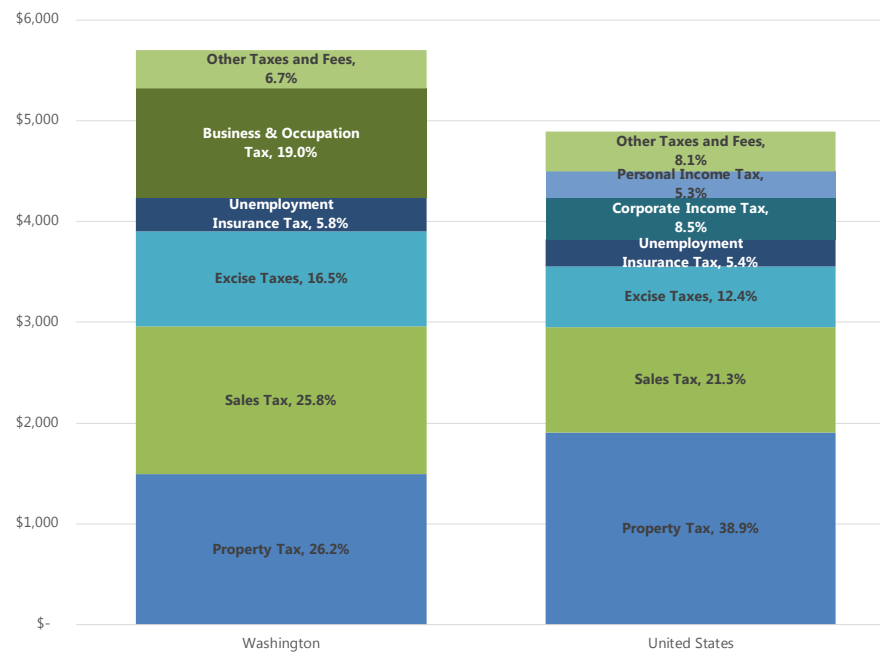
Property taxes are the largest category of state and local business taxes paid in Washington and nationally. In Washington, businesses paid about \$5.3 billion in property taxes in 2017. This represented 26.2 percent of total state and local business taxes (compared to 38.9 percent nationally).

The next largest category is sales taxes. Sales taxes paid for business purchases in Washington totaled about \$5.3 billion and made up 25.8 percent of state and local business taxes paid (compared to 21.3 percent nationally).

Washington businesses paid \$3.9 billion in B&O taxes, which accounted for 19.0 percent of state and local business taxes. (Nationally, corporate income taxes made up 8.5 percent of state and local business taxes and individual income taxes on business income made up 5.3 percent. Together, income taxes made up 13.8 percent of state and local business taxes on average.)

Washington businesses paid \$3.4 billion in excise taxes (including public utilities and insurance taxes). These were 16.5 percent of state and local business taxes, compared to 12.4 percent nationally. Additionally, Washington businesses paid \$1.2 billion in unemployment insurance taxes (5.8 percent of state and local business taxes, compared to 5.4 percent

Chart 5: State and Local Business Taxes Per Employee, FY 2017



nationally). Finally, license and other taxes paid by businesses in Washington totaled \$1.4 billion (6.7 percent of state and local business taxes, compared to 8.1 percent nationally).

Comment

Washington's tax structure relies heavily on businesses, with Washington businesses paying more than half of state and local taxes. Washington businesses pay more in B&O taxes than businesses in other states do in income taxes, on average. Still, sales and property taxes are a larger share of state and local taxes paid by Washington businesses than the B&O.

Altogether, business taxes per employee in Washington are 16.3 percent higher than in the average state, and Washington's business tax burden ranks in the top 16 states by multiple measures. Note, too, that local jurisdictions levy different types of business taxes, so the business tax burden varies from city to city within Washington. As the Seattle Times recently reported, a business in Seattle faces a higher tax burden than it would in nearby cities (Romano 2018).

References

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