

Washington's Business Taxes Exceed National Average

Briefly

Washington's tax structure relies heavily on businesses. Before significant new taxes were enacted last year, Washington businesses paid about half of state and local taxes in 2018. That year, Washington ranked 6th highest in business taxes per employee, 18th highest in taxes as a share of business output and 13th highest in the share of state and local revenue derived from taxes on business.

Table: State and Local Business Tax Burdens

	Tax/Employee		TEBTR		Business Share	
	Value	Rank	Value	Rank	Value	Rank
Alabama	\$4,700	39	4.6%	26	45.3%	22
Alaska	\$9,700	4	6.2%	8	66.9%	3
Arizona	\$5,200	34	4.6%	26	45.0%	23
Arkansas	\$4,700	39	4.6%	26	39.4%	37
California	\$7,000	12	4.4%	34	38.7%	41
Colorado	\$5,800	23	4.5%	31	44.8%	24
Connecticut	\$6,100	18	3.8%	44	29.5%	50
Delaware	\$7,300	10	4.4%	34	52.9%	10
Florida	\$5,900	21	5.3%	14	53.3%	9
Georgia	\$4,600	42	3.7%	45	42.4%	29
Hawaii	\$7,300	10	5.6%	11	37.8%	44
Idaho	\$4,600	42	4.5%	31	40.0%	35
Illinois	\$6,300	17	4.6%	26	43.4%	26
Indiana	\$4,200	47	3.7%	45	39.9%	36
Iowa	\$5,400	31	4.5%	31	43.6%	25
Kansas	\$5,400	31	4.7%	24	42.3%	30
Kentucky	\$4,700	39	4.6%	26	43.1%	27
Louisiana	\$6,400	16	5.2%	16	48.5%	15
Maine	\$6,900	13	6.9%	4	47.9%	20
Maryland	\$5,500	30	4.0%	40	31.4%	49
Massachusetts	\$5,900	21	4.0%	40	38.9%	39
Michigan	\$4,200	47	3.6%	48	35.0%	48
Minnesota	\$5,400	31	4.4%	34	37.7%	45
Mississippi	\$6,100	18	6.3%	7	50.0%	12
Missouri	\$3,700	50	3.4%	50	38.2%	42
Montana	\$5,600	28	5.5%	13	48.5%	15
Nebraska	\$5,800	23	4.8%	19	48.3%	18
Nevada	\$6,800	15	5.9%	9	53.7%	8
New Hampshire	\$5,800	23	4.8%	19	48.4%	17
New Jersey	\$7,900	5	5.3%	14	40.9%	32
New Mexico	\$7,500	9	6.9%	4	56.2%	6
New York	\$9,900	3	5.7%	10	41.3%	31
North Carolina	\$4,300	46	3.6%	48	37.4%	46
North Dakota	\$11,500	1	9.0%	1	72.1%	2
Ohio	\$4,600	42	3.9%	43	40.3%	34
Oklahoma	\$5,600	28	4.8%	19	48.3%	18
Oregon	\$4,800	38	4.0%	40	36.0%	47
Pennsylvania	\$5,800	23	4.7%	24	42.5%	28
Rhode Island	\$5,700	27	4.8%	19	37.9%	43
South Carolina	\$5,000	36	4.8%	19	45.9%	21
South Dakota	\$6,100	18	5.1%	17	58.9%	5
Tennessee	\$4,900	37	4.3%	37	54.1%	7
Texas	\$7,600	8	5.6%	11	62.3%	4
Utah	\$4,200	47	3.7%	45	40.4%	33
Vermont	\$7,800	6	7.6%	3	51.5%	11
Virginia	\$5,100	35	4.1%	39	39.3%	38
Washington	\$7,800	6	5.0%	18	49.6%	13
West Virginia	\$6,900	13	6.5%	6	49.4%	14
Wisconsin	\$4,600	42	4.2%	38	38.8%	40
Wyoming	\$11,500	1	7.9%	2	72.7%	1
Dist. of Columbia	\$8,400		5.2%		56.4%	
United States	\$6,200		4.7%		43.5%	

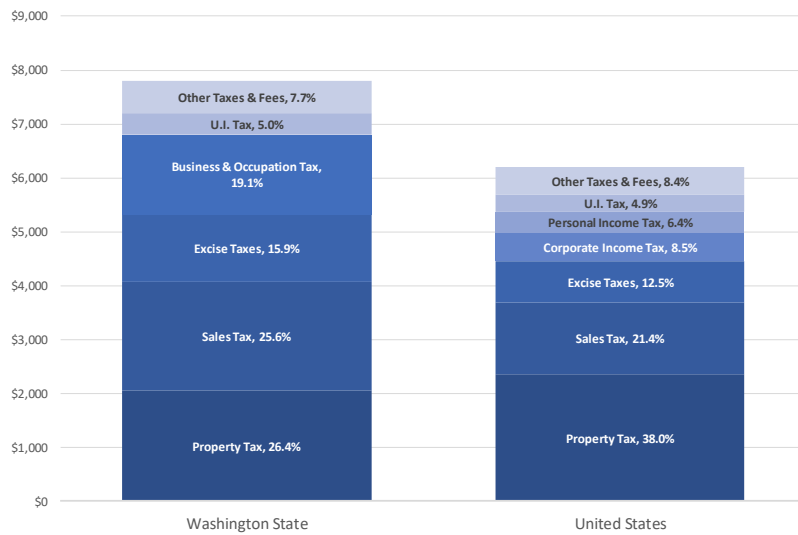
Annually Ernst & Young prepares a report comparing state and local business tax collections across the 50 states for the Council on State Taxation (COST). The most recent of these reports was issued in October 2019 and covers fiscal year 2018. This report shows that state and local taxes paid by Washington businesses in FY 2018 totaled \$20.4 billion, an increase of 7.8 percent over FY 2017. The 50-state average growth rate was 6.1 percent; Washington's 7.8 percent growth ranked 14th highest.

The COST study provides three metrics by which to compare taxes paid by businesses across states: (1) the average amount of tax paid per employee, (2) the *total effective business tax rate* (TEBTR), which is the ratio between the amount of taxes paid by businesses and the value of their output (measured by private sector gross state product), and (3) the share of total state and local tax revenue that comes from taxes paid by businesses.

With respect to the first metric, the amount of state and local business taxes per employee, Washington ranked 6th. Washington businesses paid \$7,800 per employee, compared to the U.S. average of \$6,200.

With respect to the second metric, TEBTR, Washington ranked 18th. Total state and local taxes paid by businesses were 5.0 percent of private sector gross state product in Washington, compared to a U.S. average of 4.7 percent.

Chart: State and Local Business Taxes Per Employee, FY 2018



With respect to the third metric, business’s share of total state and local taxes, Washington ranked 13th. Washington businesses paid 49.6 percent of the total, compared to the U.S. average of 43.5 percent.

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

Specific Business Taxes

Although the business and occupation (B&O) tax is the most prominent tax on Washington’s businesses, it accounts for less than 20 percent of total tax Washington businesses pay. Indeed, Washington businesses pay more in either sales tax or property tax than they do in B&O tax, as the COST report shows (see the chart above).

Property tax is the largest category of state and local business tax paid in Washington and nationally. In Washington, businesses paid about \$5.8 billion in property taxes in FY 2018. This represented 26.4 percent of total state and local business taxes, compared to 38.0 percent nationally.

The next largest category is sales tax. Sales tax paid on purchases made by businesses in Washington totaled about \$5.7 billion and made up 25.6 percent of state and local business taxes paid, compared to 21.4 percent nationally.

Washington businesses paid \$4.2 billion in B&O taxes, which accounted for 19.1 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 6.4 percent. Together, income taxes made up 14.9 percent of state and local business taxes on average.

Washington businesses paid \$3.5 billion in excise taxes (including public utilities and insurance taxes). These were 15.9 percent of state and local business taxes, compared to 12.5 percent nationally. Additionally, Washington businesses paid \$1.1 billion in unemployment insurance taxes, 5.0 percent of state and local business taxes, compared to 4.9 percent nationally. Finally, license and other taxes paid by businesses in Washington totaled \$1.7 billion, 7.7 percent of state and local business taxes, compared to 8.4 percent nationally.

Comment

Washington’s tax structure relies heavily on businesses, with Washington businesses paying about 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 25.8 percent higher than in the average state, and Washington’s business tax burden ranks in the top 18 states by multiple measures. Because of data lags, these figures reflect neither the full impact of the McCleary property tax increase nor the significant tax increases enacted last year.

Reference

Ernst & Young LLP. 2018. [Total state and local business taxes: State-by-state estimates for FY 2018](#). Prepared in conjunction with the Council on State Taxation. and the State Tax Research Institute. October.