

Washington's Business Taxes Exceed National Average

Briefly

In fiscal year 2019, Washington state's tax code relied heavily on businesses, which paid almost half of state and local taxes. Washington businesses paid nearly a quarter more in state and local taxes per employee than the average of their counterparts in other states. On all measures, Washington ranked at or above the national average, including annual business tax revenue growth, taxes per employee, business taxes as a share of economic activity, and the share of total state and local revenue paid by business. Property, sales, and business and occupation taxes accounted for most of the state and local tax burden.

Ernst & Young prepares a report each year for the Council on State Taxation (COST) comparing state and local business taxes across the 50 states. The most recent report was released in October 2020 and covers fiscal year (FY) 2019 (so it does not reflect any impact to state tax revenues from the pandemic and subsequent recession).

The report shows that Washington businesses paid \$23.1 billion in state and local taxes, an increase of 6.6% from FY 2018. The average growth rate across the 50 states was 5.7%. Washington's state and local business tax revenue grew at the 18th fastest rate in the country.

The COST report uses three measures to compare business tax burdens across states. First, it compares the average amount that businesses paid in state and local taxes per employee. In FY 2019, Washington state businesses paid \$8,000 per employee, the 14th highest in the country. On average, businesses in other states paid only \$6,500 per employee.

Second, the report calculates the total effective business tax rate (TEBTR) in each state by dividing the amount that businesses paid in state and local taxes by the amount of private sector economic activity in that state (known as gross state product). Washington's TEBTR was the 27th highest in the country, with state and local business taxes amounting to 4.5% of private sector gross state product, the same as the national average.

Third, the COST report calculates the total share of state and local tax revenue coming from businesses. In this respect, Washington's tax code was the 14th most reliant on businesses in the country. Washington state businesses paid 49.1% of state and local taxes, compared to an average of 44.0% in other states. State taxes, rather than local taxes, were the main reason why Washington state businesses bore a relatively larger financial burden. Business taxes accounted for 51.3% of Washington state tax revenue, compared to an average of 38.5% in other states. Business taxes accounted for only 45.6% of local government revenue in Washington, compared to an average of 52.2% in other states.

Specific Business Taxes

Washington's business and occupation (B&O) tax accounts for less than one-fifth of the taxes Washing-

Table: State and Local Business Tax Burdens

	Tax/Employee		TEBTR		Business Share	
	Value	Rank	Value	Rank	Value	Rank
Alabama	\$5,000	36	4.5%	27	45.9%	21
Alaska	\$10,600	3	6.1%	7	68.4%	3
Arizona	\$5,100	35	4.1%	37	41.0%	34
Arkansas	\$5,000	36	4.6%	20	40.6%	36
California	\$7,700	10	4.3%	33	40.3%	37
Colorado	\$6,200	22	4.3%	33	44.9%	23
Connecticut	\$6,300	18	3.7%	43	31.2%	50
Delaware	\$7,500	12	4.5%	27	51.4%	11
Florida	\$5,700	32	4.8%	17	53.0%	9
Georgia	\$4,600	46	3.4%	47	42.4%	30
Hawaii	\$7,900	9	5.6%	10	39.0%	40
Idaho	\$4,700	44	4.3%	33	41.1%	33
Illinois	\$6,800	16	4.6%	20	44.5%	25
Indiana	\$4,300	47	3.5%	46	40.8%	35
Iowa	\$5,800	30	4.6%	20	44.7%	24
Kansas	\$5,700	32	4.5%	27	42.1%	31
Kentucky	\$5,000	36	4.6%	20	43.7%	27
Louisiana	\$6,300	18	4.6%	20	49.0%	16
Maine	\$7,200	13	6.8%	5	49.1%	14
Maryland	\$5,800	30	3.9%	40	31.6%	49
Massachusetts	\$5,900	27	3.7%	43	36.8%	46
Michigan	\$4,100	49	3.3%	48	35.2%	48
Minnesota	\$5,600	34	4.3%	33	37.5%	44
Mississippi	\$6,300	18	6.1%	7	49.8%	12
Missouri	\$3,800	50	3.3%	48	38.7%	42
Montana	\$6,000	24	5.4%	13	48.1%	18
Nebraska	\$6,000	24	4.7%	19	47.3%	20
Nevada	\$6,900	15	5.5%	12	53.3%	8
New Hampshire	\$6,000	24	4.6%	20	47.8%	19
New Jersey	\$8,800	6	5.6%	10	43.7%	27
New Mexico	\$9,400	5	8.0%	2	57.4%	6
New York	\$10,400	4	5.7%	9	43.1%	29
North Carolina	\$4,300	47	3.3%	48	37.0%	45
North Dakota	\$14,000	1	10.0%	1	73.2%	1
Ohio	\$4,700	44	3.7%	43	39.8%	39
Oklahoma	\$6,300	18	4.9%	16	48.9%	17
Oregon	\$4,900	41	3.8%	42	35.6%	47
Pennsylvania	\$6,200	22	4.6%	20	43.8%	26
Rhode Island	\$5,900	27	4.8%	17	38.6%	43
South Carolina	\$5,000	36	4.5%	27	45.4%	22
South Dakota	\$6,400	17	5.0%	14	58.8%	5
Tennessee	\$5,000	36	4.1%	37	54.0%	7
Texas	\$7,700	10	5.0%	14	59.6%	4
Utah	\$4,800	42	3.9%	40	40.1%	38
Vermont	\$8,400	7	7.7%	3	53.0%	9
Virginia	\$5,900	27	4.4%	32	41.7%	32
Washington	\$8,000	8	4.5%	27	49.1%	14
West Virginia	\$7,200	13	6.4%	6	49.5%	13
Wisconsin	\$4,800	42	4.0%	39	38.9%	41
Wyoming	\$11,500	2	7.5%	4	71.1%	2
Dist. of Columbia	\$8,800		5.1%		55.2%	
United States	\$6,500		4.5%		44.0%	

ton businesses pay. In FY 2019, Washington businesses paid more in both sales and property taxes than they did in B&O tax (see the chart on page 3).

Property tax was the largest source of business tax revenue for Washington state and local governments in FY 2019. That year, Washington businesses paid \$6.12 billion in property taxes. This constituted 26.5% of the total, compared to 37.9% in the average of other states.

Sales tax was the second largest source of business tax revenue for Washington state and local governments. Washington businesses paid \$6.09 billion in sales tax on goods and services in FY 2019. These sales tax payments constituted 26.4% of local and state business taxes in Washington, compared to 21.3% in the average of other states.

Washington businesses paid \$4.5 billion in B&O taxes in FY 2019. The B&O tax constituted 19.3% of state and local business taxes in Washington. In other states, corporate income taxes comprised 9.3% of state and local business taxes, while individual income taxes on business income constituted another 6.5%. In total, other states collected an average of 15.8% of business tax revenue through income taxes.

Washington businesses paid \$3.7 billion in excise taxes (including public utility and insurance taxes) in FY 2019. These made up 15.8% of state and local business taxes in Washington, compared to 12.2% nationally. Additionally, Washington businesses paid \$1.1 billion in unemployment insurance taxes, which constituted 4.7% of state and local business taxes in Washington, compared to 4.3% nationally. Finally, Washington business-

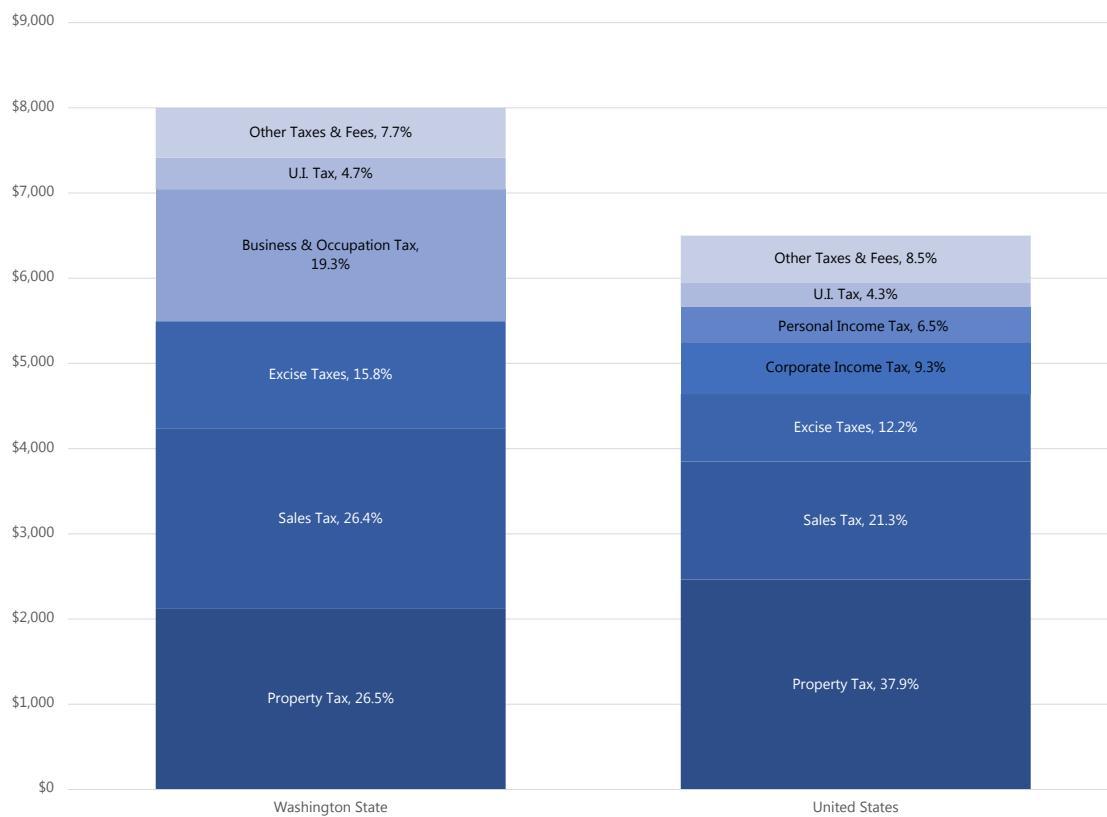
es paid \$1.7 billion in license and other taxes. This comprised 7.3% of total state and local business taxes in Washington, compared to 8.5% nationally.

Comment

Washington’s tax structure relies heavily on businesses, with Washington businesses paying about half of state and local taxes. Washington businesses paid more in B&O tax than businesses in other states did in income taxes, on average. Still, state and local governments in Washington collected more revenue from businesses through property and sales taxes than from the B&O tax. Altogether, business taxes per employee in Washington were about 23.5% percent higher than in the average state.

The COST report covers tax collections from July 1, 2018 through June 30, 2019. Thus, the business tax figures for Washington do not reflect the full impact of the McCleary property tax increase, as there was a one-year property tax reduction in calendar year 2019. Additionally, they do not include the effects of several tax increases adopted in 2019 that had not yet taken effect during FY 2019 (WRC 2019).

Chart: State and Local Business Taxes Per Employee, FY 2019



References

Ernst & Young LLP. 2020. [“Total state and local business taxes: State-by-state estimates for FY 2019.”](#) Prepared in conjunction with the Council on State Taxation and the State Tax Research Institute. October.

Washington Research Council (WRC). 2019. [“Despite Substantial Recent Revenue Growth, Legislature Increases Taxes by Over \\$1 Billion.”](#) PB 19–12. May 22.