

Washington's Business Taxes Continue to Exceed National Average

Briefly

Washington's state and local business tax revenues rose at the same rate as the rest of the nation, growing 4.3 percent in fiscal year 2013. However, the state continued to impose above average business taxes.

Table: State and Local Business Tax Burdens

	Share of Private Sector GSP		State & Local Business Taxes		Share of All Taxes	
	Percent	Rank	FY 2013 Amount (billions)	Change from FY 2012	Percent	Rank
Alaska	12.0%	1	\$5.9	-23.7%	83.6%	1
North Dakota	9.9%	2	\$4.7	29.9%	70.5%	3
Vermont	7.4%	3	\$1.8	6.3%	52.3%	12
Wyoming	6.7%	4	\$2.6	-5.1%	75.3%	2
New Mexico	6.6%	5	\$4.6	1.1%	58.6%	6
Mississippi	6.4%	6	\$5.5	7.7%	51.6%	13
Maine	6.4%	7	\$3.0	-0.6%	46.6%	23
Hawaii	6.3%	8	\$3.6	10.4%	43.1%	30
West Virginia	6.0%	9	\$3.6	2.4%	50.4%	15
New York	5.8%	10	\$66.4	3.4%	42.2%	34
Florida	5.5%	11	\$37.5	3.9%	53.3%	10
Nevada	5.4%	12	\$6.2	6.1%	53.5%	9
Montana	5.4%	13	\$2.0	3.8%	50.2%	16
Rhode Island	5.3%	14	\$2.4	2.6%	43.0%	31
Arizona	5.1%	15	\$12.0	3.3%	50.7%	14
New Jersey	5.1%	16	\$24.2	7.3%	41.2%	37
Texas	5.0%	17	\$68.0	7.7%	63.5%	4
Washington	5.0%	18	\$17.0	4.3%	54.2%	8
Illinois	5.0%	19	\$32.3	5.5%	45.3%	26
Colorado	4.8%	20	\$12.0	4.9%	48.0%	19
South Carolina	4.8%	21	\$7.2	4.4%	47.0%	21
Oklahoma	4.7%	22	\$7.0	-0.2%	49.8%	17
Iowa	4.7%	23	\$6.8	3.3%	46.8%	22
Kentucky	4.7%	24	\$7.2	3.3%	44.8%	28
Kansas	4.7%	25	\$5.8	-2.6%	44.3%	29
Tennessee	4.6%	26	\$11.4	4.9%	53.1%	11
Idaho	4.6%	27	\$2.4	4.7%	45.1%	27
Pennsylvania	4.6%	28	\$26.0	4.9%	42.1%	35
Minnesota	4.6%	29	\$12.6	2.5%	41.4%	36
South Dakota	4.5%	30	\$1.8	3.4%	62.4%	5
Alabama	4.5%	31	\$7.2	1.8%	47.5%	20
California	4.5%	32	\$84.3	5.9%	40.4%	39
Wisconsin	4.5%	33	\$11.0	2.3%	39.5%	43
New Hampshire	4.4%	34	\$2.6	4.3%	46.5%	24
Delaware	4.3%	35	\$2.4	4.4%	55.7%	7
Nebraska	4.3%	36	\$4.0	2.7%	46.2%	25
Arkansas	4.2%	37	\$4.4	4.7%	40.9%	38
Ohio	4.1%	38	\$20.4	3.7%	40.0%	41
Massachusetts	4.0%	39	\$15.6	3.2%	39.2%	44
Louisiana	3.8%	40	\$8.5	-6.5%	49.2%	18
Virginia	3.8%	41	\$13.8	4.1%	39.9%	42
Michigan	3.8%	42	\$14.4	3.5%	36.3%	48
Maryland	3.8%	43	\$10.2	4.9%	30.9%	49
Utah	3.7%	44	\$4.5	7.5%	42.6%	32
Georgia	3.7%	45	\$14.3	5.7%	42.5%	33
Indiana	3.7%	46	\$10.4	4.1%	39.1%	45
Missouri	3.5%	47	\$8.5	1.8%	40.3%	40
North Carolina	3.4%	48	\$13.7	6.7%	37.5%	47
Connecticut	3.4%	49	\$7.6	1.1%	28.9%	50
Oregon	3.3%	50	\$6.2	3.1%	38.1%	46
United States	4.7%		\$670.8	4.3%	44.9%	

Ernst & Young has published its annual report for the Council on State Taxation (COST), summarizing state and local business tax collections in fiscal year (FY) 2013. Since the Great Recession, business taxes paid have exceeded record highs of the previous decade in 38 states. Washington's total business taxes paid were \$17.0 billion in 2013—up from \$13.7 billion in 2008.

How Washington Fared

In FY 2013 Washington had the nation's 18th highest total effective business tax rate (TEBTR) at 5.0 percent. The TEBTR measures total business taxes paid relative to private sector gross state product. Nationally, the average TEBTR was 4.7 percent. Alaska ranked 1st with 12.0 percent and Oregon ranked 50th with 3.3 percent.

Business taxes paid in Washington grew by 4.3 percent from FY 2012, an increase equal to the national average growth rate. Taxes paid by businesses represented 54.2 percent of state and local tax revenues in Washington, up from 54.0 percent in FY 2012. The share of state and local taxes paid by businesses in Washington ranks 8th highest in the country and is well above the national average of 44.9 percent. Washington's high ranking can be attributed to an unconventional business tax structure with its lack of a personal or corporate income tax and use of a business and occupation (B&O) tax.

Figure 1: Washington State and Local Business Taxes

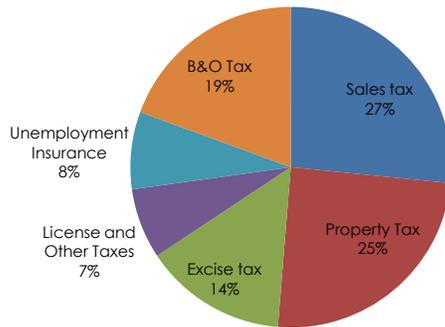
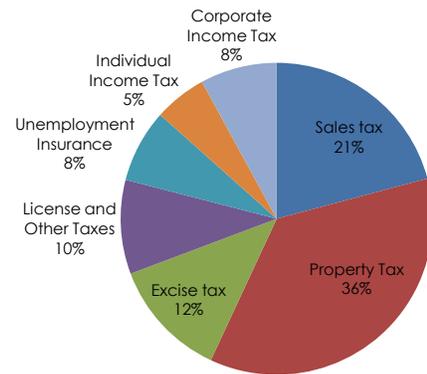


Figure 2: U.S. State and Local Business Taxes



Business Tax Categories

Figures 1 and 2 reflect the make-up of state and local business taxes in Washington and the nation, respectively. Business taxes paid increased in each tax category in Washington, except for unemployment insurance (UI) taxes, which fell by \$200 million to \$1.3 billion. A component of the state’s UI tax is experience-rated, which takes into account an employer’s layoffs in determining its tax rate. All else equal, the fewer unemployment claims from a given employer, the lower its UI tax rate. With the unemployment rate trending downward since 2010, so are UI taxes.

As is standard with the Census Bureau, the COST study categorizes Washington’s unique B&O tax as a sales tax. When separated out, the B&O tax comprises 19.0 percent of business taxes paid, or \$3.3 billion. B&O taxes paid increased by 5.4 percent in FY 2013. B&O tax rates remained unchanged from FY 2012, meaning an increase in the gross receipts of Washington businesses accounted for the rise in B&O taxes paid.

Property taxes accounted for 25.0 percent of business taxes paid in Washington (\$4.2 billion), which is 8th lowest among the states. Nationally, property taxes represent the highest state and local tax burden for businesses, with 36 percent of taxes paid coming from this source. Property taxes paid by businesses in Washington increased by \$200 million, a 5.0 percent

change from FY 2012.

Additionally, sales taxes paid for business purchases made up 27.0 percent (\$4.5 billion) of state and local business taxes in Washington, a 4.7 percent increase from FY 2012. Of total state and local business taxes paid, 7.0 percent (\$1.2 billion) can be attributed to license and other taxes, which includes levies such as stock transfer, severance, and gift taxes. Taxes paid in this category totaled \$1.2 billion, a 20.0 percent increase over FY 2012. Excise taxes, which include public utilities and insurance taxes, remained unchanged at \$2.5 billion and represented 14.0 percent of total state and local business taxes paid in Washington.

As noted above, businesses in Washington pay a significantly higher share of state and local taxes than businesses in most other states. In a promising sign of economic growth, taxes paid by businesses have fully recovered from the recession.

Reference

Ernst & Young LLP. 2014. [Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2013](#). Prepared for the Council On State Taxation. August.

Washington Research Council
 520 Pike Street, Suite 1250
 Seattle, Washington 98101
 206-467-7088
 fax: 206-467-6957
researchcouncil.org