Annually, analysts from the accounting firm Ernst & Young prepare a report for the Council on State Taxation (COST) comparing state and local taxation of businesses across the 50 states. The most recent of these studies, released in March, shows that businesses paid 51.2 percent of the taxes received by Washington's state and local governments in Fiscal Year 2009.

THE COST RANKINGS

The table to the left summarizes the key findings of the COST study (E&Y 2010). Defining the effective tax rate on business as the ratio of state and local business taxes to private sector gross state product (GSP), Ernst & Young estimates that the effective tax rate on Washington businesses was 5.3 percent in FY 2009. This is the 13th highest effective tax rate in the nation. Across the country, the effective tax rate ranged from a high of 13.8 percent in Alaska to a low of 3.5 percent in Delaware, North Carolina and Oregon. The average effective tax rate was 4.7 percent.

The three states with the highest business tax rates as a percent of GSP are Alaska, Wyoming and North Dakota. In these states, the high effective tax rates are the result of severance taxes on mineral extraction, which are not taxes on mobile capital.

Washington ranks 15th in the share of taxes paid by businesses, with businesses responsible for 51.2 percent of the total state and local tax burden compared to a national average of 45.4 percent.

While Washington business taxes are high, they are not increasing quite as fast as other states. State and local business tax revenues have increased by $1.9 billion, 15.2 percent since 2005. This is slightly lower than the 15.5 percent average increase across all states.

Washington ranks 22nd in the percent increase in business tax revenues collected over the same period.
The first pie chart to the left shows the relative contributions of various types of taxes to the state and local business tax burden in Washington. (Following the Census Bureau convention, Ernst and Young lump Washington’s unique business and occupation tax together with the sales tax. On the chart, we break the B&O tax out.)

In Fiscal Year 2009, Ernst and Young calculates that businesses paid $14.7 billion in state and local taxes in Washington. Of this, 28 percent ($4.2 billion) was sales tax on business purchases; 22 percent ($3.2 billion) was property tax; 20 percent ($2.9 billion) was the business and occupation (B&O) tax; 17 percent ($2.5 billion) was specific gross receipts and excise taxes (e.g. public utility, insurance and motor fuel taxes); 7 percent ($1.0 billion) was unemployment insurance tax; and 6 percent ($0.9 billion) was other taxes and license fees.

The second pie chart shows the relative contributions of various types of taxes to the state and local tax burden in the 49 U.S. states other than Washington. For the rest of the nation overall, property taxes were a larger share of the state and local business tax burden than they were for Washington (37 percent vs. 22 percent), while sales taxes on business purchases were a smaller share (21 percent vs. 28 percent for Washington).

Specific excise and gross receipts taxes (12 percent) and unemployment insurance tax (5 percent) were smaller shares of the state and local business tax burden for the rest of the nation than for Washington; Other business taxes and business licenses (11 percent) were a larger share.

For the other 49 states, corporate income tax was 9 percent of the state and local business tax burden in FY 2009; personal income tax on pass-through business entities (e.g. sole proprietorships, s corporations, partnerships, LLCs ) was 5 percent. Washington does not currently impose either of these taxes. (If voters approve I-1098 in November, the state will have a personal income tax that will tax some of the income of pass-through entities.) Washington’s major tax on business income is the B&O tax, which applies to gross business income (revenue) rather than net income (profit). The B&O is a larger share of the business tax burden in Washington than income taxes in other states (20 percent vs. 14 percent).

REFERENCES