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**Study: Unregistered Businesses Cost Washington Up To \$375 Million in Tax Revenue Annually**

**OLYMPIA, Wash.**, May 31, 2007 — The State of Washington loses up to \$375 million annually – equal to about 5 percent of tax collections – to as many as 164,000 unregistered businesses operating in Washington, according to a new study issued by the Washington State Department of Revenue.

This is the first time the Department has estimated the level of unregistered business activity in Washington, using data mining and statistical techniques to cross match newly available IRS data with state records.

The Department recovers about \$25 million annually from unregistered businesses through its tax discovery efforts, but the findings will help it bring more businesses into compliance through a combination of education and enforcement, Director Cindi Holmstrom said.

“These efforts will help ensure that registered businesses aren’t undercut by those who fail to register and pay their fair share,” Holmstrom said. “Legitimate businesses have told us time and again that nobody should enjoy a competitive advantage simply by evading taxes.”

The analysis found that an estimated 99,000 businesses conducting business in Washington were registered with the Internal Revenue Service (IRS) but not the state, costing the state an estimated \$225 million in annual tax revenue, equal to 3 percent of taxes collected from registered businesses.

An additional \$150 million may be lost to another 65,000 businesses that are not registered with either the IRS or the state. This figure is stated separately due to less certainty about its accuracy,

but taken together, the losses total \$375 million annually from an estimated 164,000 businesses, equal to 5 percent of collections. By comparison, the state has 760,000 registered businesses, though only about 460,000 those have to file and pay taxes after small business credits are considered.

### **Most Loss Due to Out-of-State Businesses**

The study confirms what the Department had long suspected, that out-of-state businesses operating in Washington comprise the bulk of the tax losses, an estimated \$155 million of the \$225 million in unpaid tax. These businesses comprise about 25,000 of the 99,000 businesses registered with the IRS but not the state. Many may not realize that their activity requires them to register to do business in Washington. Most of the Department's current tax discovery efforts are targeted at identifying these businesses and getting them registered and paying taxes.

Washington-based sole proprietors comprise the largest number of unregistered businesses, at 45,000 of the 99,000, and account for \$36 million in lost tax, while 19,000 Washington-based contractors who received 1099 forms from the IRS were responsible for \$18 million. The smallest group was 10,000 Washington corporations, partnerships and trusts that failed to pay \$16 million.

### **Losses due to construction industry low**

Unregistered activity by the construction industry appears to be relatively low, accounting for less than \$1 million of \$52 million in unpaid taxes by Washington-based businesses that could be identified by industry. This finding was unexpected because other studies have shown relatively high noncompliance by registered construction firms, and it was assumed that unregistered activity would also be high.

Washington-based professional and management services constituted the largest dollar loss at \$19.6 million of the \$52 million in unpaid taxes. This affirms current Department education efforts. Many of these unregistered businesses appear to be those whose customers are households and who have little contact with other businesses. Examples include home cleaning, lawn care, and personal accounting services.

The full report is at

[http://dor.wa.gov/docs/reports/Unregistered\\_Business\\_Study\\_finalfinal.doc](http://dor.wa.gov/docs/reports/Unregistered_Business_Study_finalfinal.doc).

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