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UNIQUE FEATURES OF WASHINGTON’S TAX SYSTEM

NO INCOME TAX

• # of States with Personal Income Taxes: 43
  Broad-based Income Taxes 41
  Interest & dividends only 2

• # of States without Personal Income Tax: 7
  (Alaska, Florida, Nevada, So. Dakota, Texas, WASHINGTON, Wyoming)*

• # of States with Corporate Net Income Tax: 46
  (includes Michigan's Single Business Tax)

• # of States without Corporate Net Income Tax: 4
  (Nevada, So. Dakota, WASHINGTON, Wyoming)
WASHINGTON is one of only nine states that allows a major levy by state government (e.g. > 10% of total levies)

However, total levies are quite typical of the level in many other states.

For years, the statewide average effective rate has remained about 1.2% of fair market value.

The proportion of total state local taxes produced by the property tax in Washington has been close to the national average.

Until two years ago Washington was consistently below the national average.

For the latest two years Washington’s reliance on property taxes has been slightly above the national average:*

- FY 1999 - Washington: 31.8%
- FY 1999 - All States: 29.4%

*NOTE: the impact of the one percent limitations on property tax increases resulting from Initiative 747 is not yet reflected in the national data.

Certain regions can experience large increases in property values, which can translate into higher property taxes for individual property owners. For example, during the past decade, the area east of Lake Washington, in particular, has witnessed substantial increases in residential market values.
RETAIL SALES TAX

- The 6.5% state rate is the 3rd highest of any state (behind the 7.0% rate levied by Rhode Island and Mississippi).

- The maximum combined rate of 8.9% is one of the highest in the nation.

- It is estimated that at least 60% of all retail sales in Washington are subject to a combined tax rate of 8.5% or more. (A few states have combined state/local sales tax rates of 9% and even 10% but these are in limited areas.)

- Since 1995 Washington has exempted manufacturing machinery from sales tax. Construction of manufacturing facilities in rural counties has been exempt from sales. Nonetheless, Washington continues to impose a broader tax base than many other states. Items such as repair of tangible personal property, construction labor (other than for manufacturers in rural counties), and business machinery purchased by nonmanufacturers are taxable in Washington but not in many other states. (Arizona, California (except for installation labor), Connecticut, Hawaii, Kansas, Mississippi and New Mexico also levy sales taxes on construction labor.)

- Washington’s per capita revenue collections from general sales taxes ($1,446 in FY 1999) rank highest in the nation.

- Because the sales tax applies to many necessities (except groceries), the tax is noted as being regressive.

- There exists a major tax evasion problem along Washington borders. The sales tax differential between Clark and Multnomah counties is the greatest in the country, and this creates significant tax compliance difficulties, harming both in-state retailers and local governments. The heavy sales tax also encourages tax avoidance via E-commerce.
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B&O TAX

• Washington is the only state that levies a comprehensive tax on gross receipts of all businesses.

• Despite the low tax rates, the B&O tax generates more revenue for Washington than do corporate net income taxes in most other states. (The B&O tax produces 17% of all state tax revenues in Washington; corporate net income taxes in other states rarely exceed 6 - 7% percent of total taxes in those states.)

• Unlike corporate net income taxes, Washington’s B&O tax:
  • Pyramids, so that the sale of the same product is taxed multiple times.
  • Allows for apportionment of service income on the basis of separate accounting of in-state activity or cost of doing business here. Most other states apportion on the basis of a variation of the three-factor method (sales, property and payroll).
  • Includes nonprofit organizations that engage in business.
  • Can be onerous for new businesses which are not yet profitable.

• Although all firms subject to the same rate classification are taxed at the same tax rate, the B&O tax can be very inequitable for firms with differing profit margins. As an illustration, consider two retailing firms with annual sales of $1 million; both would pay $4,710 in B&O tax. But one firm has a profit margin of 15% (e.g., jewelry store), while the other has a profit margin of 3% (e.g., grocery store). The “effective” tax rate in terms of profits for the first firm would be 3.14%, while the “effective” tax rate for the second would be 15.7%.

• The share of total state/local taxes paid initially by businesses is high in this state. An annual study done by the Utah Tax Commission concludes that Washington taxes on businesses are higher than in the other western states selected for analysis. (Conversely, household taxes in Washington were the lowest of these same states.)
SELECTIVE SALES TAXES

- Washington's cigarette tax is currently the highest in the nation. With the 60-cent increase in the tax approved by the voters in November 2001, the rate now equals $1.425 per pack. Many other states are considering increases this year. Connecticut just increased its rate 61 cents to $1.11 per pack. Effective April 2002, New York will increase its rate from $1.11 a pack to $1.50 per pack and surpass Washington.

- Taxes on alcoholic beverages in Washington are also very high. It is difficult to directly compare tax rates since there are multiple taxes in some states and because some states exercise monopoly control of liquor sales (and thereby increase the price mark-up). However, the latest estimates from the industry indicate that Washington ranks 5th highest in per capita revenues from alcoholic beverages.

- Another selective sales tax – the tax on motor vehicle fuel – used to be among the highest in the country. However, the current 23 cent per gallon gas tax rate is now exceeded by 13 other states.