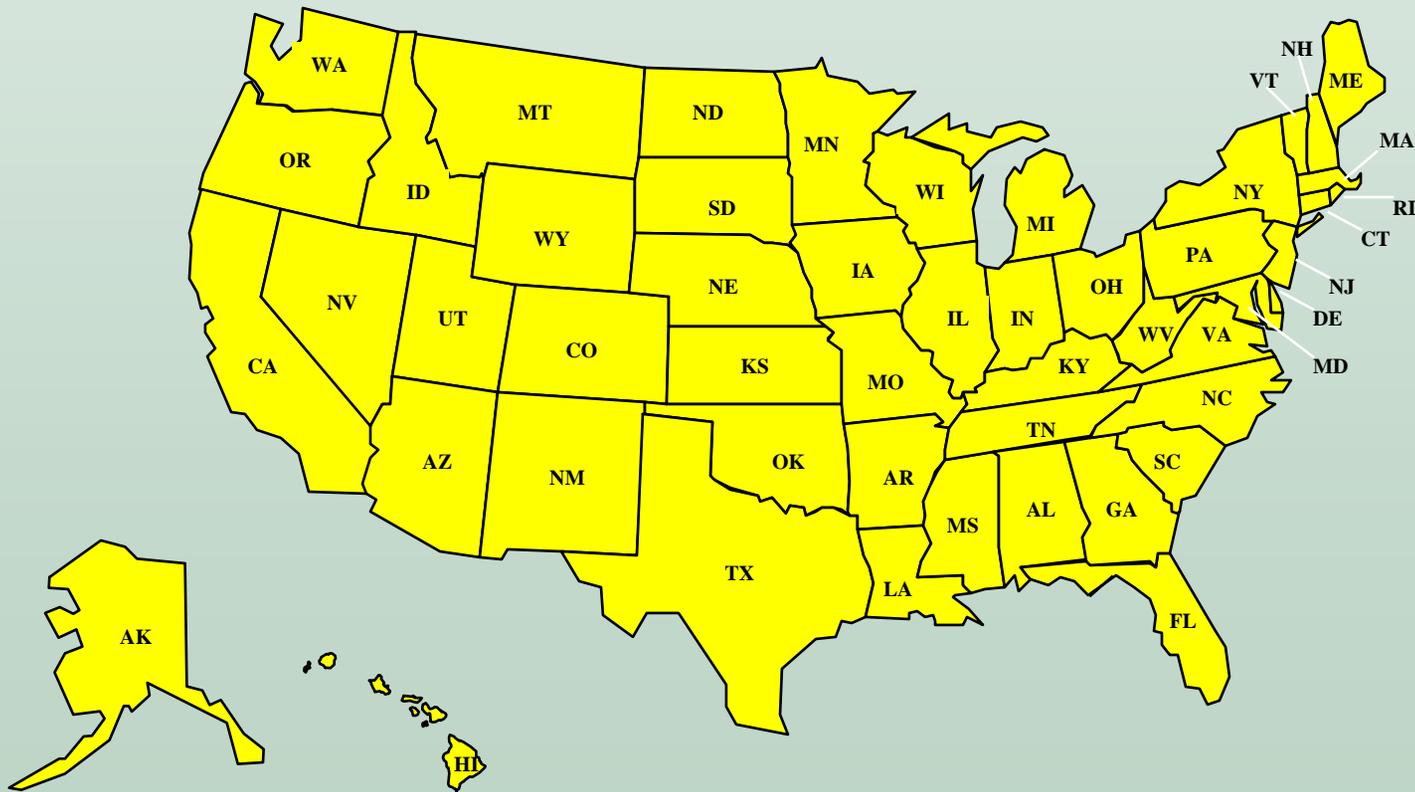


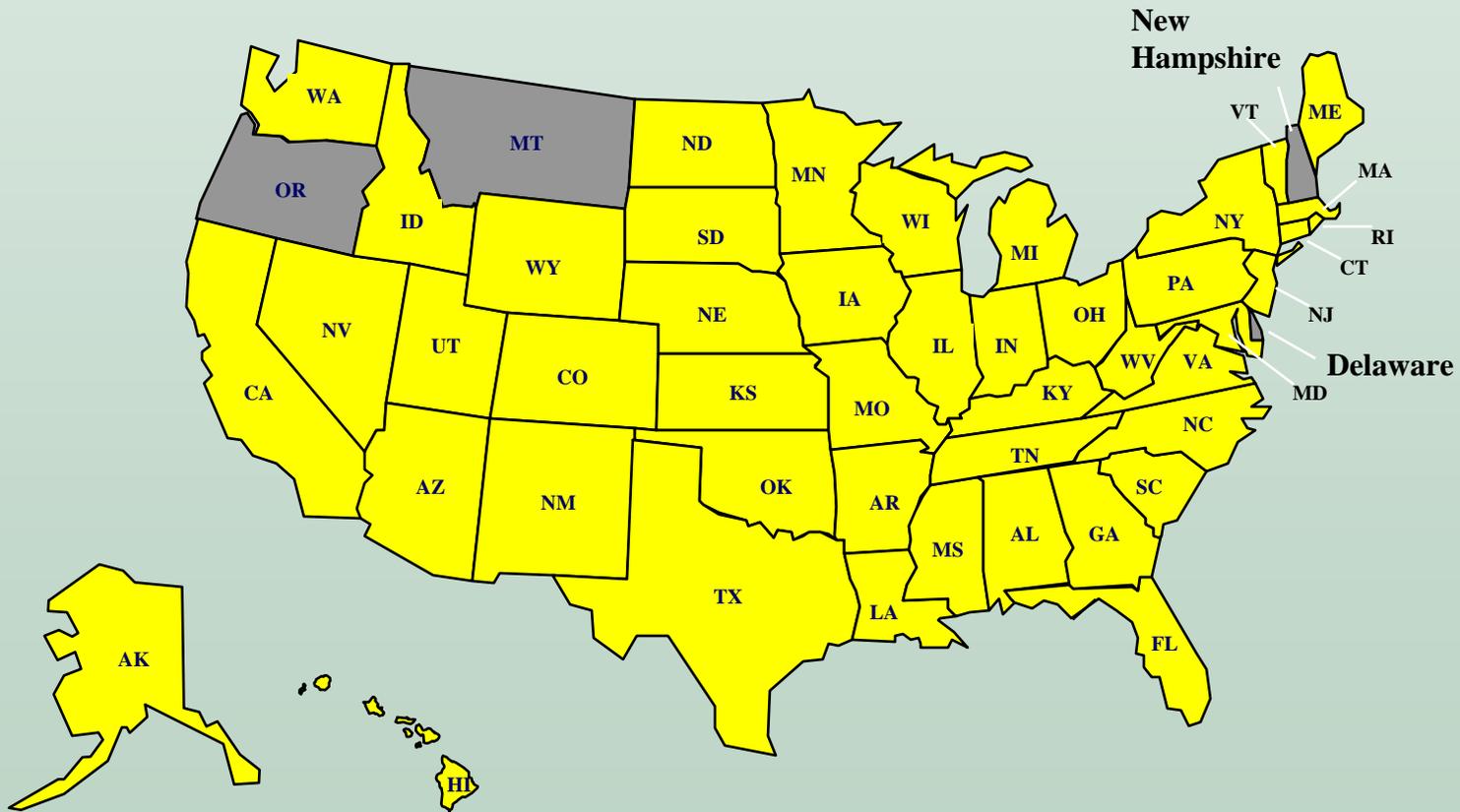
# Washington's Tax System



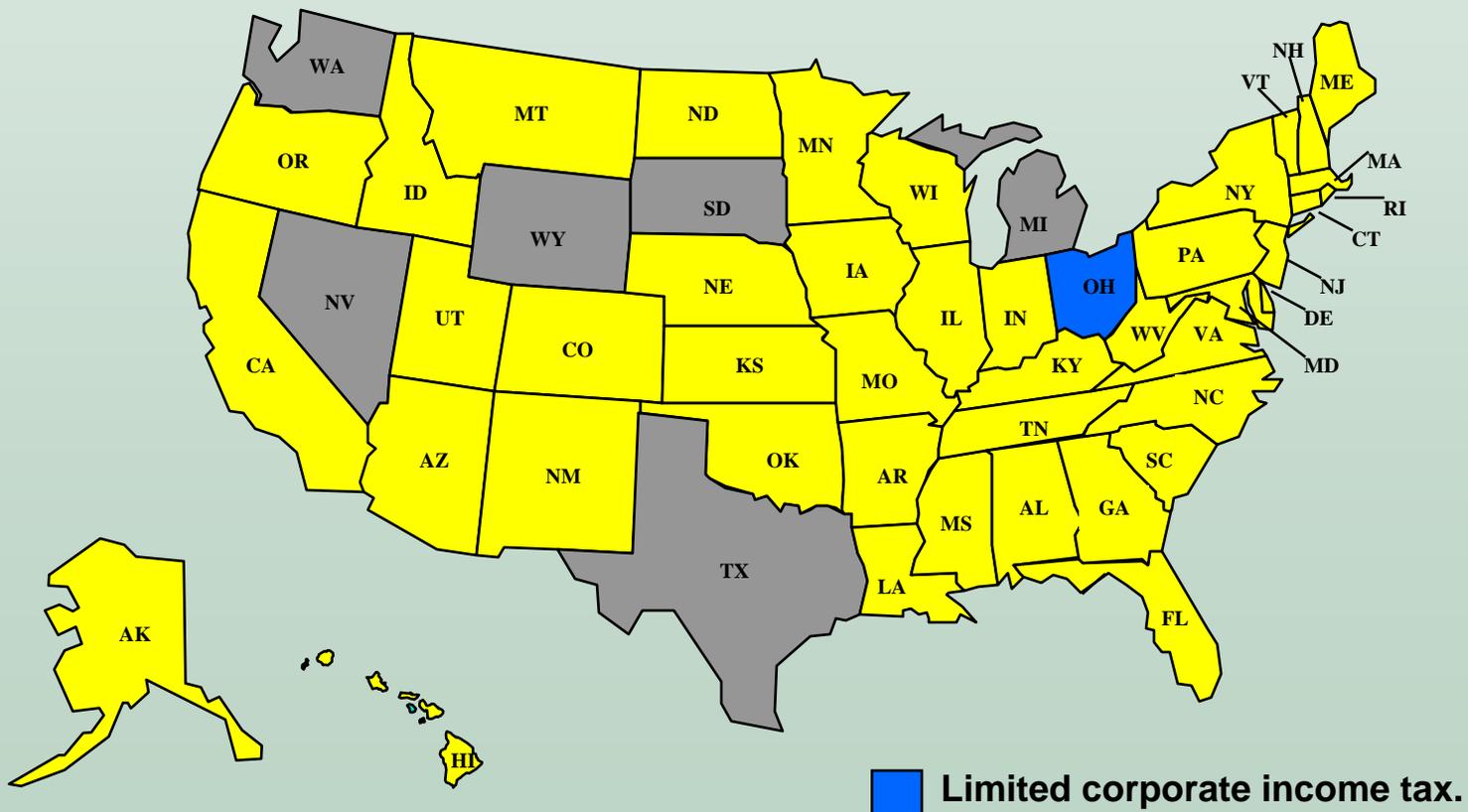
# Property Taxes are Imposed in all 50 States



# Sales Taxes are Imposed in 46 States

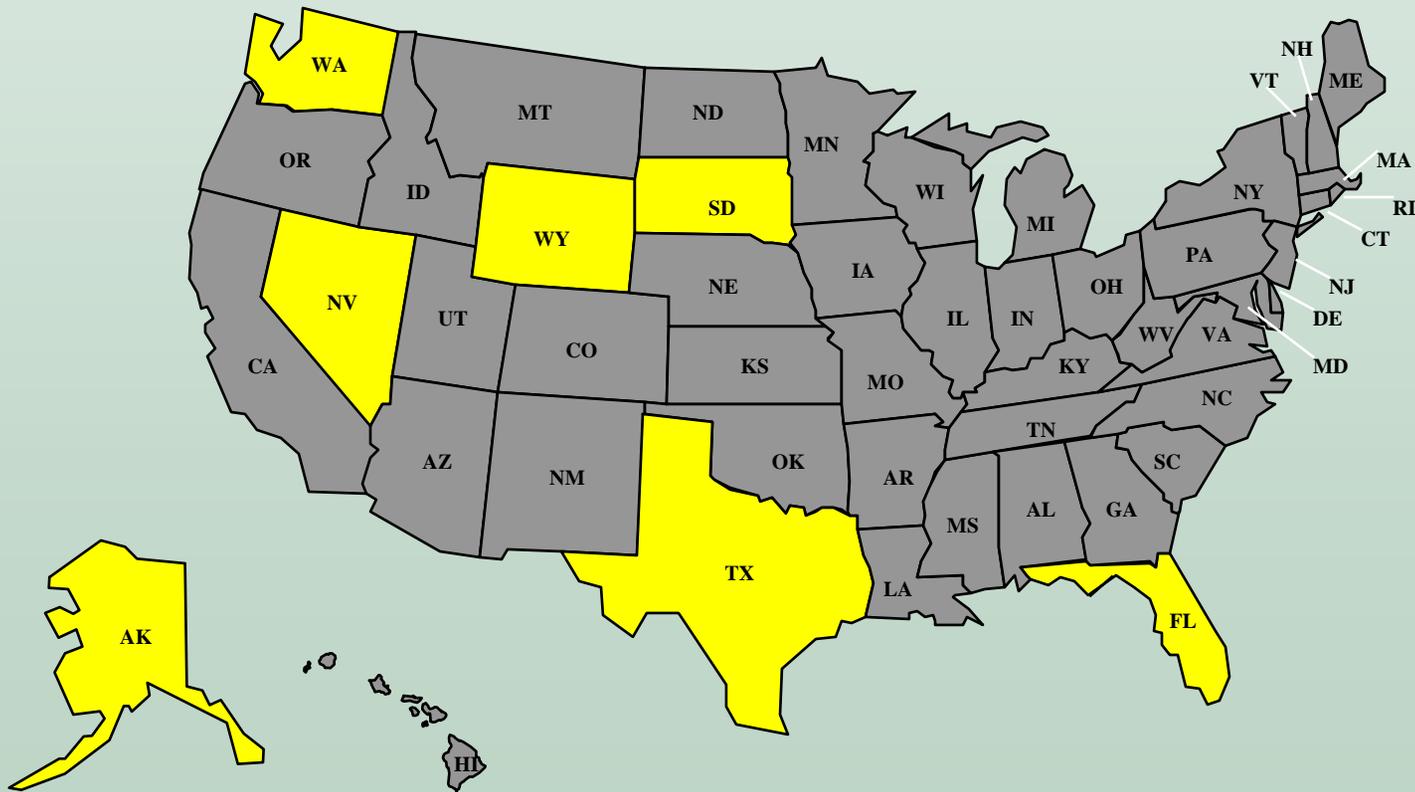


# 44 States Impose Corporate Income Taxes

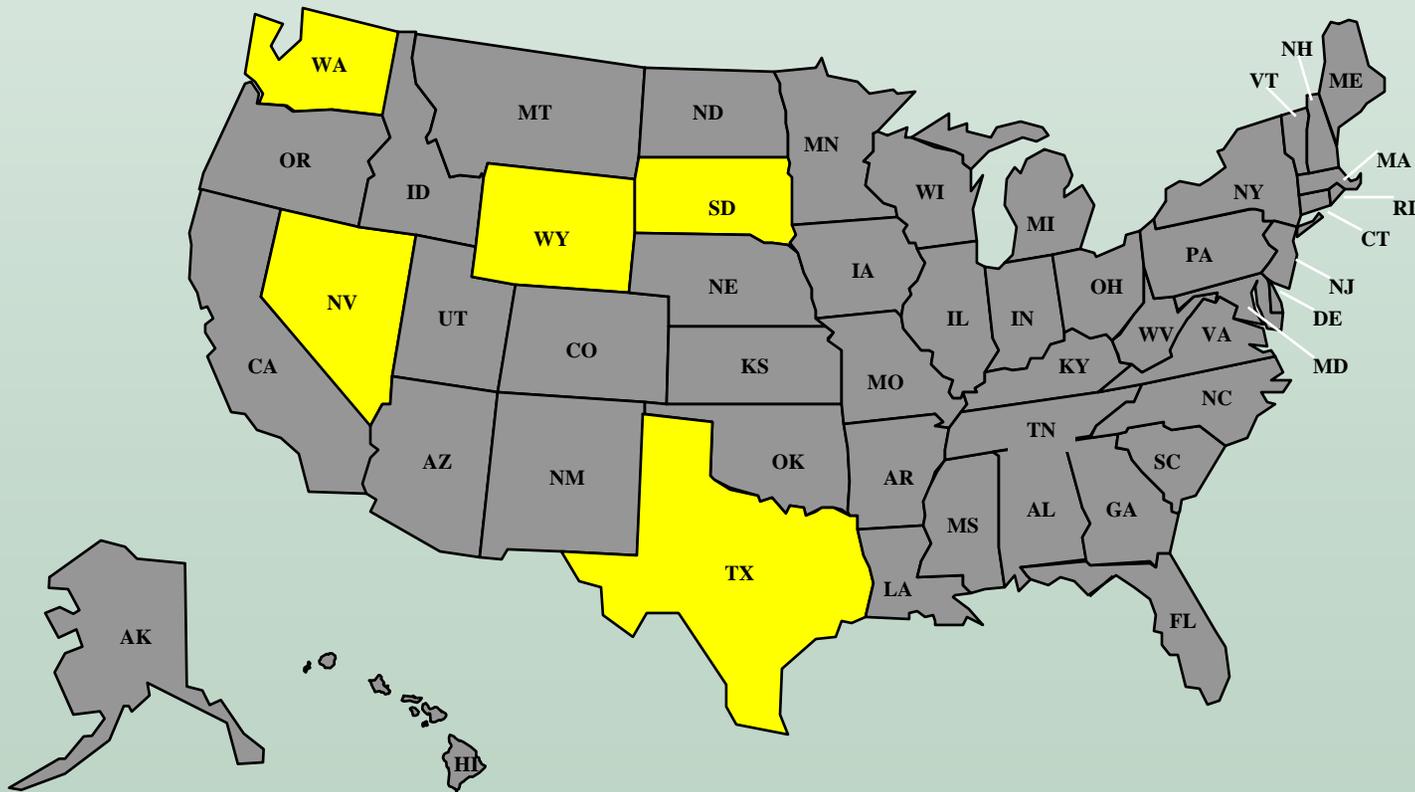




# Washington is One of Seven States With a Sales Tax But No Personal Income Tax

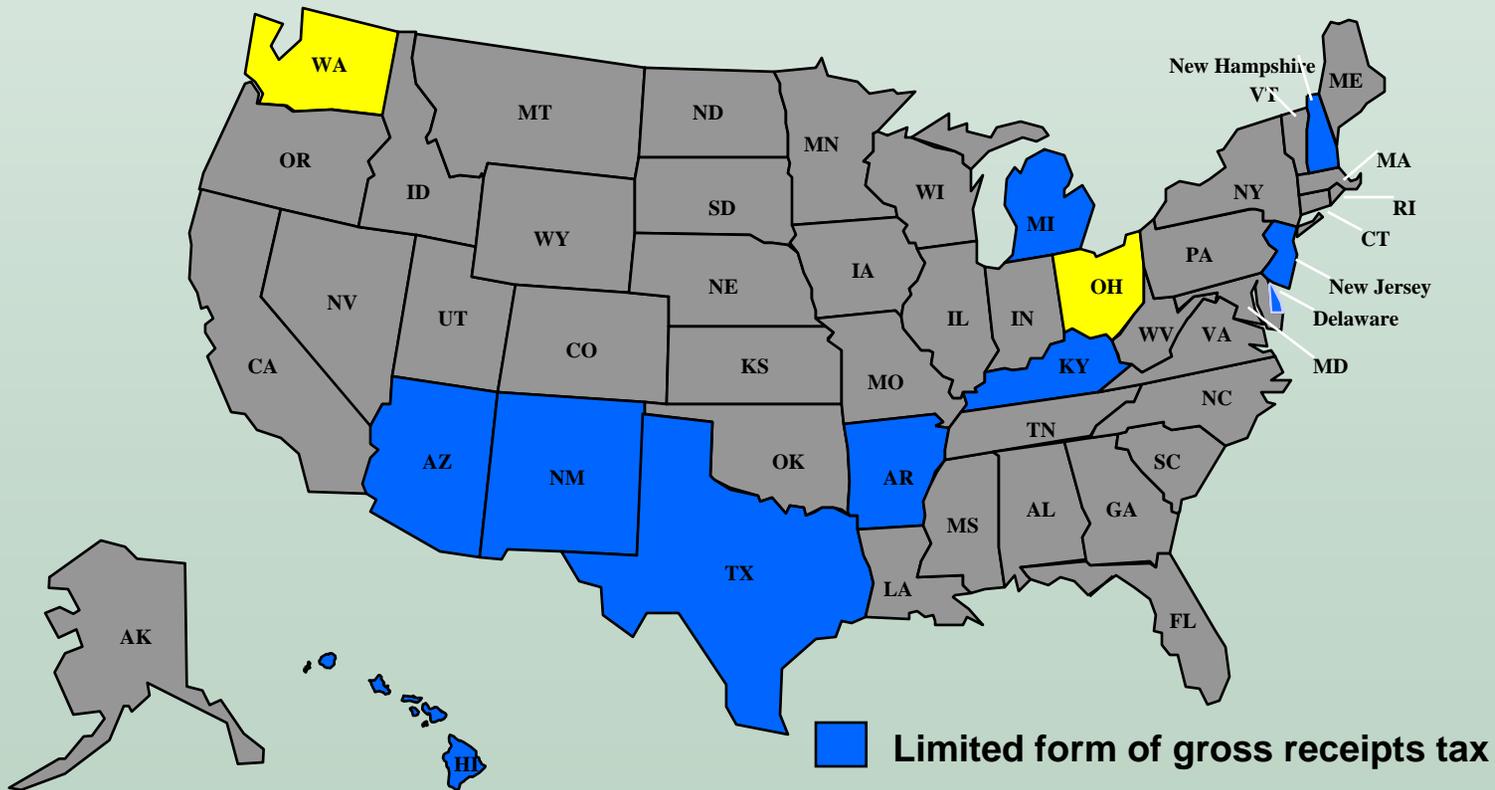


# Washington is One of Five States with a Sales Tax but No Personal or Corporate Income Tax



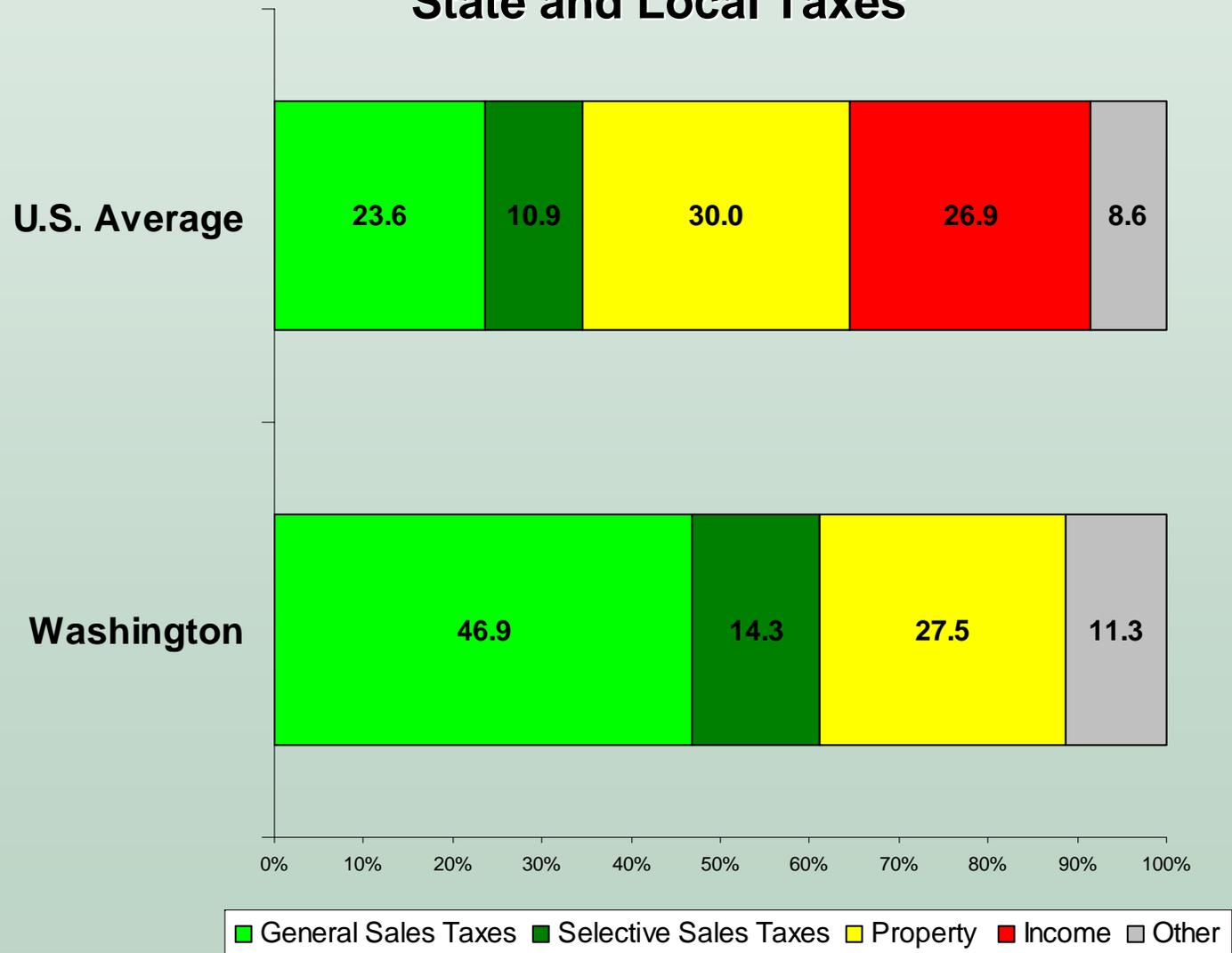
# Washington and Ohio are the Only States to Rely Exclusively on a Gross Receipts Business Tax

Ten states tax gross receipts in a much more limited form along with other business taxes or as a broad form of sales tax.



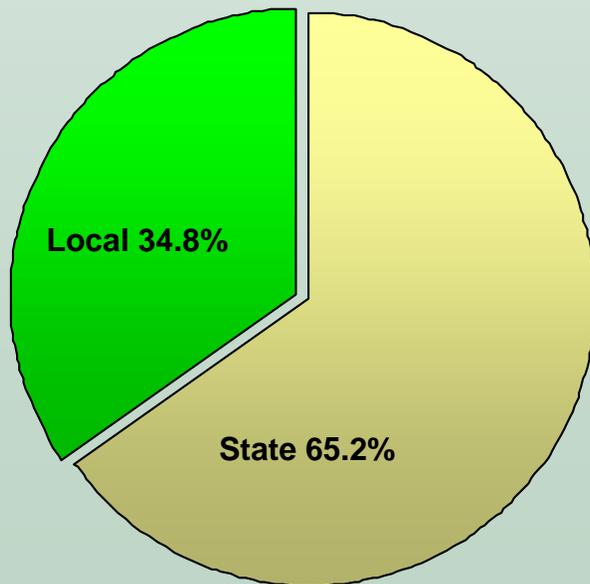
# Washington is More Dependent on Sales Taxes Than the National Average

## State and Local Taxes

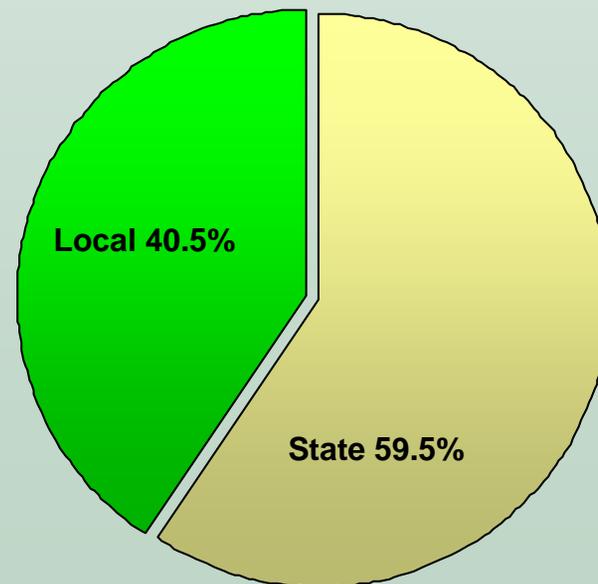


# Our State/Local Tax Split Compared to National Average

**Washington State**



**National Average**



# **Major State Taxes**

**Retail Sales and Use Tax**

**B&O Tax**

**Property Tax**

## **Retail Sales & Use Tax**

***Tax Base:*** Purchases of tangible personal property and some services by individuals and business consumers. Includes construction, repair, lodging, participatory recreational activities, and some services such as telephone. Major exemptions: most personal and business services, motor vehicle fuel, utility services, groceries, and manufacturing machinery.

## **Retail Sales & Use Tax**

### ***Tax Rate:***

**State: 6.5% (no change since 1983)**

**Local: 0.5% - 2.5% (average of 2.38%)**

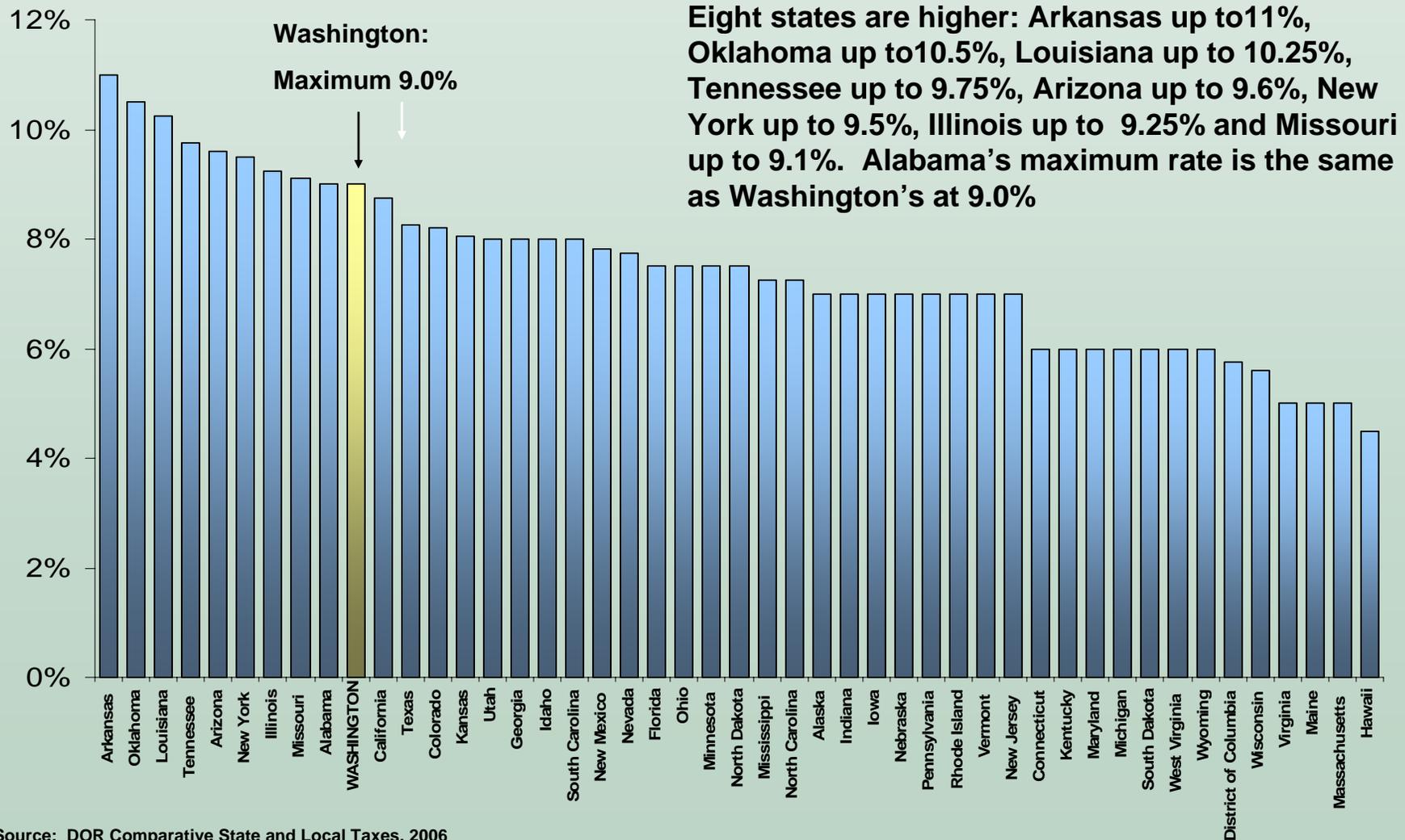
**Maximum: 9.0% in multiple areas of  
King County**

### ***Collections (FY 2008):***

**State: \$7.7 billion (52.0% of G.F. state  
sources)**

**Local: \$2.8 billion (approx. 20%  
of all local taxes)**

# Maximum Combined State and Local Sales Tax Rates Among Highest in Nation



Source: DOR Comparative State and Local Taxes, 2006

# **Retail Sales & Use Tax Advantages**

- **Very productive.**
- **Relatively popular (paid in small increments).**
- **Low cost of administration (no vendor reimbursement).**
- **Savings and investment are encouraged, since consumption is taxed.**
- **Broader tax base than in many states (construction, repair, etc.).**

# **Retail Sales & Use Tax Disadvantages**

- **Regressive – heavy burden for low income households.**
- **Heavy reliance contributes to unbalanced tax structure.**
- **State/local rate is among the highest in the nation.**
- **Collections can be volatile (witness 1981-82).**
- **High rate encourages avoidance (border sales, mail order, E-commerce).**

## **Retail Sales & Use Tax Disadvantages (cont.)**

- **Deters business investment, despite various incentives.**
- **Not deductible for individuals who itemize federal deductions.**
- **Coding of sales can be difficult for firms with multiple outlets.**
- **Long-term structural change in the economy – reduced purchases of goods and growth in services (mostly nontaxable).**

# **Business and Occupation Tax**

***Tax Base:*** Gross receipts derived from engaging in business within the state. Major exemptions: sale and rental of real estate, agricultural production, interest on first mortgages, investment income of nonfinancial firms.

***Collections (FY 2008):***

**State: \$2.8 billion (18.6% of G.F. state sources)**

# **Business and Occupation Tax Advantages**

- **Very productive (far more than corporate net income tax would produce).**
- **Compliance cost for the firm is relatively low.**
- **The tax is more predictable and more easily built into price structure.**
- **Low cost of administration (auditing is easier than net income tax).**
- **Assures that all firms pay some tax.**
- **Collections are more stable in economic downturns.**

# **Business and Occupation Tax Disadvantages**

- **Heavy burden for firms with low profit margins and start-ups.**
- **Unique tax; no other state has such a comprehensive gross receipts tax.**
- **Variety of tax rates (although fewer now).**
- **Tax liability pyramids, thus favoring vertically integrated operations.**
- **Deters business investment despite various incentives and credits.**

# Property Tax

***Tax Base:*** Assessed value of taxable real and personal property. County assessors determine the value of real property and business owners report the value of equipment and supplies; the state values intercounty utilities and commercial vessels and determines forest land values.

# Property Tax

## Levy Rates - taxes due in 2008 (\$ per \$1,000 of assessed value):

State levy	\$2.26
Regular local levy	5.11
Special local levy	<u>2.62</u>
Total nominal rate (average)	\$9.99
Avg. effective rate (% of market value)	0.84%

# Property Tax

## *Levies due in 2008:*

State	\$1.76 billion	(10.0% of G.F. state)
Local regular	3.58 billion	
Local special	<u>2.86 billion</u>	

**Total levies \$8.20 billion**

## **Share of total levies:**

Schools	53.9%
Counties	16.9
Cities	13.3
Junior taxing districts	15.9

# Property Tax Advantages

- **Assessment/collection procedures are well-established.**
- **Sense of local control due to county administration.**
- **Correlation between property value and the cost of some local services.**
- **The tax is very visible to property owners (paid twice yearly).**
- **Exemptions address unique situations (senior citizens, current use, *Washington State Constitution, Article VII, sec. 10 and 11*).**
- **In most years Washington property taxes are about at the national average.**

# **Property Tax Disadvantages**

- **Assessed values have no relationship with income.**
- **Values can jump dramatically due to revaluation cycles.**
- **The tax is influenced by the market with no control by owners, especially elderly on fixed incomes (despite senior citizens exemption).**
- **Unpopular tax with the voters, leading to frequent initiatives.**
- **Overall costs of administration are high due to the appraisal system.**

# **Property Tax**

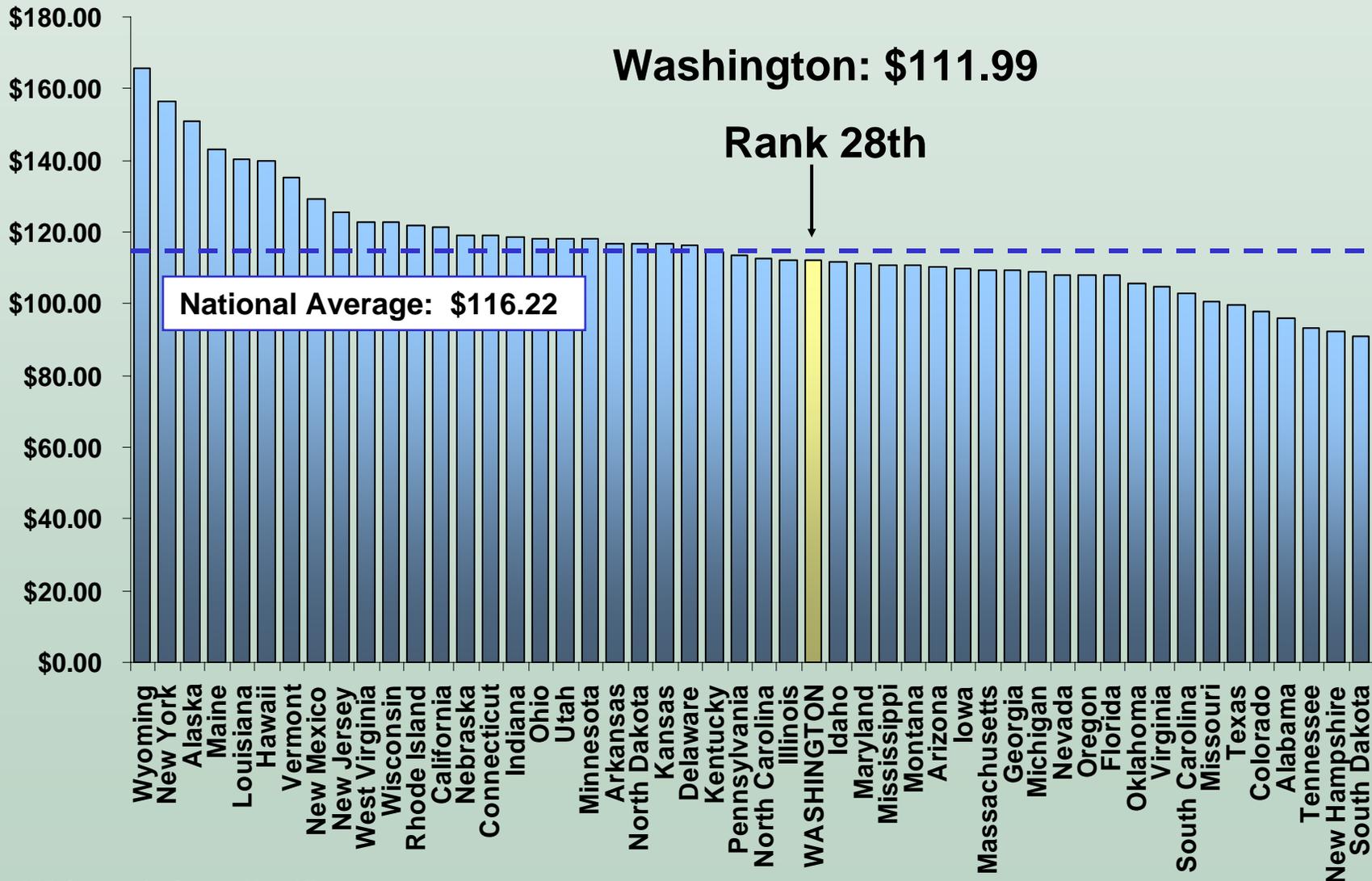
## **Disadvantages (cont.)**

- **Some taxing districts are “poor” resulting in low revenues or higher tax rates.**
- **Better suited to an agrarian economy when wealth equated with property.**
- **Although lower than in the 1970s, schools must still rely upon special levies which cause a significant budget impact when they fail.**
- **Special levy proposals must achieve 60% favorable vote.**

# **Comparative Tax Burdens**

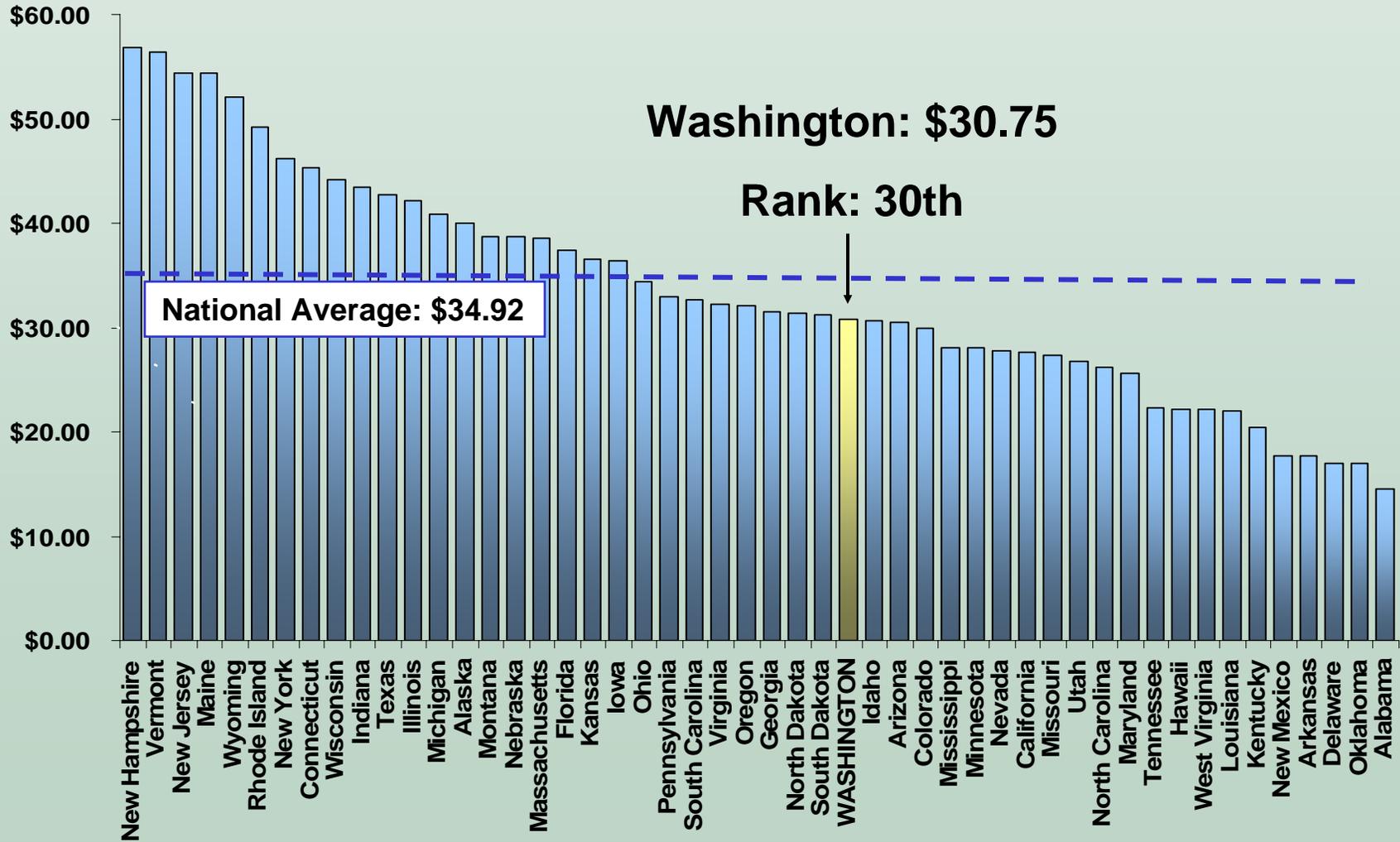
# Washington's Tax Burden

State/Local Taxes per \$1,000 Personal Income - FY 2006



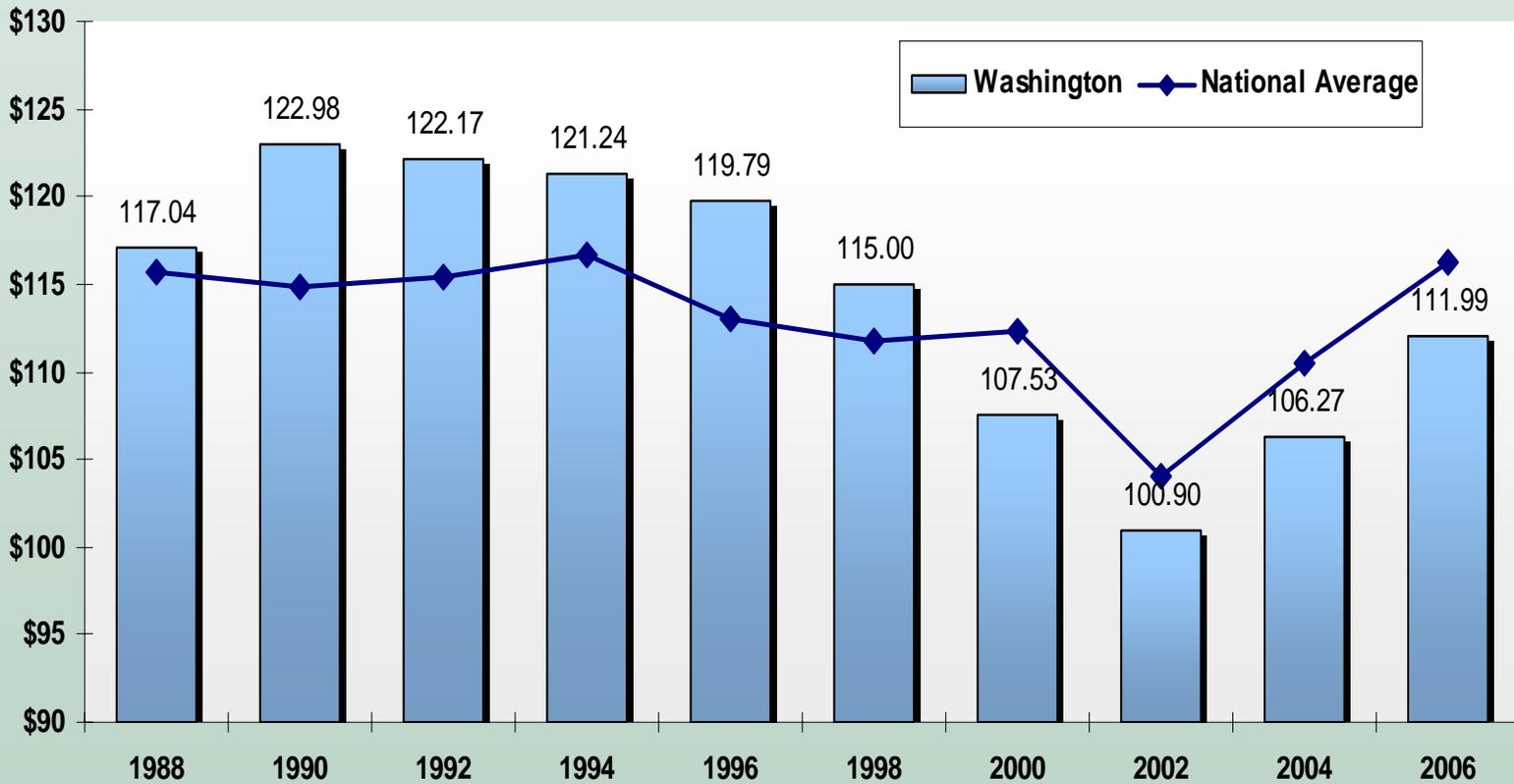
# Washington Property Taxes

Taxes per \$1,000 Personal Income - FY 2006



# State and Local Tax Burdens

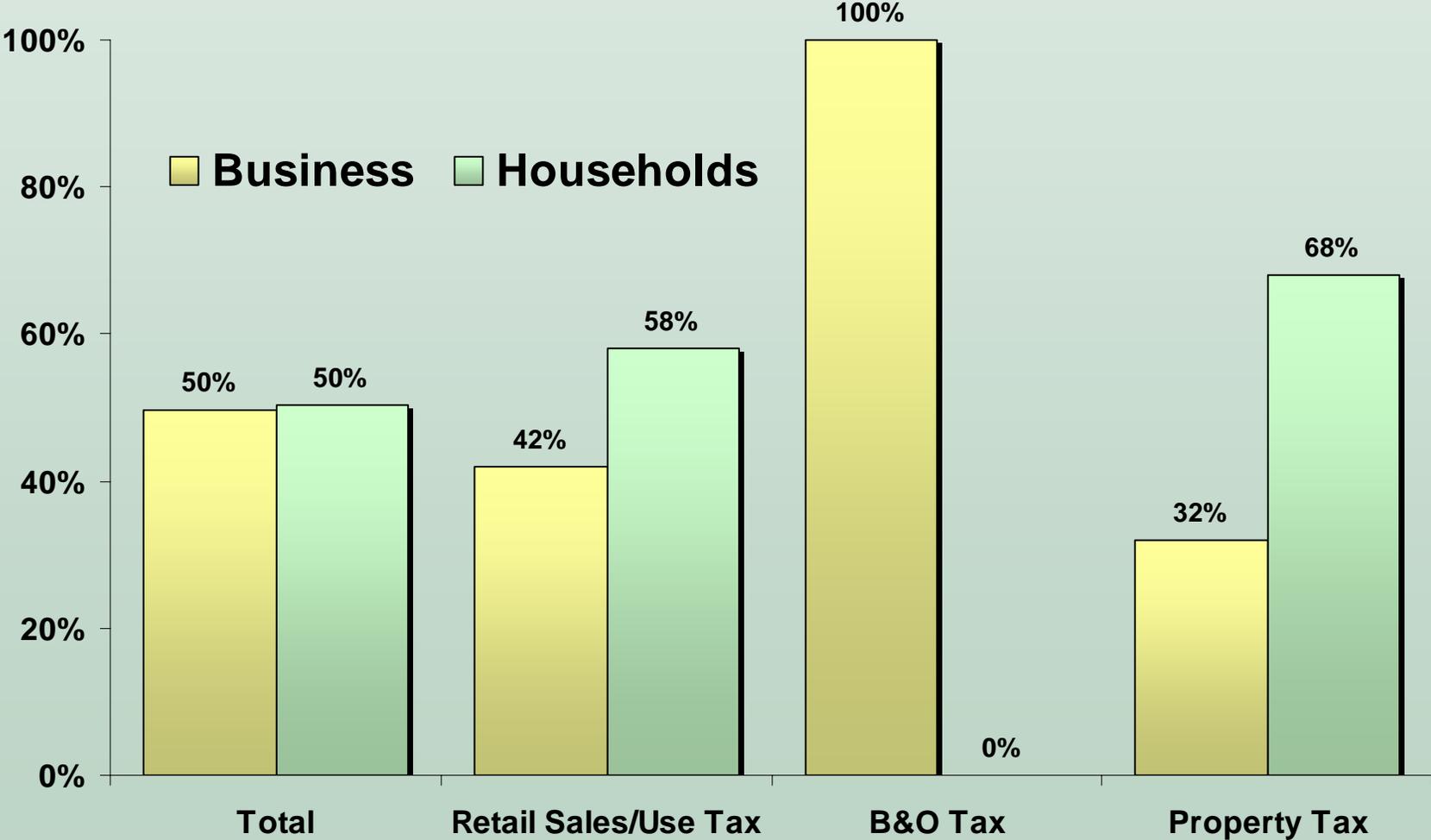
Taxes per \$1,000 Personal Income  
1988-2006



# **Business vs. Household Tax Burdens**

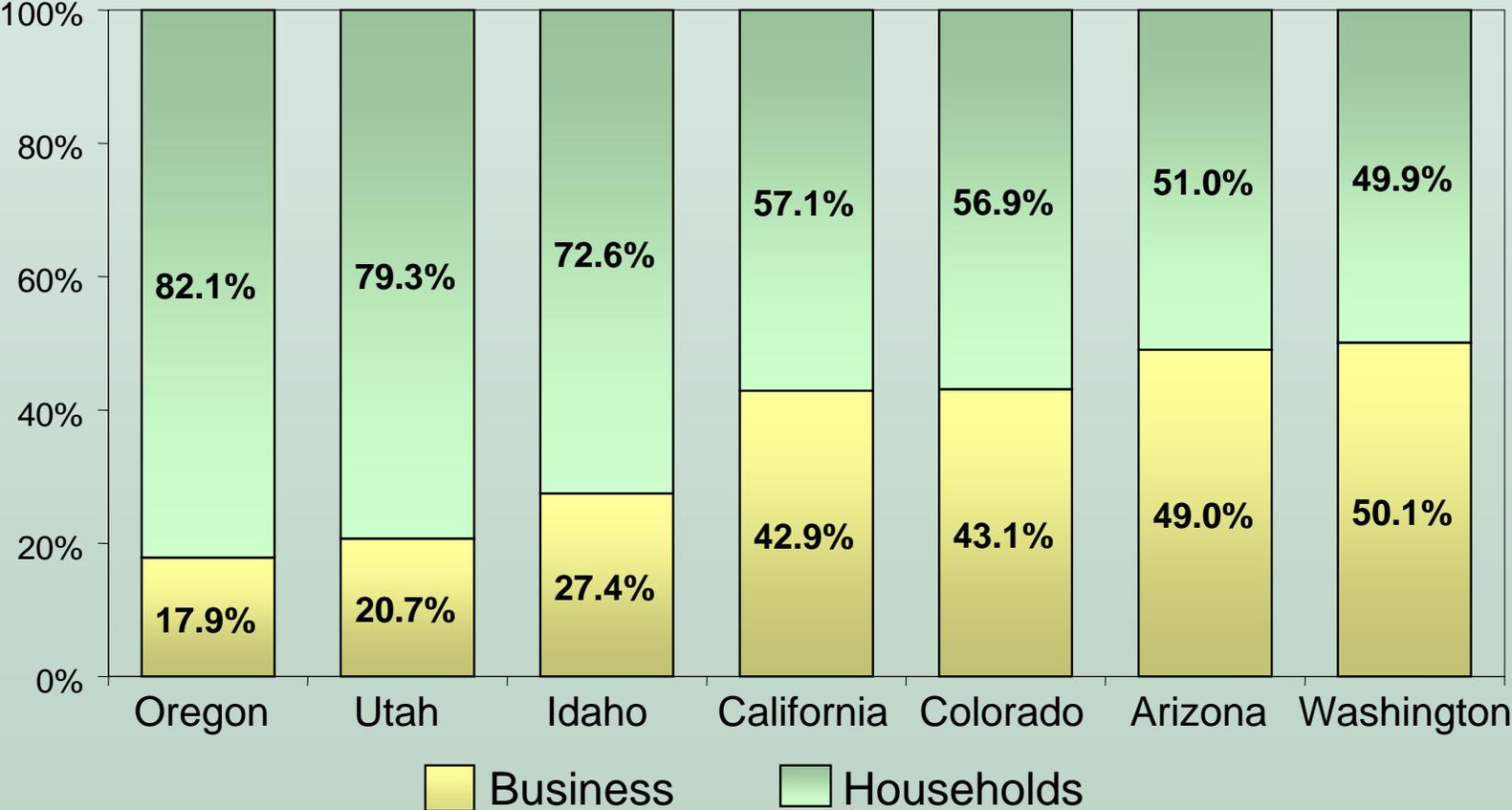
# Share of Tax Burdens Paid by Households and Business

Washington State Taxes Paid (Initial Incidence) - FY 2008



# Businesses Pay Higher Share of Taxes

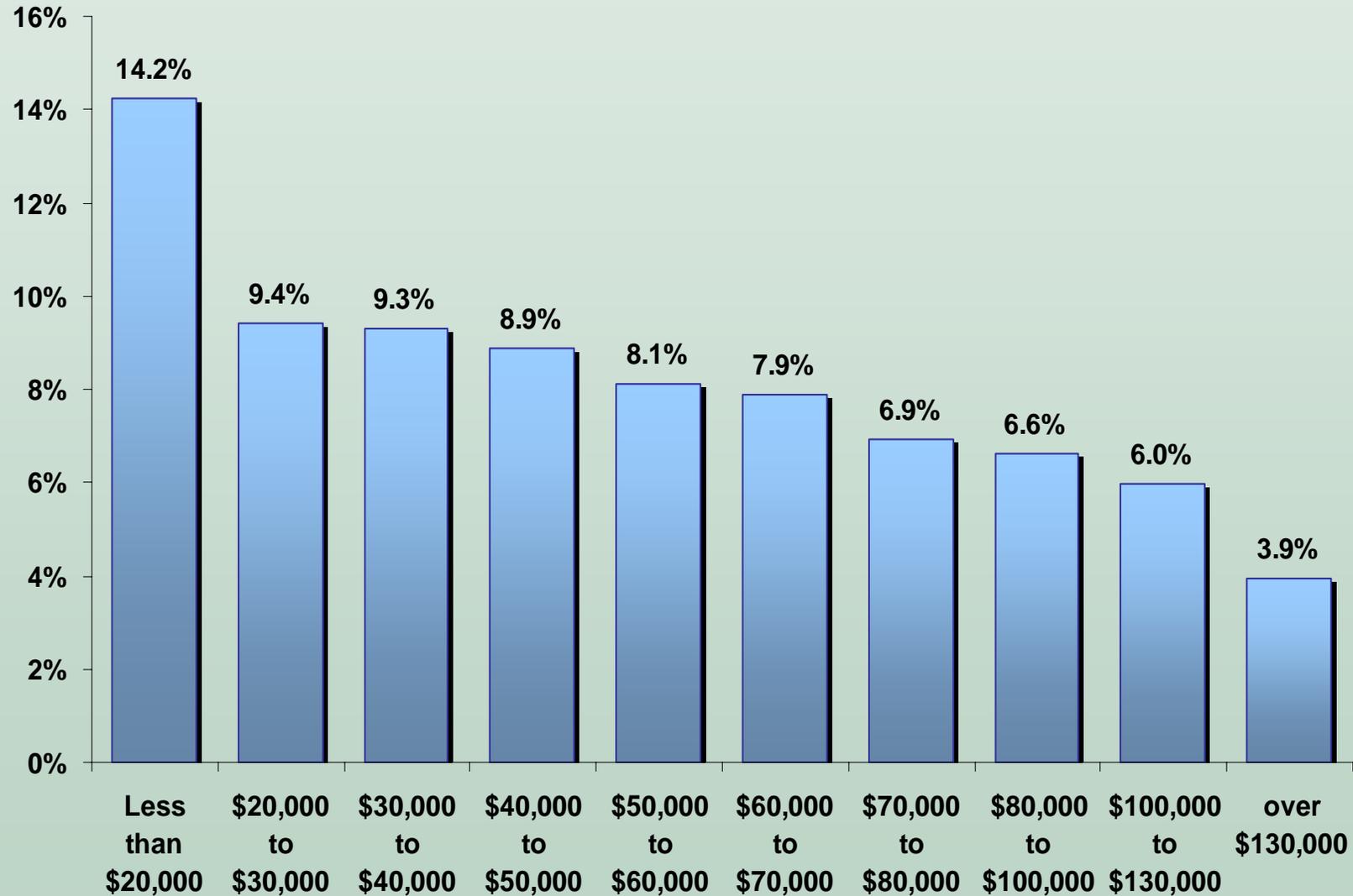
## Initial incidence



Source: Utah Tax Commission

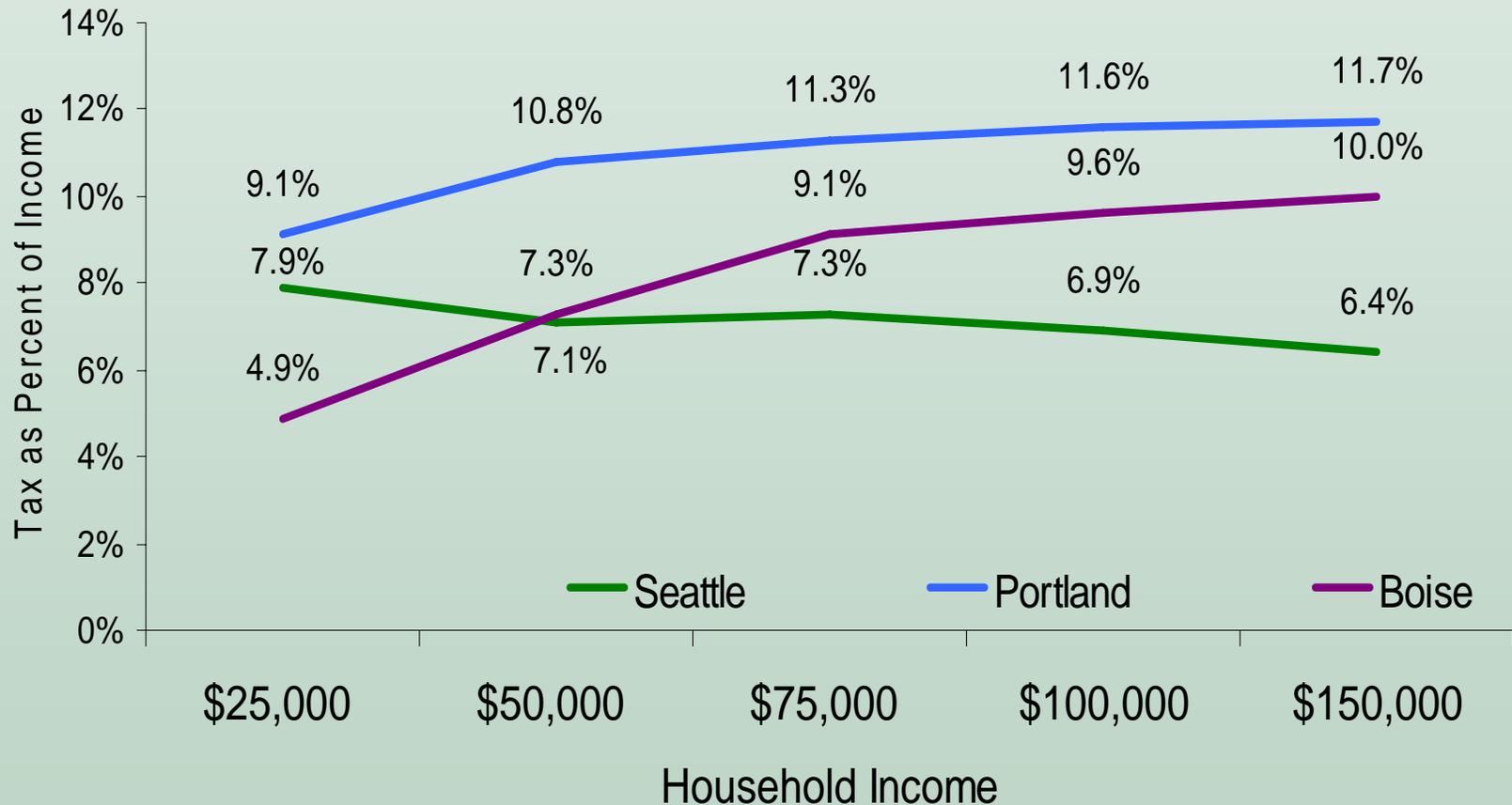
# Household Tax Burdens Drop With Income

## Major State and Local Taxes - Typical Households of Four



# Household Tax Burdens

Percent of Income Paid In Major State and Local Taxes  
Largest City in Each State



Source: 2004 Washington, D.C. survey of 50 States