

## WASHINGTON STATE TAX STRUCTURE STUDY

### Transparency (Hidden Taxes) - Findings

- Taxes legally imposed on businesses, and not purchasers or customers, are hidden.
- Many of Washington's taxes are legally imposed on businesses and, therefore, are not visible to purchasers or customers.
- Business taxes are not taxes on purchasers or customers but are considered part of business operating overhead.
- Business taxes may, to varying degrees, be passed on to purchasers and customers as a hidden component of the price of the good or service.
- The taxes that are imposed on purchasers and customers, and are visible, include state/local retail sales taxes, state/local public utility taxes, state/local property taxes, the car rental tax, the convention center tax, the solid waste collection tax, the 911 taxes, and the wood stove fee.
- The only truly pyramiding tax is the state/local gross receipts business and occupation tax.

### Does Washington have any "hidden" taxes?

For the purposes of this question a "hidden" tax is considered to be one where the purchaser/consumer of a product, a service, real property, or even the user (renter) of real property is unaware of the amount of a particular tax or taxes they are paying. Hidden taxes are not visible because they are not itemized on the bill or charge.

The attached chart lists the major Washington taxes paid by purchasers/consumers and renters that are hidden from view. Most are hidden because they are taxes legally imposed on the activities of manufacturers/sellers, and not on their customers. As such, they are not supposed to be collected directly from purchasers/consumers. In many cases these business taxes are passed along to consumers (in and outside Washington) as an unspecified component of the basic charge for their goods or services. In other cases, some of the taxes may be passed along to stockholders in the form of lower dividends, to employees in the form of lower wages, fewer jobs, etc. Part of the burden of the business taxes imposed by the state are also passed along to the federal government as increased business expenses and lower federal business tax liability.

Since most of the taxes in Washington, as in other states, are imposed on businesses rather than purchasers/consumers, most taxes are by definition hidden. Taxes imposed directly on purchasers and users of goods and services are not hidden. In Washington the taxes that are definitely not hidden include: the state and local sales/use taxes, the car rental tax, the convention center tax, property taxes paid by owners of real and personal property, the state and local public utility tax, which is imposed only at the retail level and is a tax on consumers of utility services, the solid waste collection tax, the 911 taxes, and the wood stove fee. The other major state and local taxes in Washington are hidden.

All federal excise taxes such as those imposed on liquor, cigarettes, and gas are also imbedded in the price of these goods and are hidden from retail consumers.

### **Does any Washington tax pyramid?**

A tax that pyramids is one that applies more than once to multiple sales of the same product or service. The only truly pyramiding tax in Washington is the business and occupation tax. The very nature of the tax is that it applies whenever gross receipts are generated. For example, if a product is manufactured in Washington, sold by the manufacturer to a wholesaler, by the wholesaler to a retailer, and by a retailer to a customer, the B&O tax applies to the gross receipts generated by each transaction. The B&O tax is Washington's primary business tax, generated \$2.0 billion in the fiscal year 2001, and is the second largest source of state general fund revenue.

The only other tax that could be said to pyramid, but only to a limited degree, is the retail sales tax. To the extent that the same item, such as an automobile, sells at retail multiple times, the sales tax will be collected on each transaction.