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Washington State and Local Tax System
Myths and Facts

Following are myths and facts about the Washington state and local tax system. The numbers in brackets refer to the pages in the study ("Washington State and Local Tax System: Dysfunction and Reform") where each myth and fact is discussed.

Myths

1. The people of Washington would never vote for an income tax. [3]

2. Taxes are high. [2,11]

3. The current fiscal problems of Washington state and local governments are due to overspending. [4,6]

4. Because high-income households pay more dollars in taxes than low-income households, the Washington tax system is fair. [7-8]

5. State and local general fund revenue should not rise faster than population growth plus inflation. [12]

6. Absent a capital gains tax, the Washington tax system is stable. [18-20]

7. Every household knows how much it pays in state and local taxes. [23-25]

8. The lack of an income tax gives Washington an advantage in attracting businesses and jobs. [26-29]

Facts

1. In 1932, 70 percent of Washington voters passed an initiative to establish a graduated income tax. [3]

2. Since the Bush tax cuts in 2001 and 2003, federal, state, and local taxes in the United States have averaged 22.5 percent of personal income, down from an average of 24.7 percent between 1970 and 2000. [2]

3. In 2013, U.S. households and businesses paid $1.5 trillion in state and local taxes for public goods and services. [1]

4. Since 1970 the U.S. state and local effective tax rate (state and local taxes as a percent of personal income) has averaged 10.6 percent. The effective tax rate has also been quite stable over time. [2-3,10]

5. In FY 2011, the Washington state and local effective tax rate was 9.6 percent, while the U.S. effective tax rate (the average for all state and local governments in the nation) was 10.4 percent. [4]

6. State and local taxes accounted for $28.4 billion (50.7 percent) of the $56.0 billion in Washington state and local general revenue in FY 2011. [4]

7. Washington state and local expenditures totaled $57.8 billion in FY 2011. As a percent of personal income, they were less (19.6 percent) than the national average (20.1 percent). [4,6]

8. Although one-third of the state and local expenditures went to education in FY 2011, Washington ranked forty-sixth among the states in elementary and secondary school spending per $1,000 of personal income ($34.90 versus $41.92 nationally). [4,6]

9. Most economically advanced countries have progressive tax systems, but the Washington State Tax Structure Study Committee found that in 1999 the state and local tax burden was 15.7 percent of income for the lowest-income households in Washington but only 4.4 percent for the highest-income households. [7]

10. The tax burdens implied that the lowest-income households had to work 8.2 weeks each year to pay their annual state and local tax bill, while the highest-income households had to work only 2.3 weeks. [8]

11. The Institute on Taxation & Economic Policy estimated that in 2013 the 20 percent of Washington households with the lowest incomes had a 16.9 percent tax burden. The institute concluded that, lacking an income tax, Washington had the most unfair tax system in the nation. [8-9]

12. Since FY 1999 the Washington state and local effective tax rate has fallen well below the national long-term norm of 10.6 percent because of the state's inadequate sales-based tax system. [11]

13. As tax revenue failed to keep pace with personal income, the state and local effective tax rate fell from 11.4 percent (twelfth highest in the nation) in FY 1995 to 9.6 percent (thirty-eighth highest) in FY 2011. [11]

14. By taxing well below the 10.6 percent national norm, Washington state and local governments forfeited $14.4 billion in tax revenue from FY 2005 to FY 2011, enough to pay for the 520 bridge, the Alaska Way Viaduct replacement, and the Supreme Court-ordered basic education funding requirement. [14]

15. Inadequacy is a permanent fixture of the tax system, as evident by the fact that taxable retail sales, Washington's biggest tax base, fell from 51.4 percent of personal income in FY 1990 to 34.2 percent in FY 2012. [14-15]

16. Forecasts generated by an economic and tax revenue model indicate that without legislated changes to the existing tax rates or tax base, the Washington state and local effective tax rate will decline from 9.5 percent in FY 2010 to 8.2 percent in FY 2025, making it perhaps the lowest effective tax rate in the nation. [15-17]

17. Measured by the variability of the state and local effective tax rate, Washington had the forty-seventh most stable tax system in the nation between FY 1995 and FY 2011. [18-20]

18. Due to the inadequacy and instability of the tax system, real per capita state government tax revenue fell from $2,376 in FY 2007 to $2,056 in FY 2013, a drop of 13.5 percent. [20-21]

19. The business and occupation tax is not a transparent tax, since up to three-fifths can be passed on to customers in the form of higher prices. [23-24]

20. Without an income tax—the only totally transparent tax—and a heavy reliance on sales and gross receipt taxes, Washington edged out only Alaska in having the least transparent tax system in the nation. [24-25]

21. A statistical test reveals that there is no correlation between a state's business tax climate—namely, whether or not it has an income tax—and its ability to generate jobs. [26]

22. Despite fundamentally different tax structures—Oregon has an income tax but no sales tax or business and occupation tax—the Washington and Oregon economies have performed equally well since 1970. [28-29]

23. Among the state and local tax systems in the United States, Washington ranks at or near the bottom in terms of fairness, adequacy, stability, and transparency. [29-31]

24. A flat-rate personal income tax would be vastly superior to the current Washington tax system. It would be fair, adequate, stable, transparent, and would have no adverse effect on economic vitality. [32-34]

25. With a 10.6 percent rate, a flat-rate personal income tax would eliminate the need for all other taxes. [32]

Afterthoughts

1. Just released Census data show nothing new in FY 2012. The state and local effective tax rate in Washington remained well below the U.S. average (9.4 percent versus 10.3 percent), while the state still ranked forty-sixth in elementary and secondary school spending per $1,000 of personal income ($33.22 versus $39.30 nationally).

2. Over time the Washington state and local effective tax rate has fallen further behind the U.S. rate. From FY 1970 to FY 1999, the difference averaged -0.2 percentage points (10.5 percent for Washington versus 10.7 percent for the national average). From FY 2000 to FY 2011, the gap increased to -0.7 percentage points (9.9 percent versus 10.6 percent). In FY 2012, it was -0.9 percentage points (9.4 percent versus 10.3 percent).

3. A flat-rate state and local income tax would help reduce household income disparity in Washington. The Institute on Taxation & Economic Policy estimated that in 2013 the 20 percent of Washington households with the lowest incomes had an average annual income of $11,500 and a tax burden of 16.9 percent. The top one percent earned on average $1,131,500 and had a 2.8 percent tax burden. A 10.6 percent flat-rate income tax would have effectively raised the income of the lowest-income households by $725 and lowered the income of the highest-income households by $88,257.

4. A flat-rate income tax would also help reduce the regional income disparity in Washington. In 2013, with only 29.3 percent of the state population, King County would have accounted for 38.6 percent of the state and local tax revenue because of its high per capita income.

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