

INTRODUCTION

Tax researchers and decision makers have shown considerable interest in Washington's relative tax position among the states. The best source of comparative tax information for all state and local governments is compiled annually by the U.S. Census Bureau. These figures covering Fiscal Year 2009-2010 were posted to the [Census Bureau Internet](#) site in September 2012.

For Fiscal Year 2010, state and local taxes in Washington State equaled \$26.8 billion. This figure includes all state and local taxes, according to the definitions used by the Census Bureau. The majority of Washington's taxes – \$16.1 billion – went to state government, while \$10.7 billion was attributable to local jurisdictions. The latest state/local tax figures used for this report cover the fiscal year which ended on June 30, 2010. State tax receipts in Fiscal Year 2010 were approximately 1 percent lower than Fiscal Year 2009.

Taxes are defined to include compulsory payments which are not related to particular governmental services; that is, tax liability is independent from the benefit taxpayers receive from government operations. Instead, taxes are determined by other measures such as income, purchases, and property values. However, license fees are included by the Census Bureau in the tax collection data, even though these receipts are associated with specific rights or privileges. Tax revenues are the source of funding for general programs over which legislatures typically have the most discretion in terms of spending, since nontax revenue sources are often dedicated to specific programs.

Examples of revenues excluded from the tax category are sales of commodities and services directly benefiting individuals (e.g., utility charges, tuitions, and fees). Also, enterprise revenues from liquor sales and utility operations are omitted. Required payments for unemployment and workmen's compensation programs are other significant exclusions; these are not considered general tax revenues because they are earmarked to provide assistance to employees who are laid off from work or injured while on the job.

Tax burdens can be measured in several ways. Each approach has its own merits and is suited to a particular purpose. The two primary methods used in this report are the amount of taxes in relation to personal income and in relation to population.

TAXES PER \$1,000 PERSONAL INCOME

Taxes in relation to personal income divides total state and local taxes by total state personal income - a statistic representing the "wealth" of all residents living in each state. For purposes of this report, the latest personal income data for calendar year 2009 (when Fiscal Year 2010 began) compiled by the BEA is used. The calendar year 2009 total for Washington was \$278.7 billion.

Taxes in relation to personal income produces a Fiscal Year 2010 Washington tax burden of \$96.08 for each \$1,000 of personal income or about 9.6 percent of personal income in Fiscal Year 2010. By this measure Washington ranks 36th in the nation and 10th among the 13 western states.

Washington's average tax burden remains well below the national average of \$106.5. The reason Washington ranks higher in per capita taxes than for taxes in relationship to personal income is Washington enjoys relatively high per capita personal income.

PER CAPITA TAXES

Per capita tax amounts divide total state and local tax collections for each state by its population. Tax collections include taxes paid by businesses and so may not correspond to what the "average" individual would pay in direct state and local taxes. For the Fiscal Year 2010 calculations, this report uses the September 2012 U.S. Bureau of Economic Analysis (BEA) population estimates for each state – Washington's population was identified as 6,667,426. This results in a per capita state and local tax amount of \$4,016 which is slightly below the national average of \$4,147 and gives Washington a ranking among the 50 states of 21st for Fiscal Year 2010.

TAXES AS A PERCENT OF GROSS STATE PRODUCT

Taxes in relation to Gross State Product (GSP) divides total state and local taxes by total state GSP – a measure of the economic output of each state. GSP figures for 2010 are available from the BEA. The calendar year 2010 GSP total for Washington was \$339.8 billion. Taxes as a percent of GSP for Washington were 7.9 percent and Washington ranked 35th nationally.

ANALYSIS OF TAX BURDEN

Both the per capita and the personal income approach are based on total state and local tax collections obtained by survey of governmental jurisdictions by the Census Bureau. Taxes include amounts paid by individuals as well as businesses, but there is no accurate way of classifying tax burdens by type of taxpayer for most tax sources. For example, in Washington it is estimated that households pay about 60 percent of total sales tax collections, with the remainder paid by businesses (supplies, nonmanufacturing machinery, construction, etc.), government, and tourists. But exact amounts are not known because vendors do not record the type of purchaser who pays the tax. Similarly, the actual burden of the property tax and other major taxes by taxpayer type is not precisely known in this or other states.

Initial tax burdens may be shifted to other entities. Business taxes are particularly susceptible to shifting, either forward to consumers (increased prices) or backward to owners (reduced earnings) and workers (lower wages). Tax burdens may also be shifted to persons in other states. For example, Alaska typically has a very high tax burden due to its petroleum tax revenues. However, consumers in many other states pay a portion of this tax, which is included in the price of oil delivered via Alaska's pipeline.

In the 1960's, state and local tax burdens of about \$115 per \$1,000 of personal income were typical for Washington, and the state usually ranked about 18th among all states. The economic downturn, which occurred around 1970, caused some reduction in the growth rate of tax collections. However, the fall-off in personal income was even greater. The relatively smaller income caused the tax burden calculation to rise to as high as \$128 in 1972 and 1973. Rankings ranged from as high as 17th to as low as 25th during this period.

In the 1970's, growth in consumer expenditures exceeded the rate of income growth due to strong demand for housing and durable goods. Such purchases are often financed from savings or by borrowing rather than current income; thus short-term tax elasticity was very high. The result was a very high tax burden, reaching \$127 in 1978.

During the recession of 1981-82, the percentage of personal income devoted to taxable retail purchases - a major driver of Washington tax revenues - dropped from over 70 percent to less than 60 percent in just two years. Also contributing to the reduction in Washington tax revenues was the exemption of food from sales tax in 1978, limitation of local special school levies, extension of the 106 percent limit on property taxes to the state levy, and repeal of the state's inheritance tax. Somewhat ironically, personal income remained rather high during most of this period, at least compared with many other states. The high level of income, coupled with the reduced tax collections, produced a precipitous drop in the tax burden for this state to \$100 in 1981 and the lowest-ever ranking of 39th. However, for the remainder of the 1980's, Washington's tax burden returned to the level of about \$115, and rankings of about 16th were common.

In the 1990's, Washington's tax burden by the income measure declined steadily from \$123 in 1995 to \$111.25 in 1999, and the state's ranking dropped from 11th to 20th.

For the last ten years, Washington's tax burden by the income measure has varied from a high of \$111.99 in 2006 to a low of \$93.34 in 2009, with rankings ranging from 26th to 37th. The Fiscal Year 2005 tax burden ranking of 37th was the second lowest since the tax comparisons have been compiled. For the most recent year, Fiscal Year 2010, Washington's tax burden is \$96.08 resulting in a ranking of 36th.