



Ways & Means  
Committee

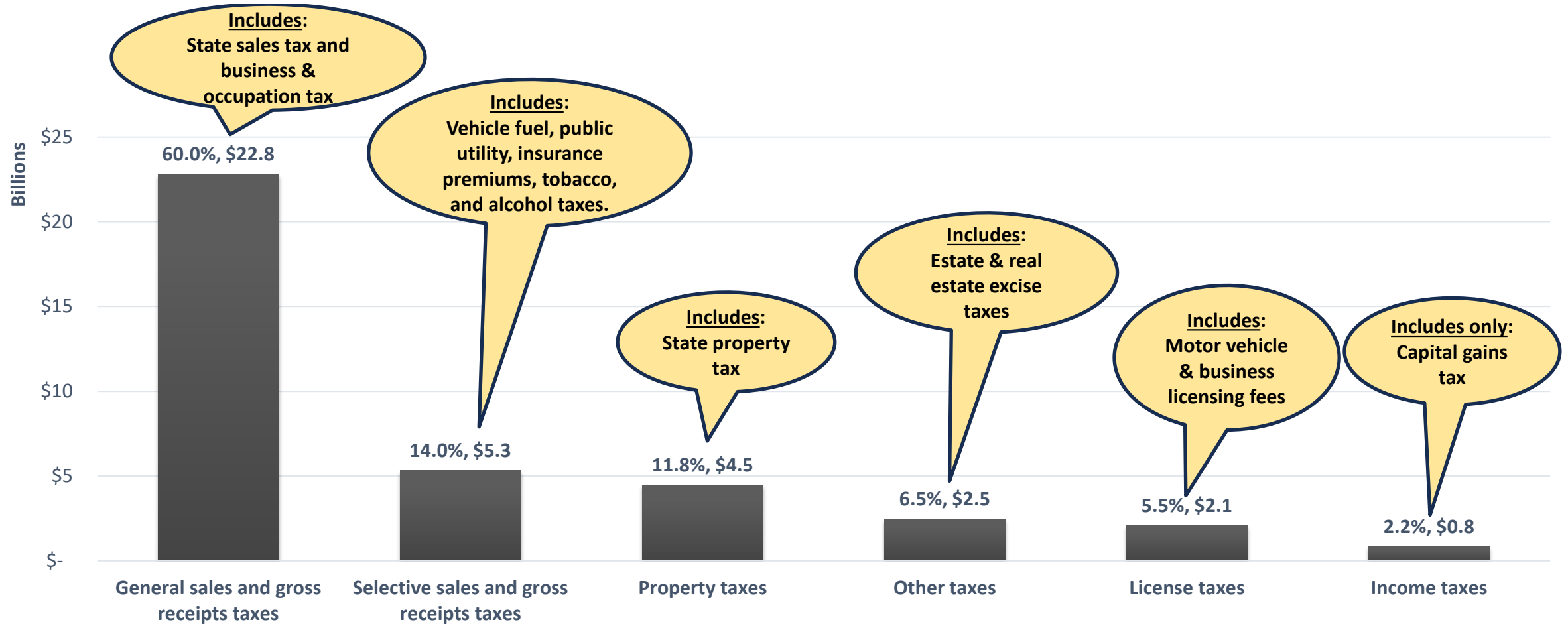
# Overview of Washington's Tax Structure: Highlights & Key Takeaways

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01-20-2025

# State Tax Collections by Tax Category

In FY 2023, Washington collected about \$38 billion in taxes across all budgets – operating, transportation, & capital.

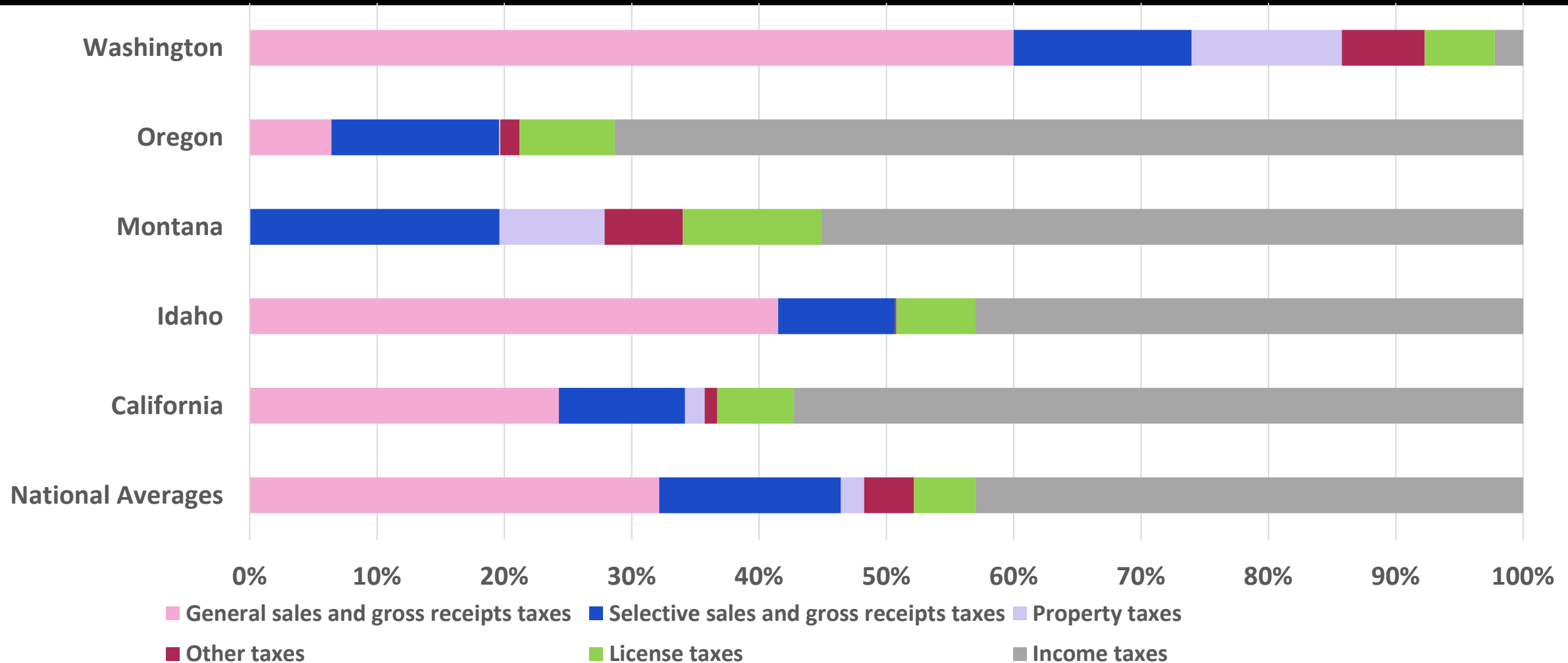


Source: U.S. Census Bureau, 2023 Annual Survey of State Government Tax Collections



# Washington's Tax Structure Compared with Neighboring States and National Averages

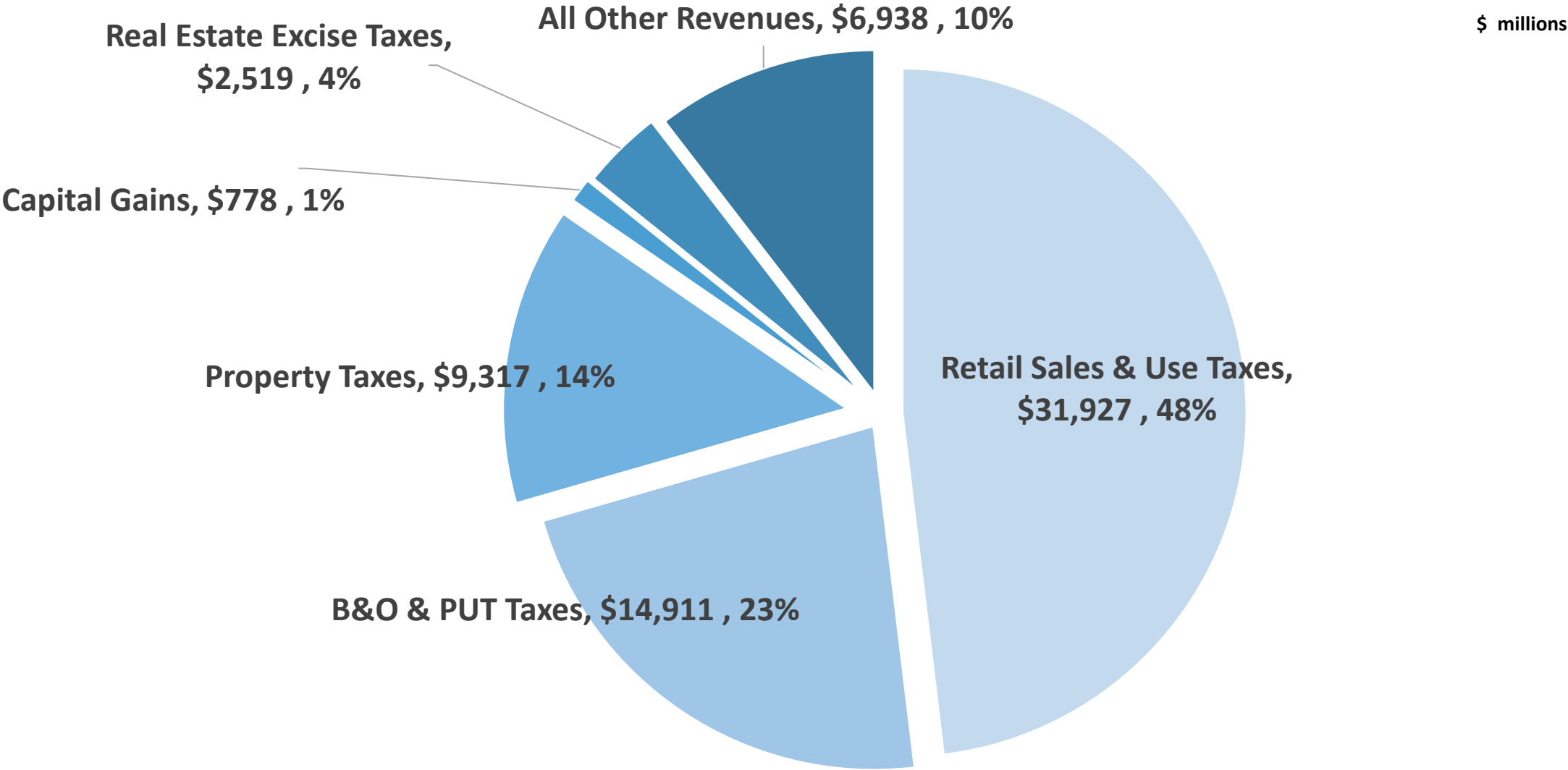
Washington relies extensively on sales and gross receipts taxes in comparison to other states to fund its three budgets.



Source: U.S. Census Bureau, 2023 Annual Survey of State Government Tax Collections



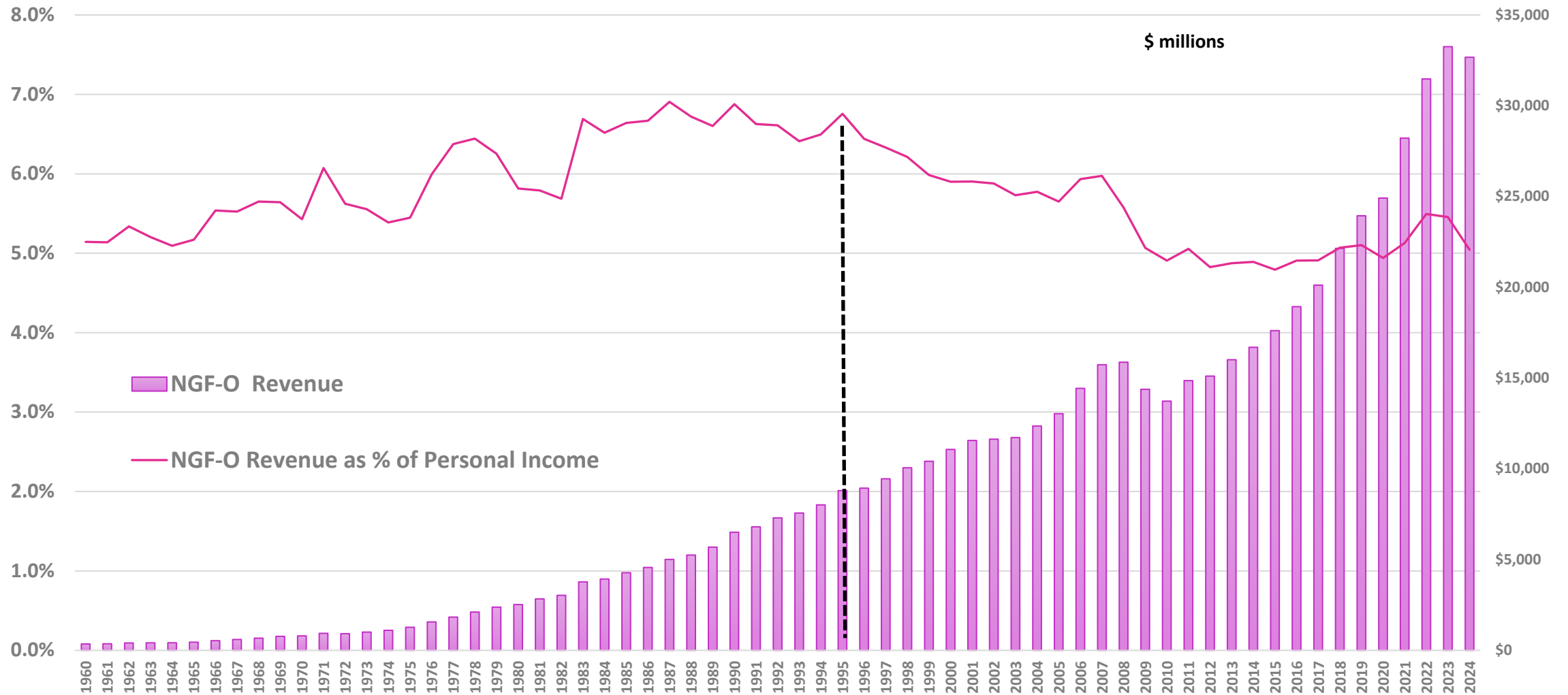
# In the 2023-25 biennium, state NGF-O revenues are estimated to total \$66.4 billion.



Source: Economic & Revenue Forecast Council, November 2024 forecast



# NGF-O Revenues and NGF-O Revenues as a % of Washington Personal Income

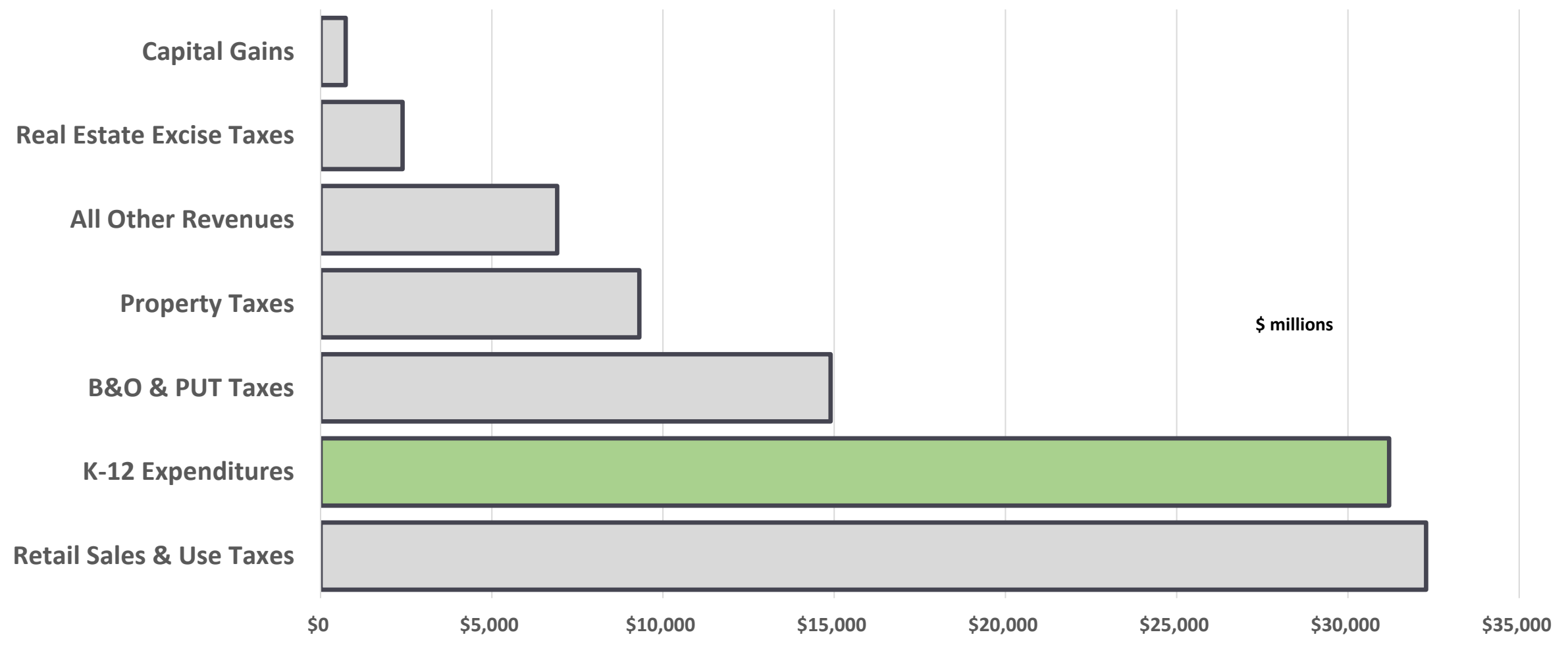


Source: Economic & Revenue Forecast Council



# The Operating Budget's Largest Expenditure Area Compared to Various State Revenue Sources

**In the 2023-25 biennium, forecasted sales and use tax revenue is approximately equal to budgeted (NGF-O) K-12 expenditures.**



Source: ERFC; LEAP Fiscal Reporting System - K-12 expenditure amount based on 2024 supplemental 2023-25 omnibus operating budget, NGF-O expenditures



# State Property Tax (aka State School Levy)

**State revenues:** The state property tax will generate about 14% of total 2023-25 Near General Fund-State revenues

- Estimated to generate about \$9.3 billion this biennium
- Deposited in the General Fund and dedicated to K-12 education

**Tax rate:** For calendar year 2024, the average state property tax rate was \$2.31/\$1,000 of assessed value.

- Example: A home with an assessed value of \$500k would be subject to \$1,155 in state property taxes (500 x \$2.31).
- The maximum statutory rate is \$3.60 per \$1,000.
- The rate was increased by 94 cents to \$2.70/\$1,000 in CY 18 as part of the *McCleary* school funding legislation that was enacted in 2017.

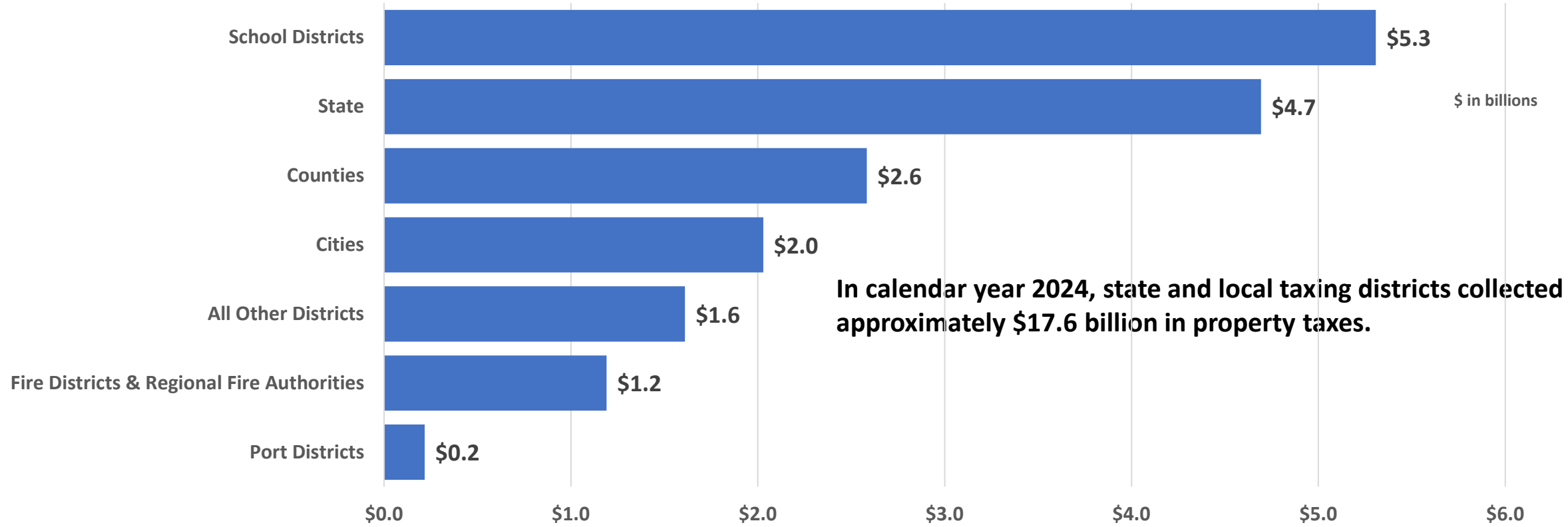
**The statutory levy limit caps annual state property tax growth at 1% plus new construction.**

- The levy limit was suspended for 4 years from 2018 through 2022 as part of the *McCleary* school funding legislation.



# Calendar Year 2024 Property Tax Collections by Taxing District Type

School districts collect the most property taxes of all taxing districts through their enrichment, capital, and debt service levies.



Source: Department of Revenue, 2024 local levy detail

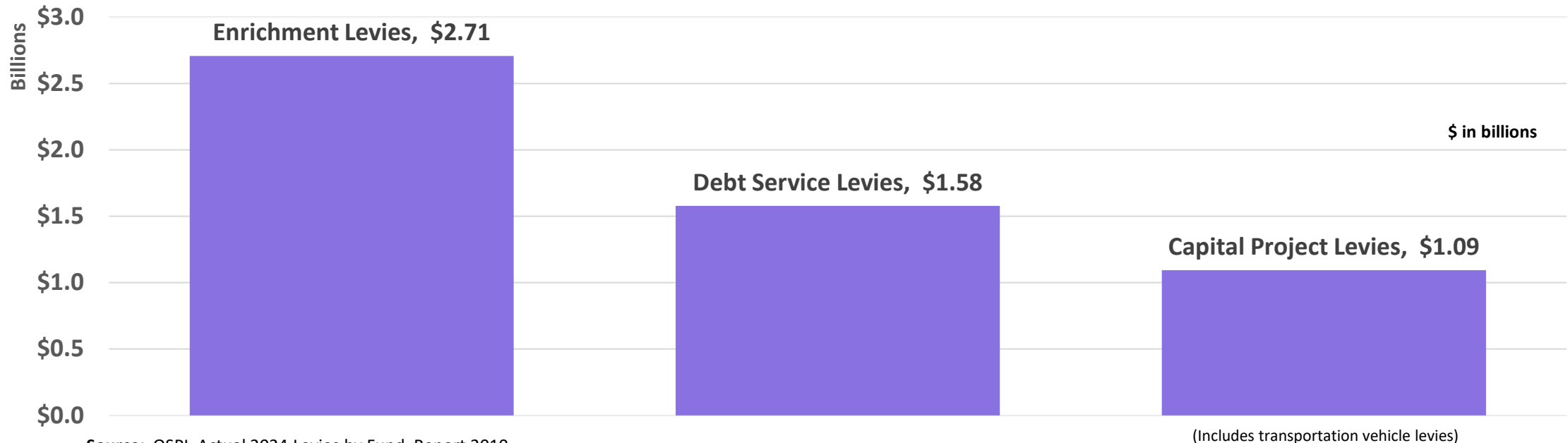




# School District Levies by Fund in Calendar Year 2024

**School districts collected over \$5 billion in local property taxes through 3 primary types of levies, all requiring voter approval.**

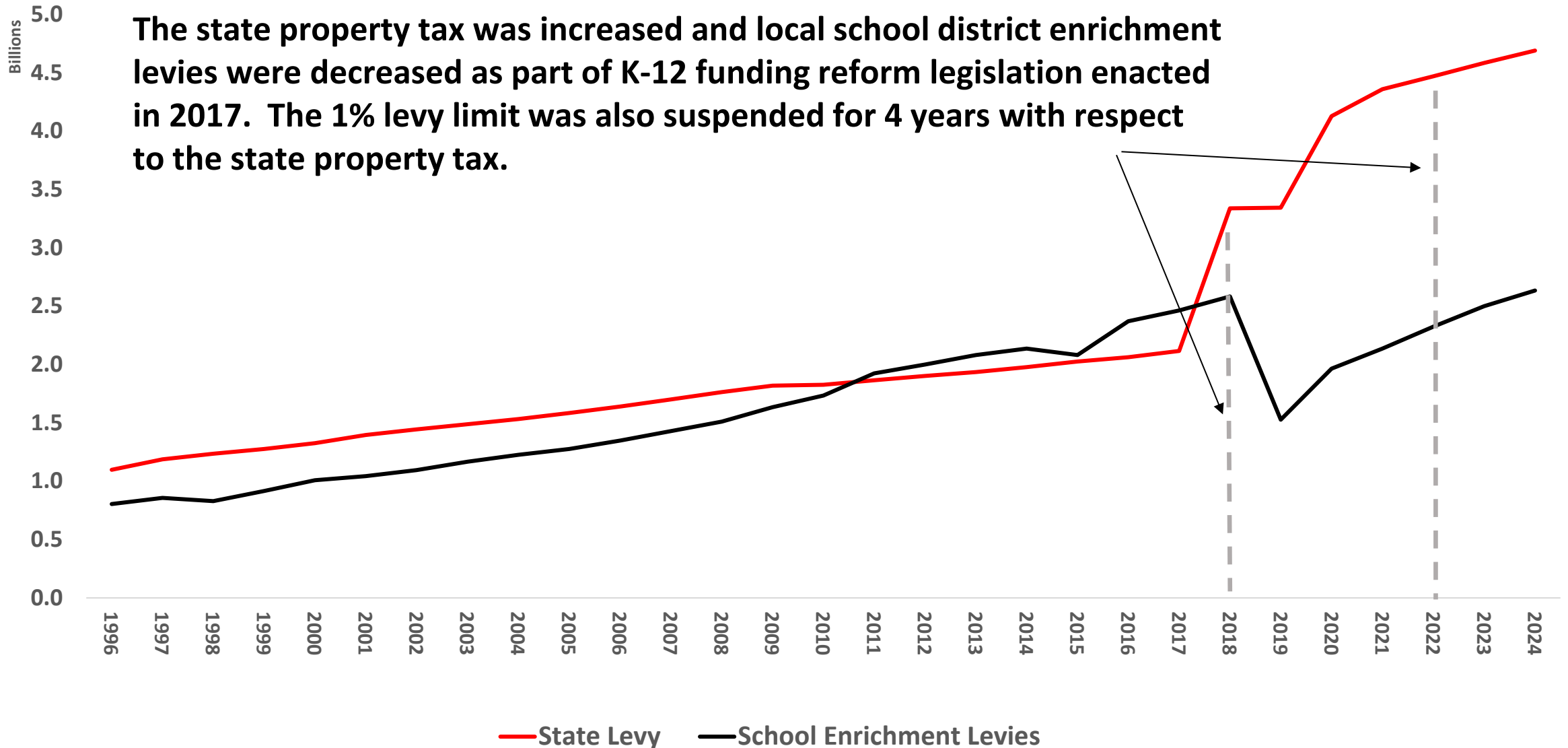
- **Enrichment levies** are 2-year to 4-year, voter-approved levies to fund educational programs and operations not funded by the state's basic education program funding.
- **Debt service levies** are multi-year, voter-approved levies used to pay principal and interest on general obligation bonds sold to finance school construction and remodeling.
- **Capital project levies** are 1-year to 6-year, voter-approved levies used to pay for school construction or remodeling.



Source: OSPI, Actual 2024 Levies by Fund, Report 2010



# State and Local School District Property Tax Collection History



Source: Department of Revenue, State Levy Forecast



# Property Tax – Constitutional Limitations

**There are two primary state constitutional constraints on property taxes:**

## **Uniformity Requirement:**

The Washington Constitution requires that all taxes be uniform upon the same class of property within the boundaries of the taxing district imposing the tax. Additionally, the state constitution requires real estate to be treated as a single class of property.

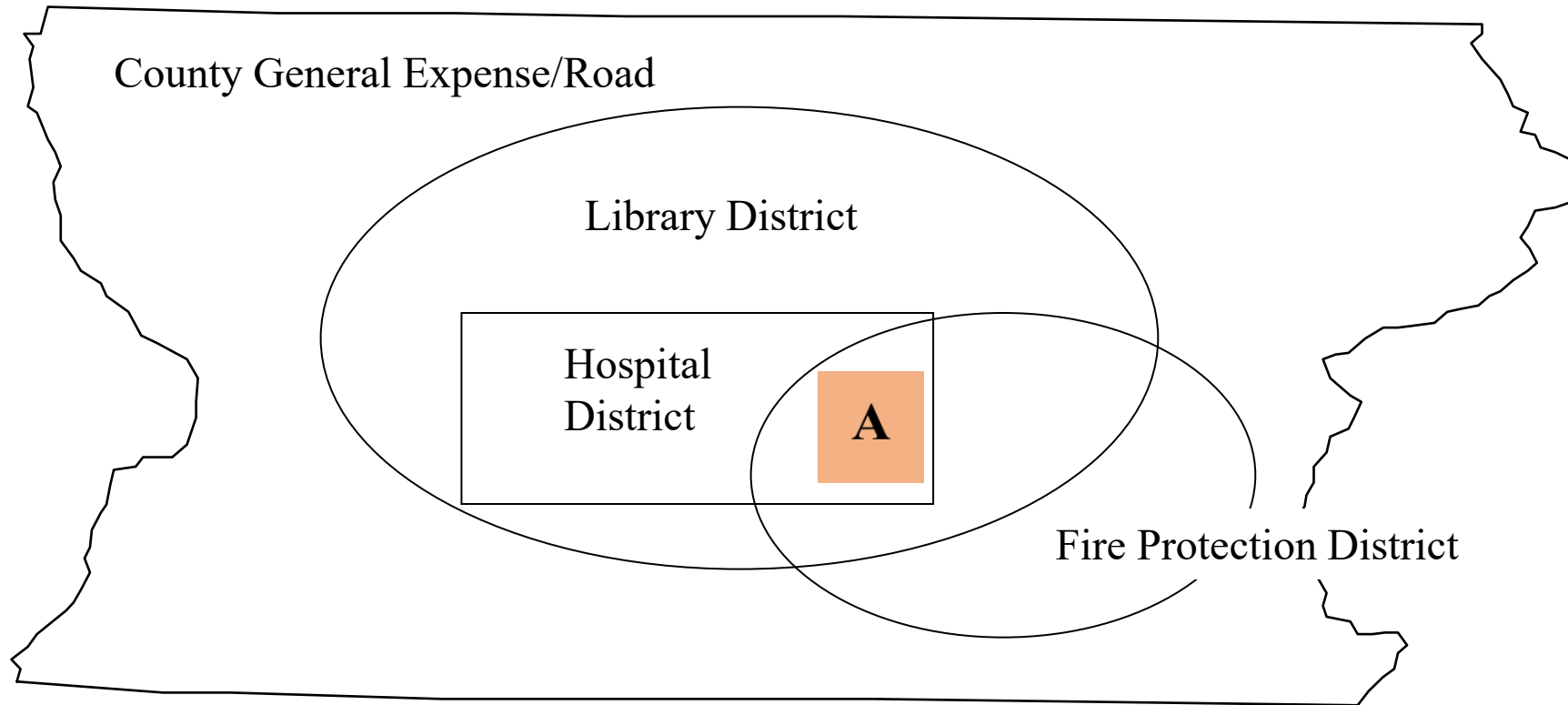
## **1% Constitutional Limit:**

The Washington Constitution limits the annual rate of property taxes that may be imposed on an individual parcel of property to 1% of its true and fair value.

- This essentially creates an aggregate property tax rate cap of 1% (\$10 per \$1,000).
- Voter approved special levies, such as local levies by school districts, are outside of this limit.
- There is a statutory mechanism to either reduce or eliminate levies to stay within the 1% constitutional limit.

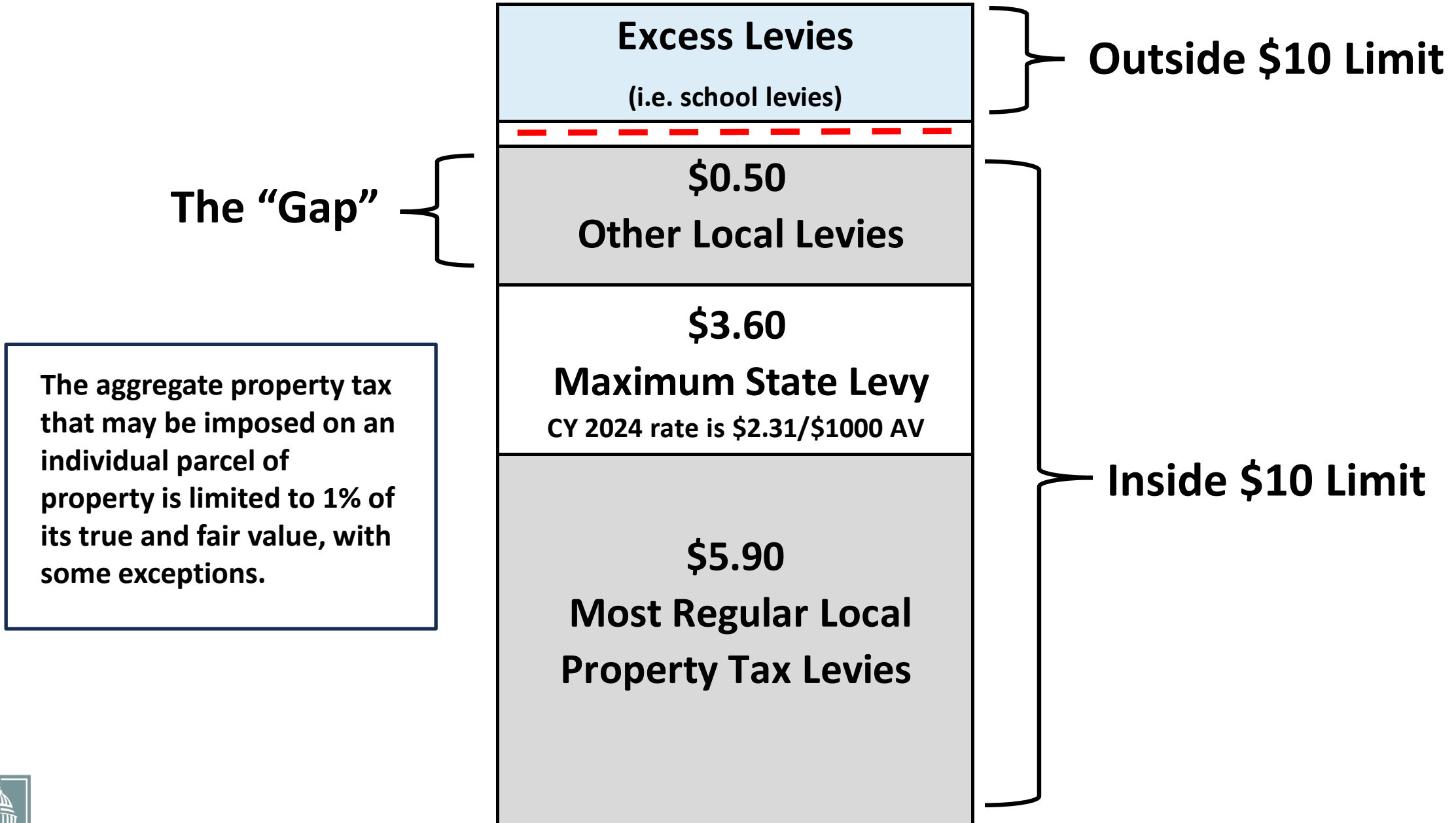


# 1% Constitutional Limit – Overlapping of Taxing Districts



**Area A:** State Property Tax  
County General Expense  
County Road  
Fire Protection District  
Library District  
Hospital District

# How State Law Implements the 1% Constitutional Limit on Property Taxes



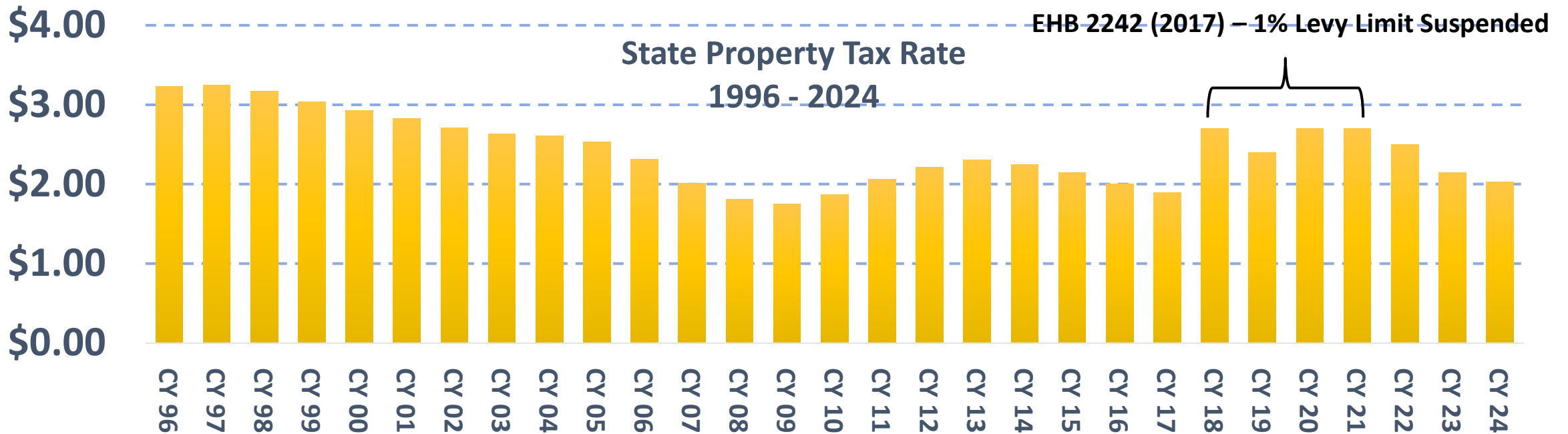
# Statutory 1% Property Tax Levy Limit

## Levy Limit:

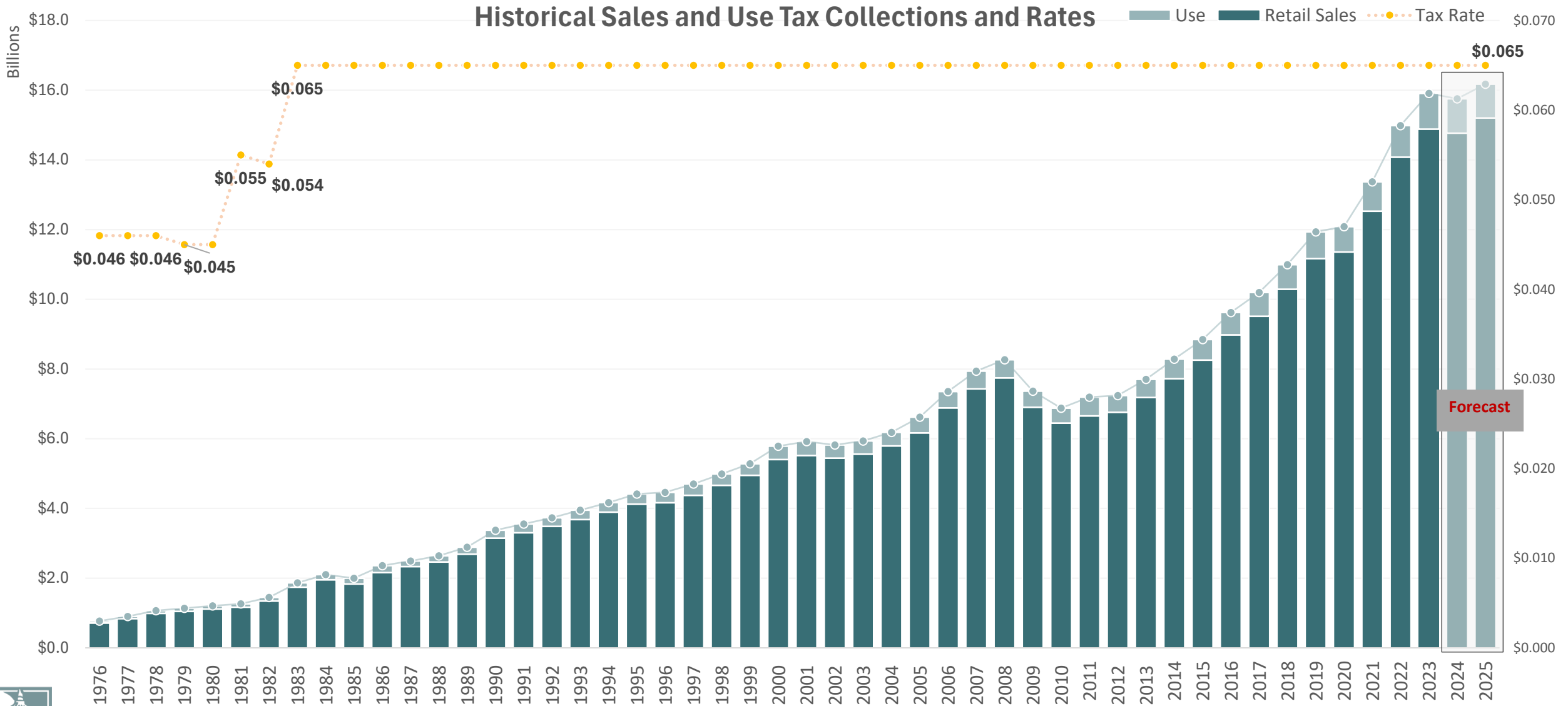
- It limits annual increases in property tax collections by individual taxing districts to 1% plus an additional adjustment for new construction, improvements to property, state assessed utility value increases, and wind turbines, solar, biomass, and geothermal facilities, added to the tax rolls in the past year.
- The levy limit does not apply to local school levies.

## Levy Limit Formula:

- $[\text{Prior Year's Levy Amount} \times 1.01] + [(\text{Assessed Value of New Construction}/1000) \times \text{Prior Year's Levy Rate}]$



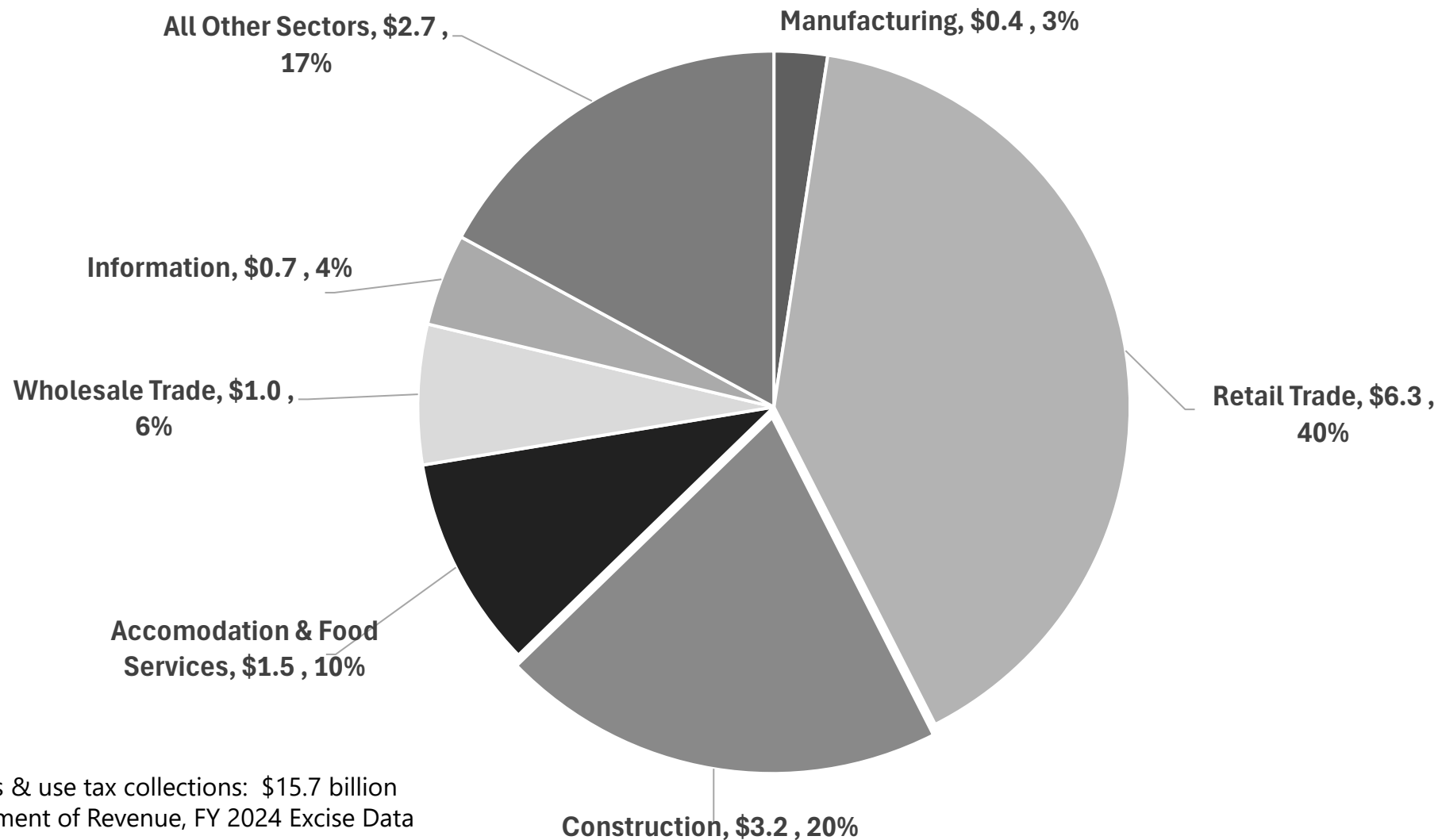
# Imposed since the 1930s, the state sales and use tax is Washington's largest revenue source. Washington last increased the general state sales tax rate in 1983.



Source: Department of Revenue, Historical Tax Collections

# Sales and use taxes are primarily derived from the sale of tangible personal property, but certain services such as construction contribute significantly to the tax base.

## Sales and Use Tax Collections by Sector, FY 2024



### Notes:

- \$ in billions
- Total FY 24 sales & use tax collections: \$15.7 billion
- **Source:** Department of Revenue, FY 2024 Excise Data





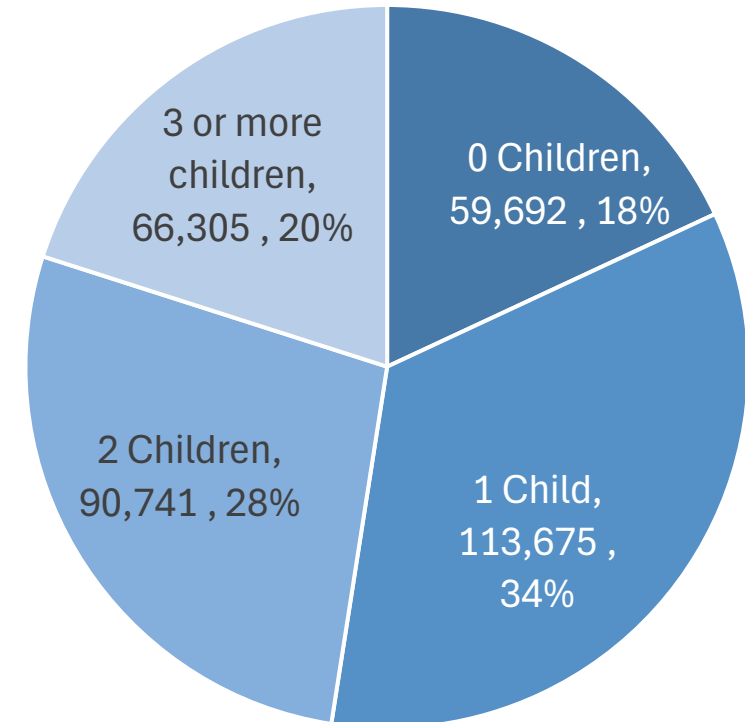
# NEW: The Working Families Tax Credit Program is a sales tax refund program.

- The **Work Families Tax Credit (WFTC)** was enacted in 2021 in ESHB 1297 and first implemented in 2023.
  - Approved applications: 131,359 in FY 2023 and 194,737 in FY 2024
  - Actual payout amounts: \$94.9 million in FY 2023 and \$145.5 million in FY 2024

### WFTC Eligibility, Calendar Year 2024

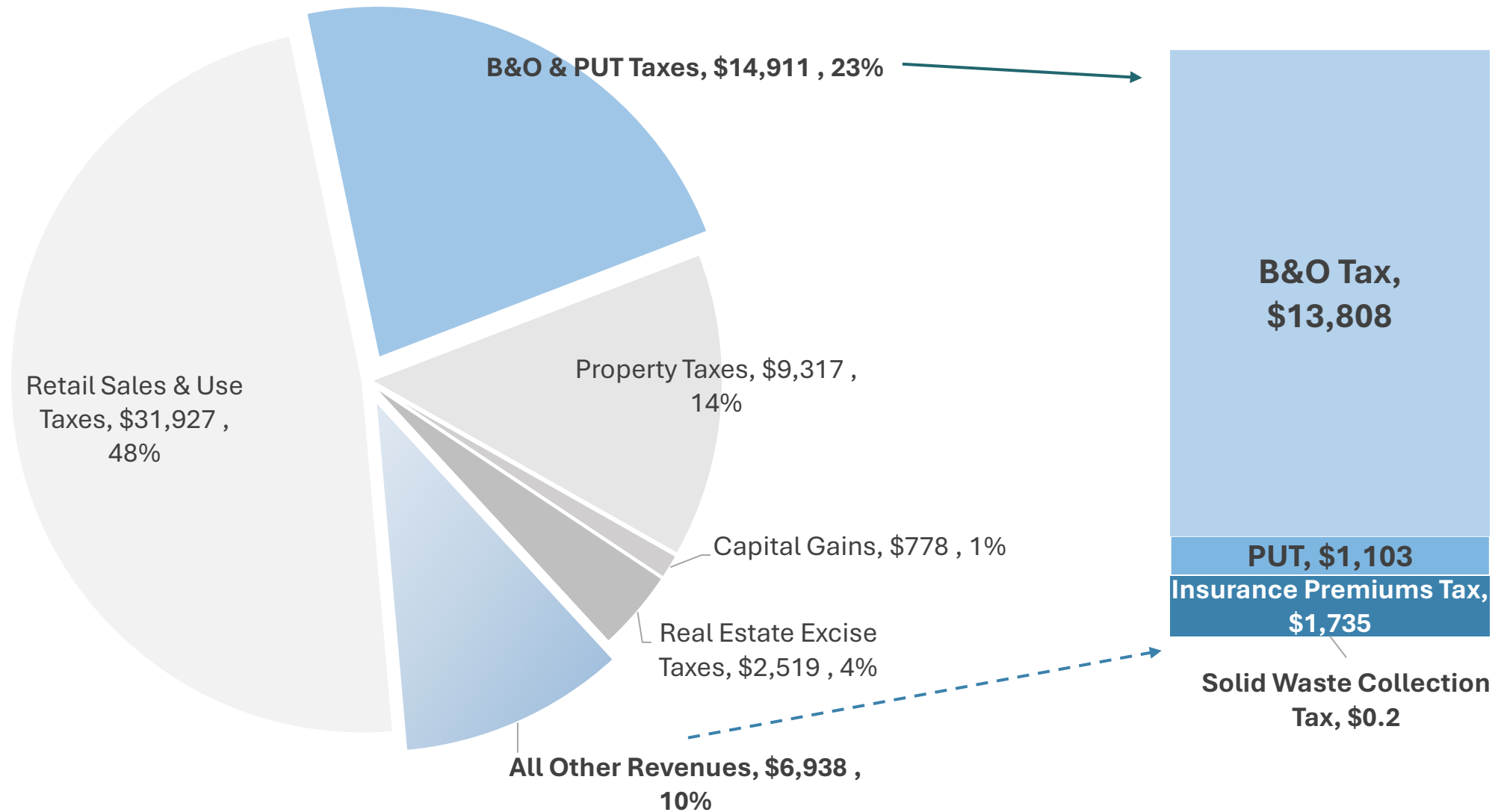
Number of qualifying children	Applicant must make less than the following in 2024		Maximum credit amount
	Single	Married (filing jointly)	
0	\$18,591	\$25,511	\$325
1	\$49,084	\$56,004	\$640
2	\$55,768	\$62,688	\$965
3	\$59,899	\$66,819	\$1,290

### Approved Applications by Number of Children, FY 2023 and FY 2024



# Taxes Levied Specifically on Businesses

State NGF-O Revenues, the 2023-25 Biennium



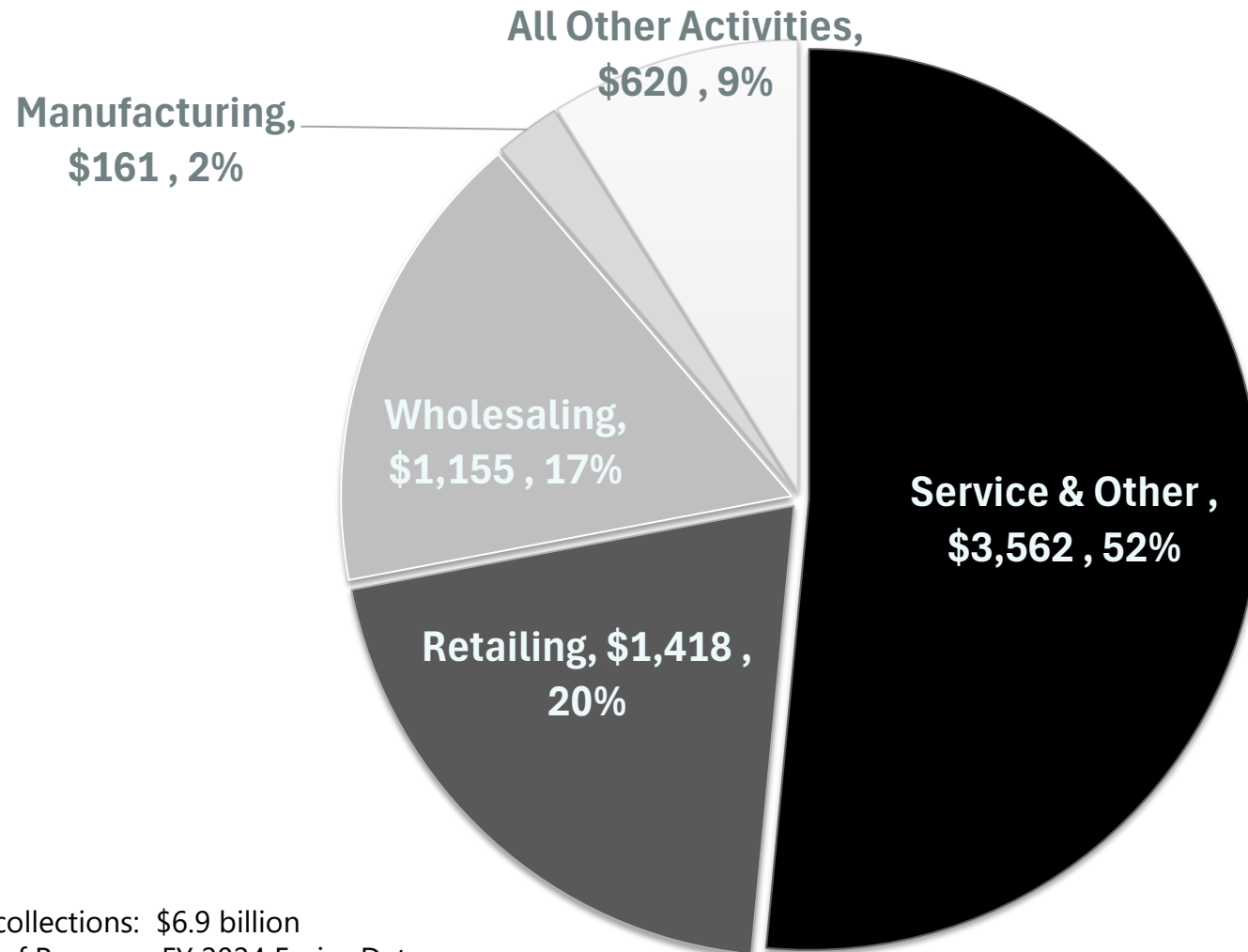
**Notes:**

- \$ in millions
- **Source:** Economic & Revenue Forecast Council, November 2024 forecast



# Business and Occupation (B&O) taxes are imposed on the specific business activity of the taxpayer.

B&O Tax Revenues by Taxable Activity, FY 2024



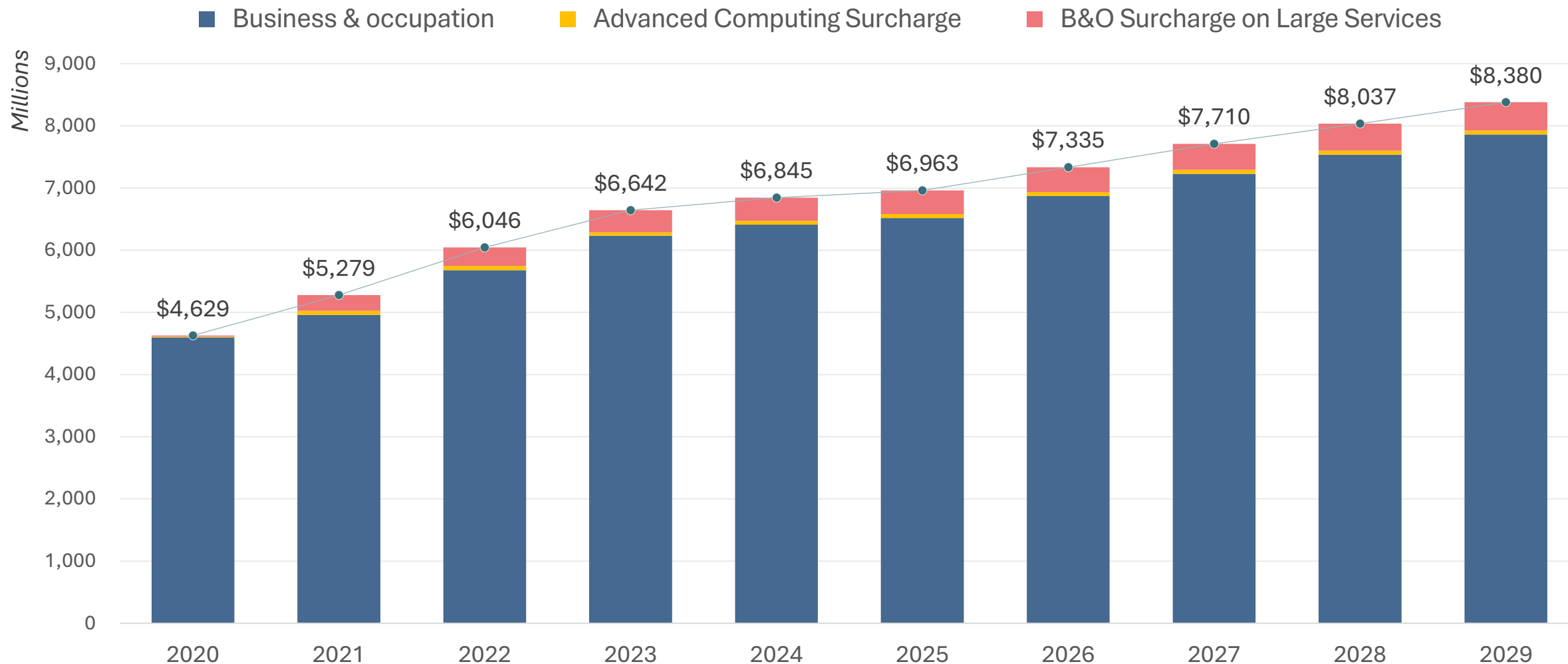
Notes:

- \$ in millions
- Total FY 24 B&O tax collections: \$6.9 billion
- **Source:** Department of Revenue, FY 2024 Excise Data



# Legislation enacted in 2020 increased the B&O tax, with revenues deposited into a new Workforce Education Investment Account.

## Historical and Forecast B&O Tax Revenues, \$ in millions

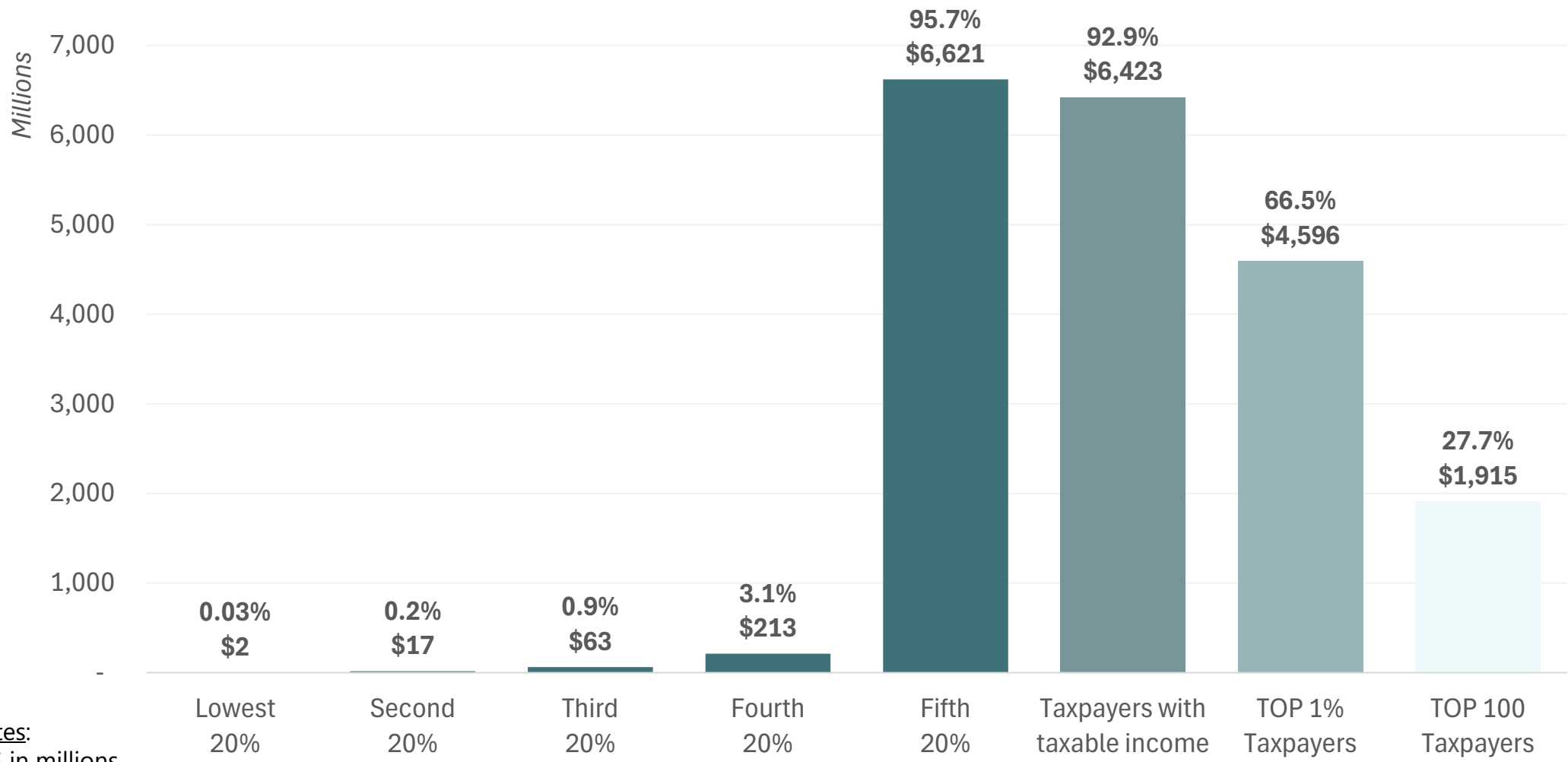


Source: Economic & Revenue Forecast Council, November 2024 forecast



# A small number of large taxpayers account for a substantial portion of B&O tax collections.

FY 2024 B&O Tax Revenues by Quintile, \$ in millions



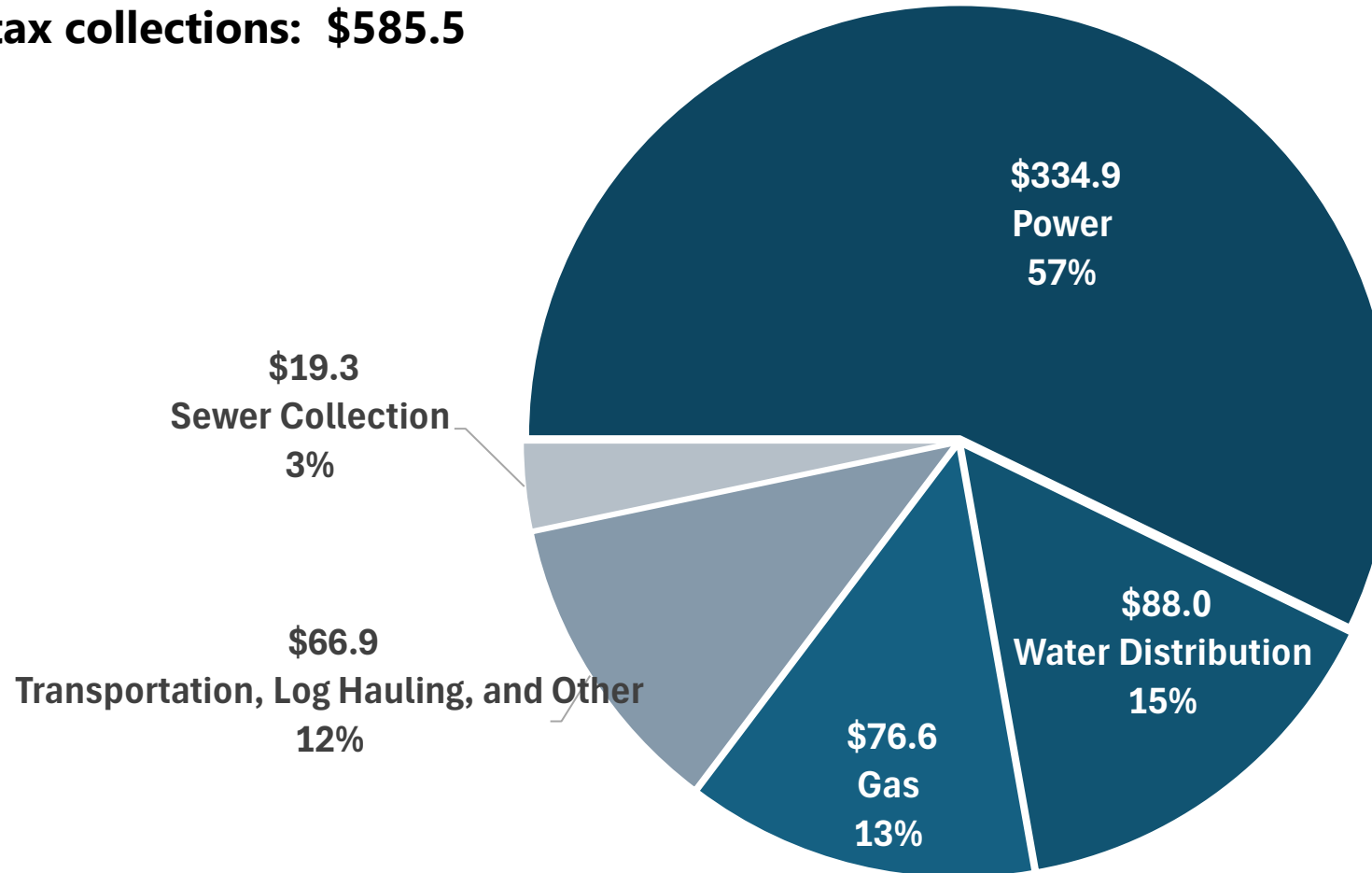
- Notes:**
- \$ in millions
  - Total FY 24 B&O tax collections: \$6.9 billion
  - Total number of taxpayers: 374,506
  - **Source:** Department of Revenue, FY 2024 Excise Data



The Public Utility Tax is in lieu of B&O tax. It is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of energy, natural gas, and water.

Public Utility Tax Collections by Activity, FY 2024

**Total FY 24 PUT tax collections: \$585.5**  
\$ in millions

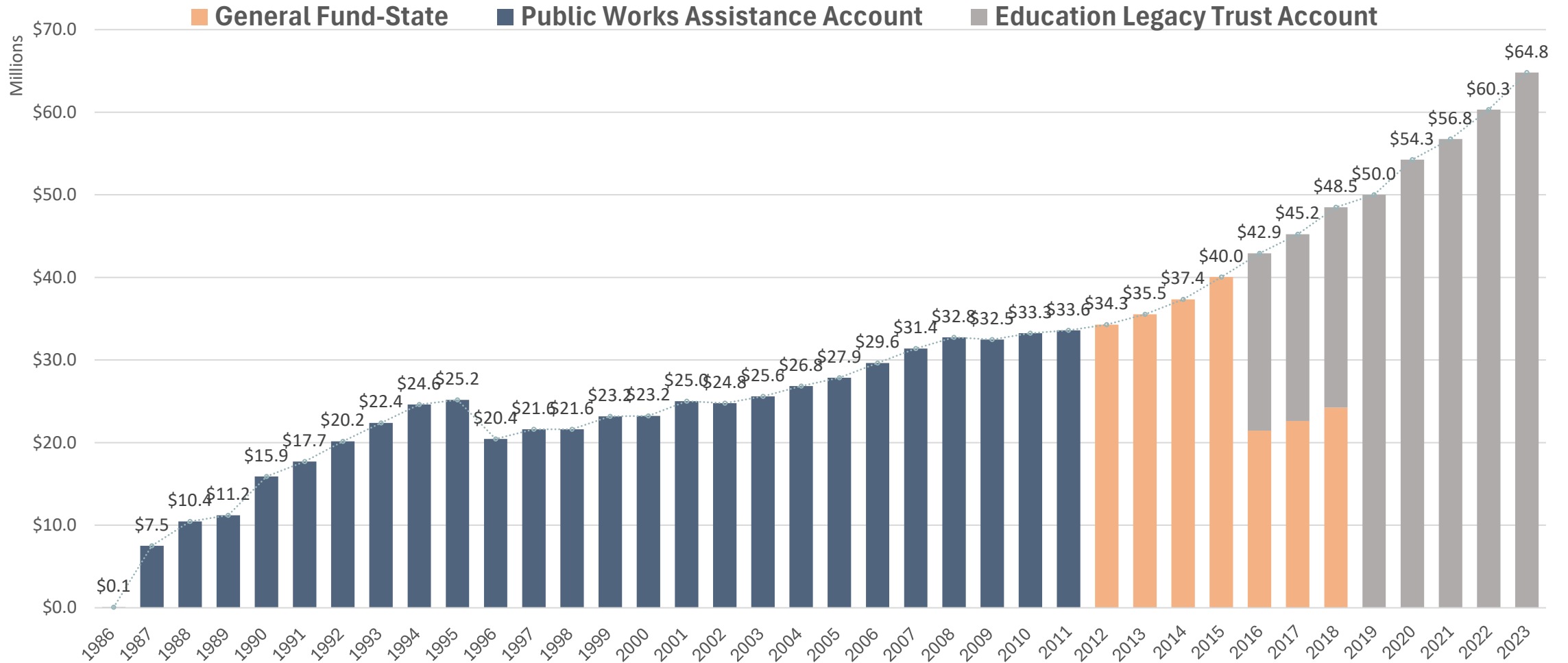


Source: Department of Revenue, FY 2024 Excise Data



# Garbage collection activities were originally included in the PUT. In 1986, it was established as a separate tax, now called the Solid Waste Collection Tax.

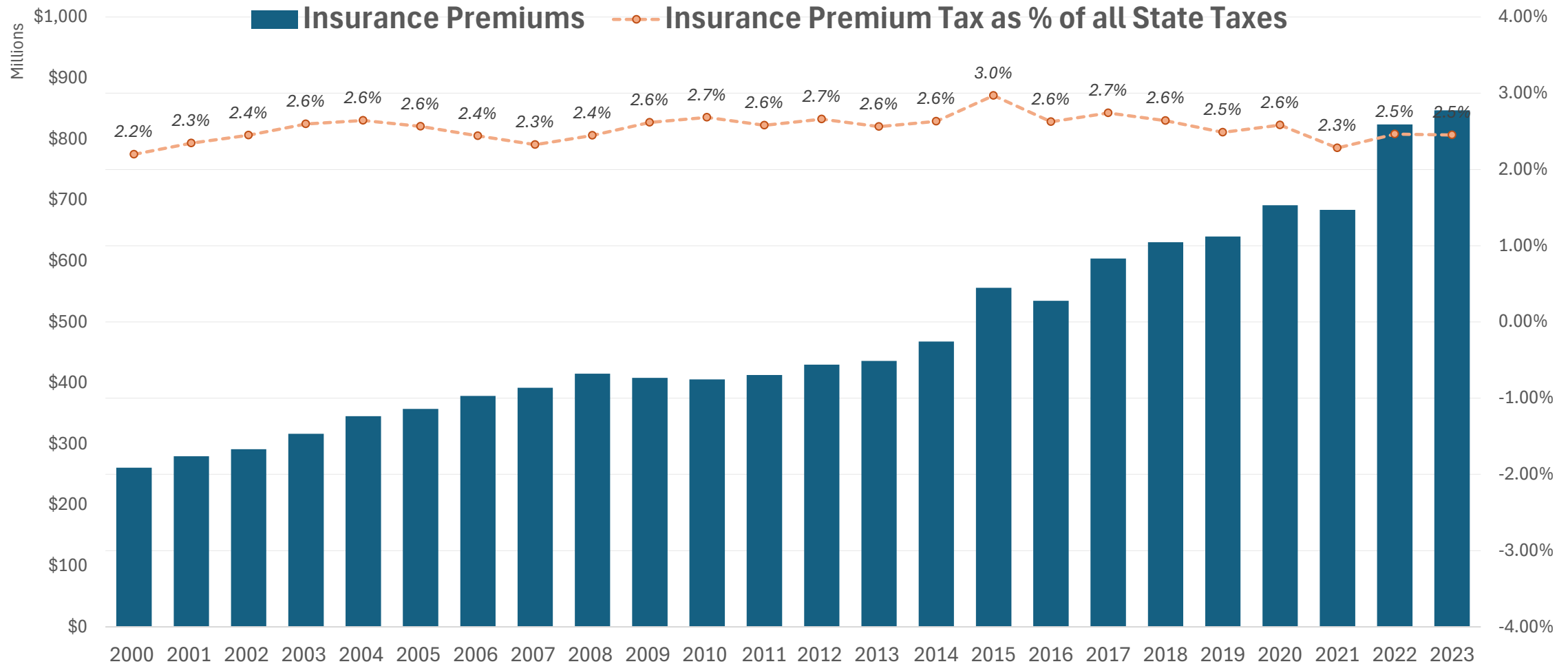
Historical Solid Waste Tax Collections



Source: Department of Revenue, Historical Tax Collections

# The insurance premiums tax is a 2% tax in lieu of the B&O tax imposed on the total amount of premiums that insurance companies collect from selling insurance policies.

## Insurance Premiums Tax



Source: Department of Revenue, Historical Tax Collections



# Selective Consumption Taxes

## Selective consumption taxes apply to specific products rather than a broad range of goods.

- Examples include the real estate excise tax, cannabis excise tax, vapor products tax, cigarette and tobacco taxes, and alcohol taxes.
- In most cases, these taxes are separate and in addition to sales and use taxes.
- Selective consumption taxes may be used to deter consumption, as well as raise revenue.
- Revenue collections from selective consumption taxes tend to represent a smaller portion of the Near General fund.



# Washington imposes a graduated tax on real estate sales.

All sales of real property in the state are subject to the real estate excise tax (REET) unless a specific exemption applies.

In 2020, the state transitioned to a graduated REET structure with rates adjusted for inflation every four years.  
Rates as of January 1, 2023:

	Sale Price Thresholds	Tax Rate
Tier 1	\$525,000 or less	1.10%
Tier 2	\$525,000.01 - \$1,525,000	1.28%
Tier 3	\$1,525,000.01 – 3,025,000	2.75%
Tier 4	\$3,025,000.01 or more	3%

In the 2023-25 biennium, REET is estimated to generate about \$2.5 billion - making it the state's fourth largest tax revenue source.

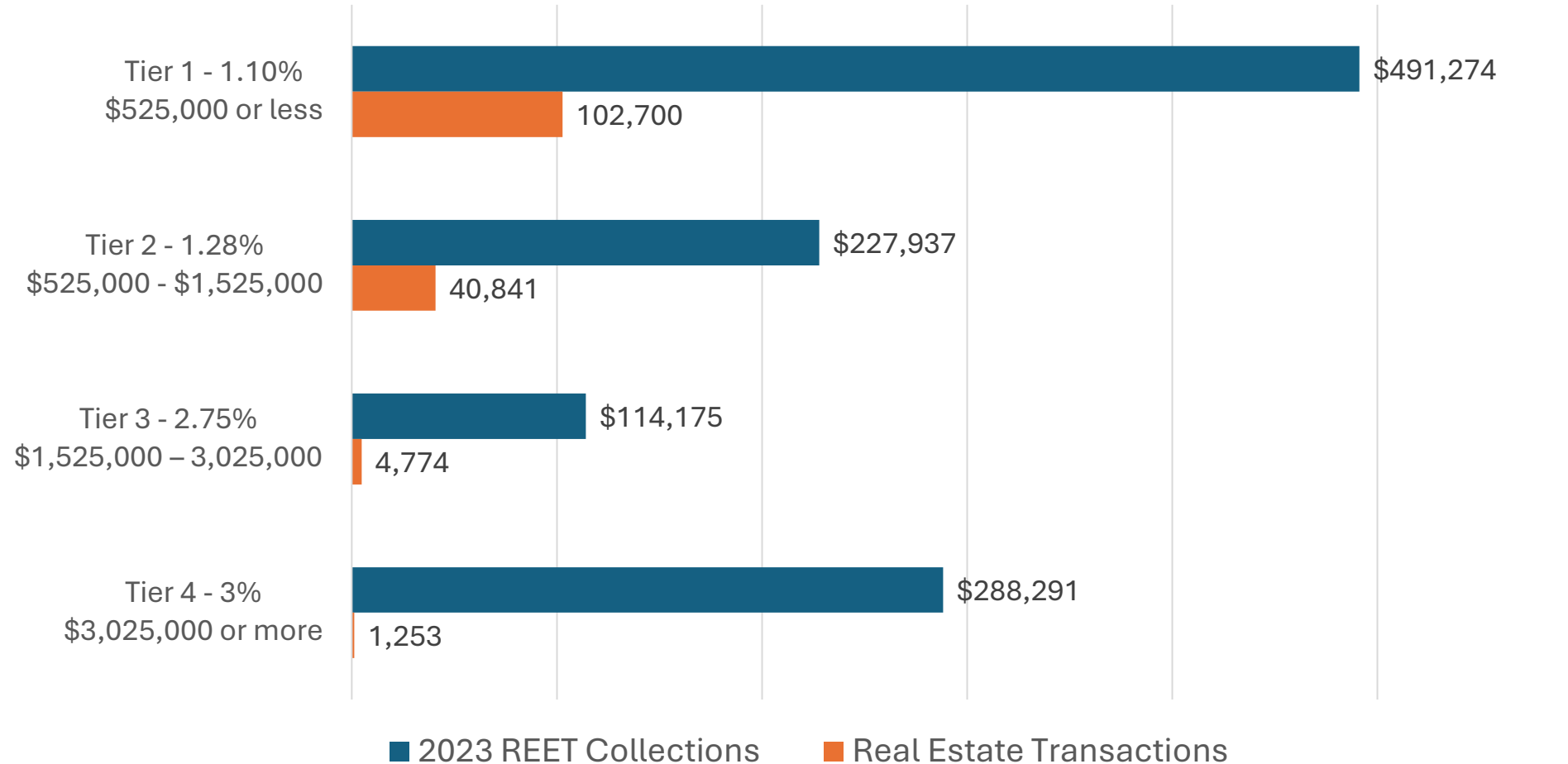
## REET revenues are distributed as follows:

- 5.2 percent to the public works assistance account.
- 1.4 percent to the city-county assistance account.
- 14 percent to the educational legacy trust account.
- 79.4 to the general fund.



# Real Estate Excise Tax Transactions by "Tier"

Tier 4 makes up over 25 percent of REET collections but only 1 percent of REET transactions.



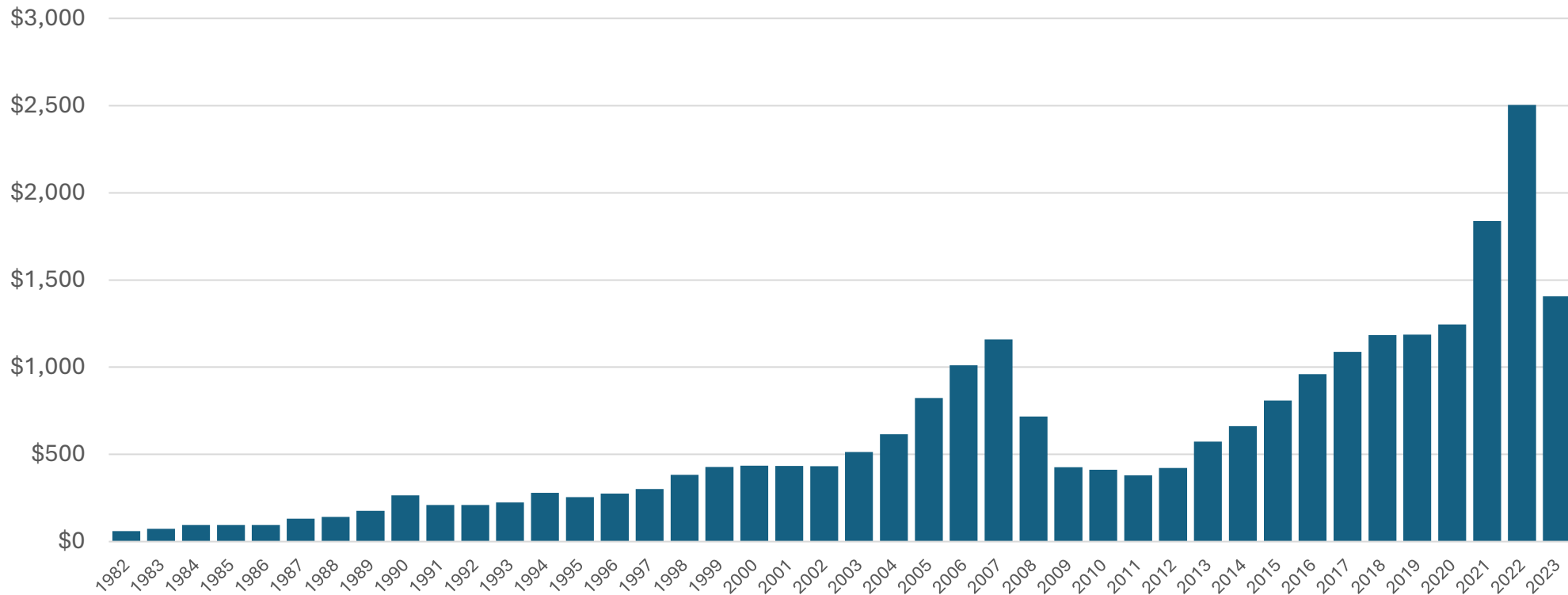
Source: Department of Revenue, Research & Fiscal Analysis, November 2024



# Real Estate Excise Tax Collection History

Fluctuations in the housing market make REET a relatively volatile revenue source.

Annual Real Estate Excise Tax Collections  
\$ in millions



Source: Data compiled from Table 2 of Department of Revenue Tax Statistics



# Cannabis Excise Tax

## **Washington legalized recreational production, processing and sales of cannabis in 2012 with the passage of initiative 502.**

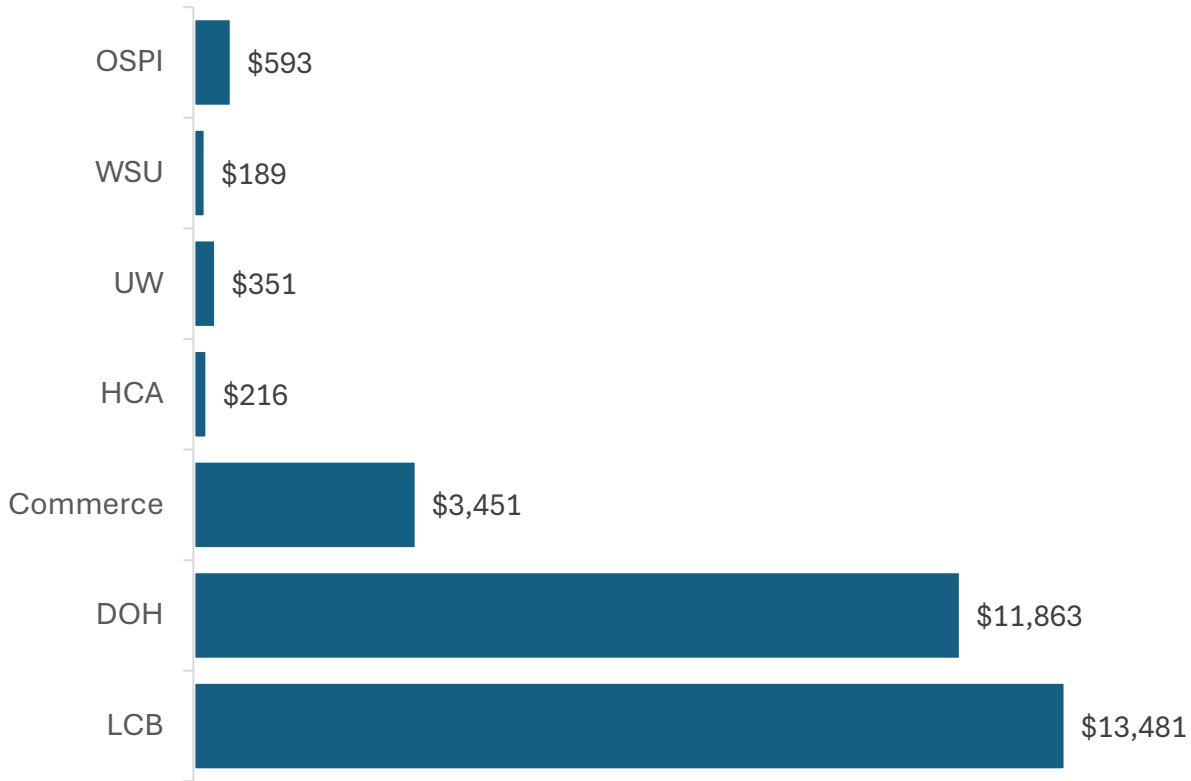
- Retail sales of cannabis products are subject to a 37% excise tax. The tax applies only to the final consumer.
- Most cannabis sales are also subject to state and local sales taxes, and cannabis businesses are subject to business and occupation taxes.
- Exemptions exist for the sale of certain medical cannabis products and high CBD/low THC products.
- The excise tax is administered by the Liquor and Cannabis Board.

## **Cannabis excise taxes are estimated to generate \$1.1 billion in the 2023-25 biennium.**

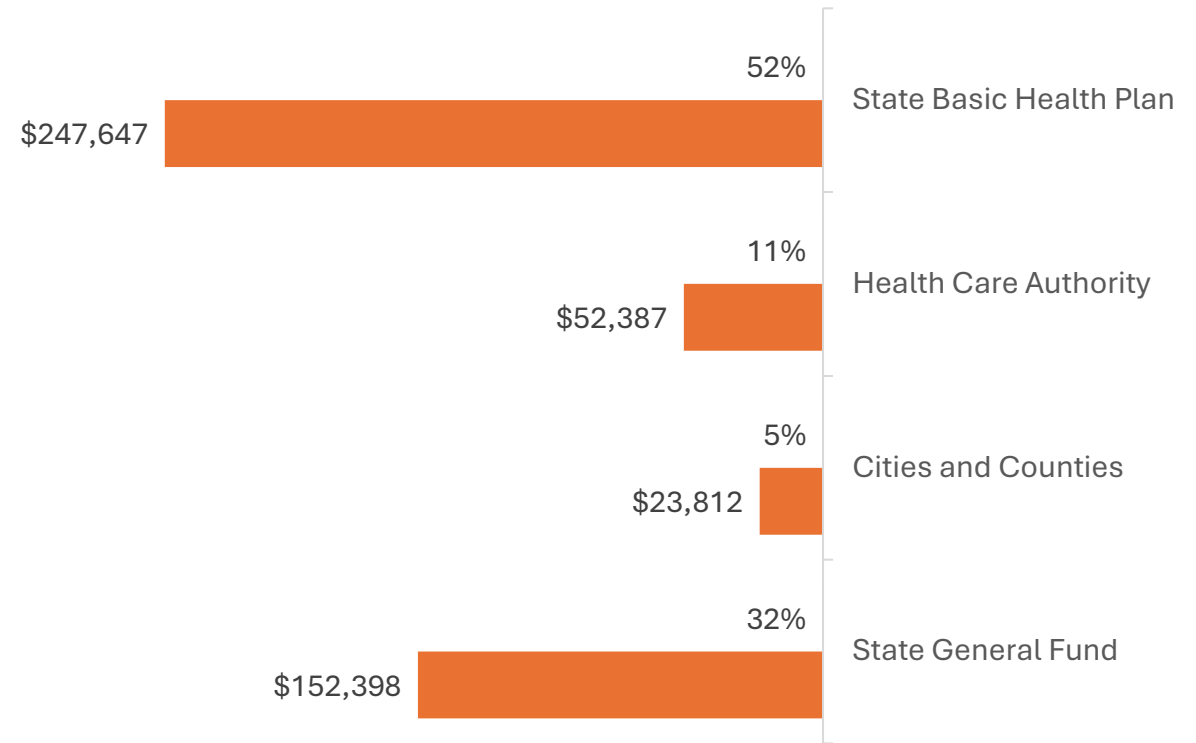
- \$259.6 million is deposited into the state General Fund comprising about 0.4 percent of state Near General Fund revenues.

# All revenue from the cannabis excise tax is deposited into the Dedicated Cannabis Account.

Distributions are first made in fixed amounts to various state agencies and universities.



The remaining amount is then divided up by percentages and distributed to the Health Care Authority, cities and counties, and the state general fund.



Fiscal year 2024 cannabis revenue distributions pursuant to RCW 69.50.540.

\$ in millions

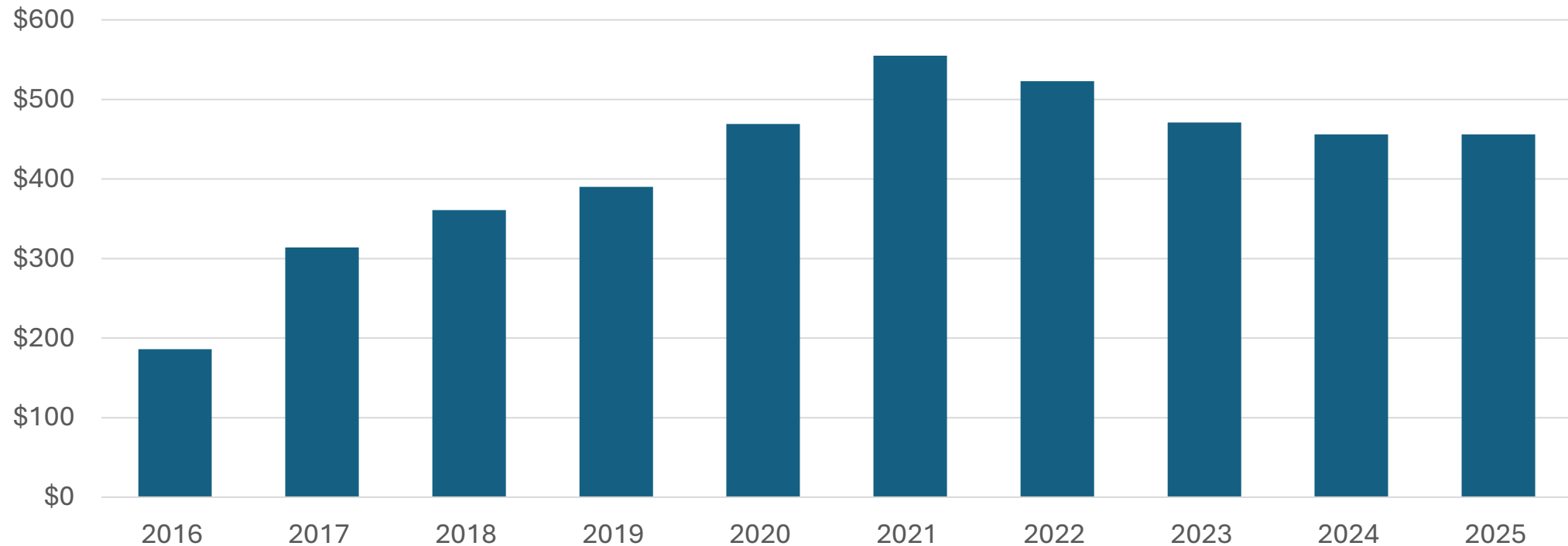


# Cannabis Excise Tax Collection History

Cannabis excise tax collections steadily increased year-over-year for the first five years of collections.

## Annual Cannabis Excise Tax Collections

\$ in millions



Source: Data compiled from Table 2 of Department of Revenue Tax Statistics



# The vapor products tax has been imposed since October 1, 2019.

**The tax is paid by the first person to possess the vapor product in Washington and is in addition to retail sales and use taxes.**

- Applies to vapor products, including electronic cigarettes, electronic cigars, electronic cigarillos, electronic pipes, or similar products or devices.
- Vapor products do not include tobacco cessation products, marijuana, cigarettes, or tobacco products.

**There are two vapor products tax rates, depending on the volume of solution and type of container:**

- \$0.09 cents per milliliter of solution for accessible containers of solution greater than five milliliters; or
- \$0.27 cents per milliliter for all other vapor products.

**The vapor products tax is estimated to generate \$43 million in the 2023-25 biennium.**

- None of the revenue is deposited in the state Near General Fund.
- Revenues from the tax are deposited evenly into the Foundational Public Health Services Account and the Andy Hill Cancer Research Endowment Fund Match Transfer Account.

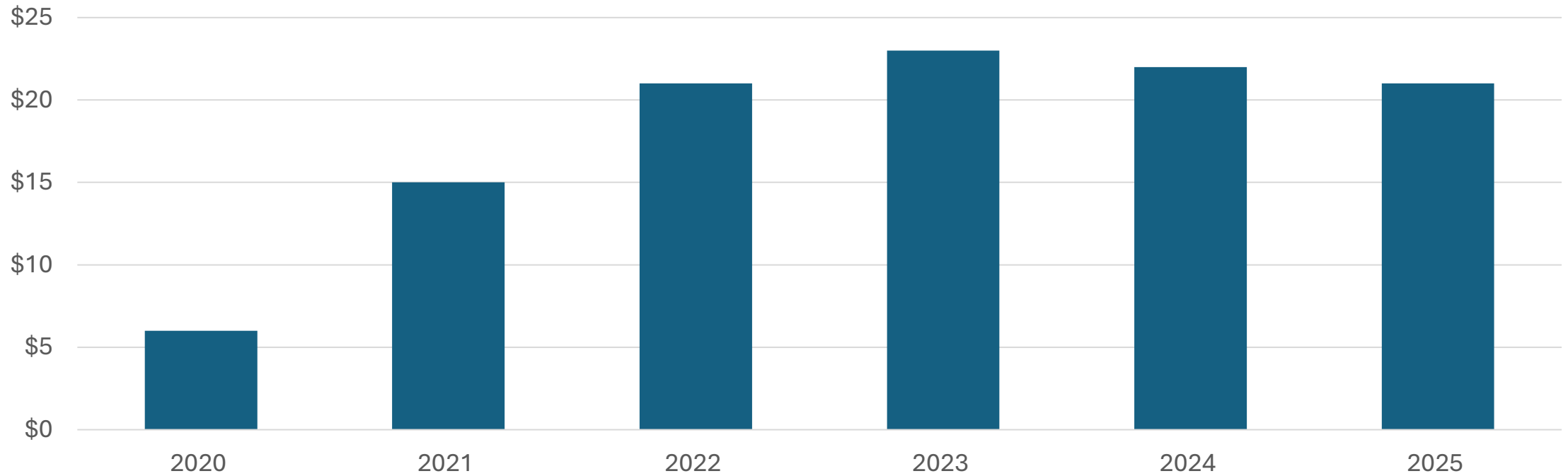


# Vapor Products Tax Collection History

Vapor product tax collections are forecasted to remain consistent over the next biennium.

## Annual Tax Collections on Vapor Products

\$ in millions



Source: Data compiled from Table 2 of Department of Revenue Tax Statistics



# Taxes on Cigarette and Other Tobacco Products

**Washington taxes the sale, use, consumption, handling, possession, or distribution of cigarettes and other tobacco products.**

- The tax is imposed on the first taxable event that occurs within the state.
- Taxes on cigarettes and tobacco products are added directly to the price of these goods before the sales tax is applied.

Cigarettes	Other Tobacco Products
\$3.025 per pack of 20 cigarettes	Cigars: 95% of taxable sales price, not to exceed \$0.65 per cigar Moist snuff: \$2.105 or \$2.526 per can, depending on product net weight All other tobacco products: 95% of taxable sales price

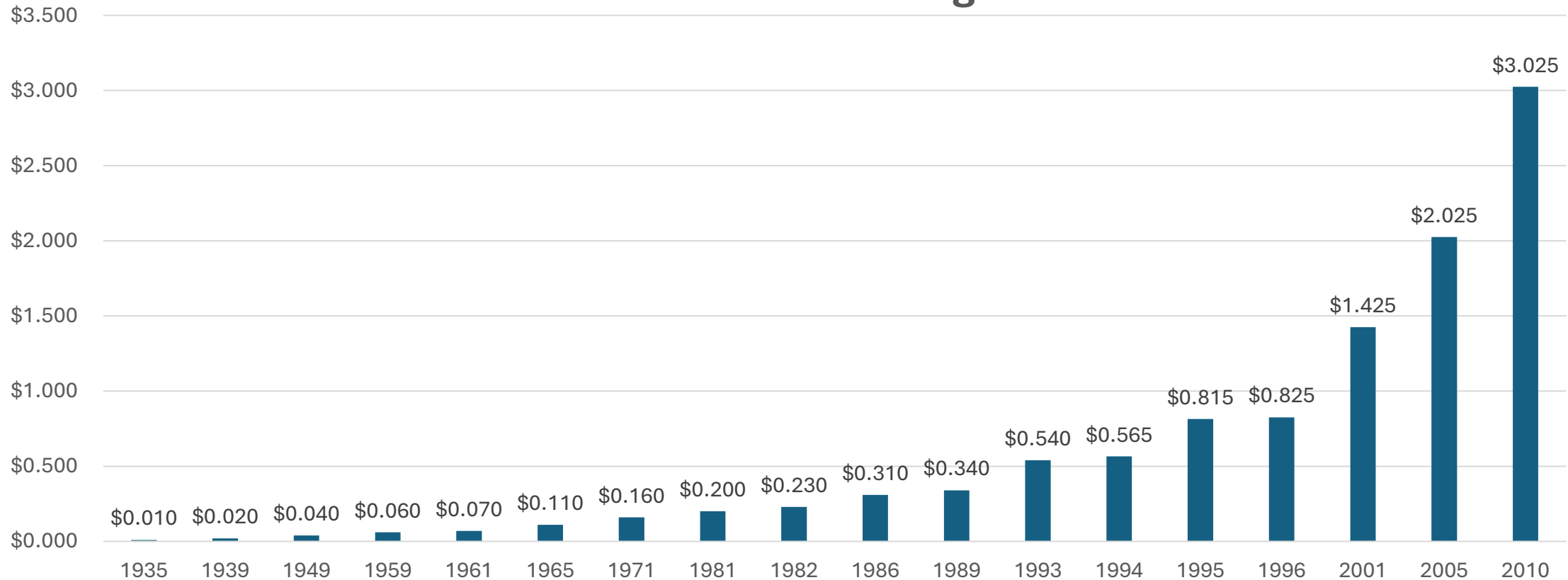
**The cigarette and tobacco products taxes are estimated to generate \$586 million in the 2023-25 biennium.**

- Most is generated from the cigarette tax which is estimated to generate \$496 million in the 2023-25 biennium.
- All revenues are deposited into the state general fund (comprising 0.9 percent of NGFO revenues).

# Historic Cigarette Tax Rate Increases

The cigarette tax was last increased in 2010 – bringing the rate to \$0.15125 per cigarette or \$3.025 per package of 20.

## Tax Rate Per Pack of Cigarettes

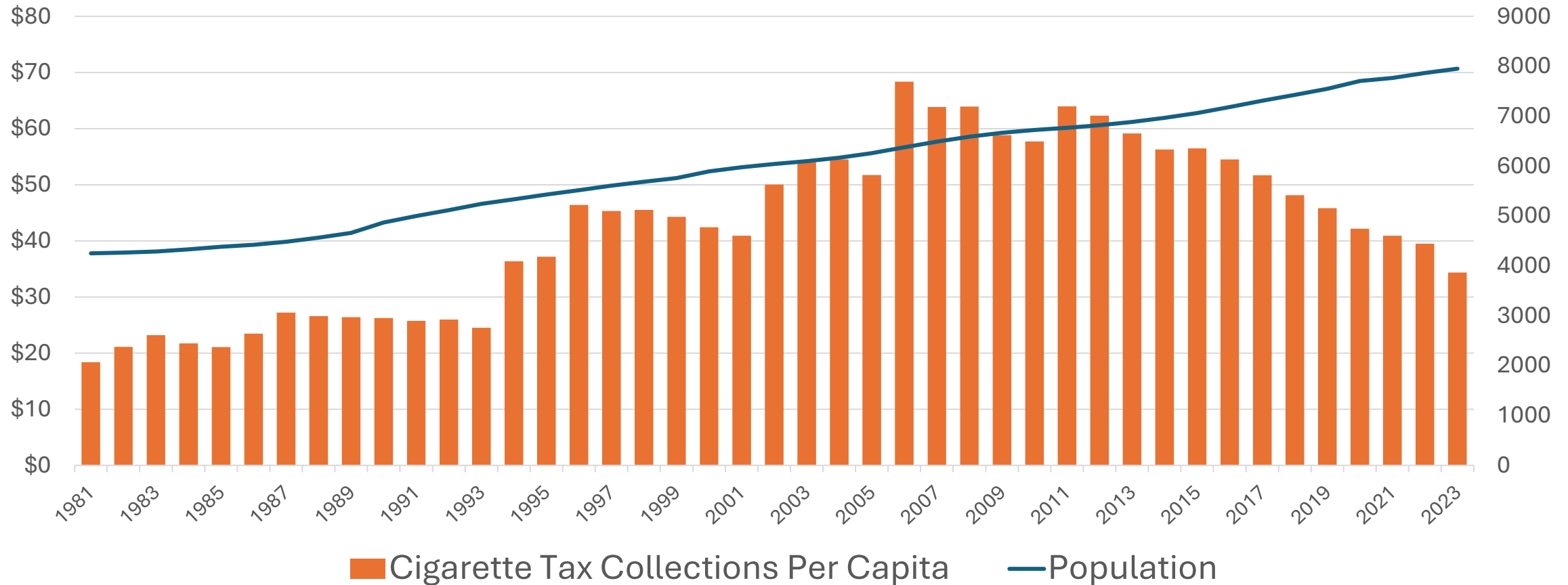


Source: Department of Revenue Tax Reference Manual, Published August 2023



# Cigarette tax collections are trending downward.

## Per Capita Cigarette Tax Collections Per 1,000 People



Source: Department of Revenue Tax Statistics; Office of Financial Management Forecasting and Research Division, Postcensal Estimates of April 1 Population



# Liquor or “Spirits” Taxes

**The term “spirits” means any beverage containing alcohol obtained by distillation, including wines with more than 24% alcohol by volume but excluding flavored malt beverages.**

- These products have labels that indicate "proof."
- General retail sales tax does not apply to purchases of spirits by consumers.

**There are two types of spirits (liquor) taxes:**

Spirits Sales Tax	Spirits Liter Tax
Spirits sales tax is based on the selling price of spirits in the original package.	Spirits liter tax is based on the volume of spirits being sold in the original package.
The rate paid by the general public is 20.5%.	The rate paid by the general public is \$3.7708 per liter.
The rate paid by on-premises retailers such as restaurants and bars on purchases from distributors and distillers is 13.7%.	The rate paid by on-premises retailers such as restaurants and bars on the purchases from distributors and distillers is \$2.4408 per liter.

**The combined spirits liter and sales taxes are estimated to generate \$686.4 million in the 2023-2025 biennium.**

- Spirits taxes comprise about 1 percent of the state Near General Fund budget.
- Most revenue is deposited in the state general fund except a portion of the spirits sales tax that goes to cities and counties.

# Beer and Wine Taxes

## Beer and wine are subject to tax in Washington at various rates and stages of the distribution process.

- In most instances, the only tax paid by final consumers is the retail sales tax whether purchased in the original container or for on-premises consumption.

Beer Tax	Wine Tax
Brewers or distributors of beer pay a tax for the privilege of manufacturing or selling beer in Washington.  The tax applies to each 31-gallon barrel or its equivalent in cans and bottles.	Wine sold to distributors, directly to consumers on winery premises, and direct shipments to consumers and retailers.
Breweries producing less than 60,000 barrels each year pay and overall rate of \$4.782 per barrel.  Breweries producing over 60,000 barrels each year pay and overall rate of \$8.08 per barrel.	Table wines have a total wine tax rate of \$0.2292 per liter.  Fortified wines have total wine tax rate of \$0.4536 per liter.  Cider has a total wine tax rate of \$0.0814 per liter.

## The combined spirits liter and sales taxes are estimated to generate \$57 million in the 2023-2025 biennium.

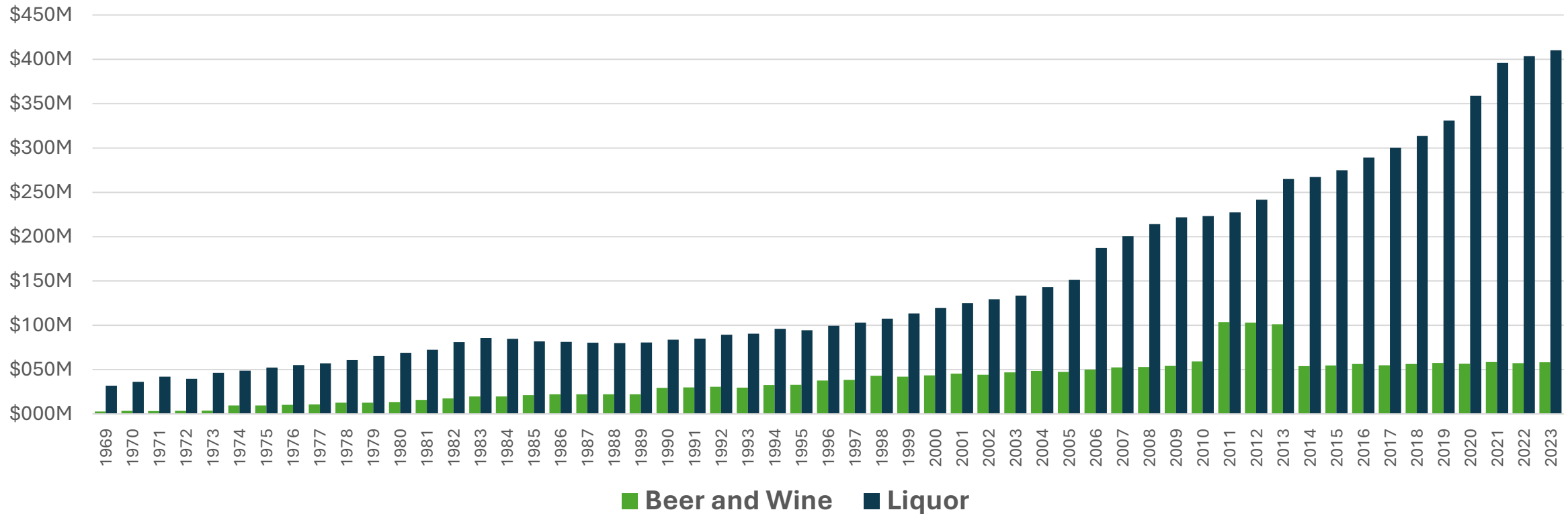
- Most revenue from the beer tax is deposited in the state general fund except a small portion that goes to cities and counties.
- Revenues from the wine tax are split between the state general fund, local law enforcement programs, counties and cities, Washington State University wine research, the Washington Wine Commission, and youth violence prevention and drug enforcement.



# History of Alcohol Tax Collections

Tax collections on alcohol products continue to increase year-over-year.

## Annual Collections on Alcohol Taxes



Source: Data compiled from Table 2 of Department of Revenue Tax Statistics



# Capital Gains Tax

## Brief Description:

- ESSB 5096 (2021) created a 7% tax on the sale or exchange of long-term capital assets such as stocks, bonds, business interests, and other investments as well as tangible assets. The tax only applies to individuals; however, individuals can be liable for the tax because of their ownership interest in pass-through entities such as LLCs and partnerships.

## Major Exclusions:

- Standard deduction: \$270,000 (adjusted annually for inflation)
- Real estate
- Qualified family-owned small businesses

## Use of Revenues:

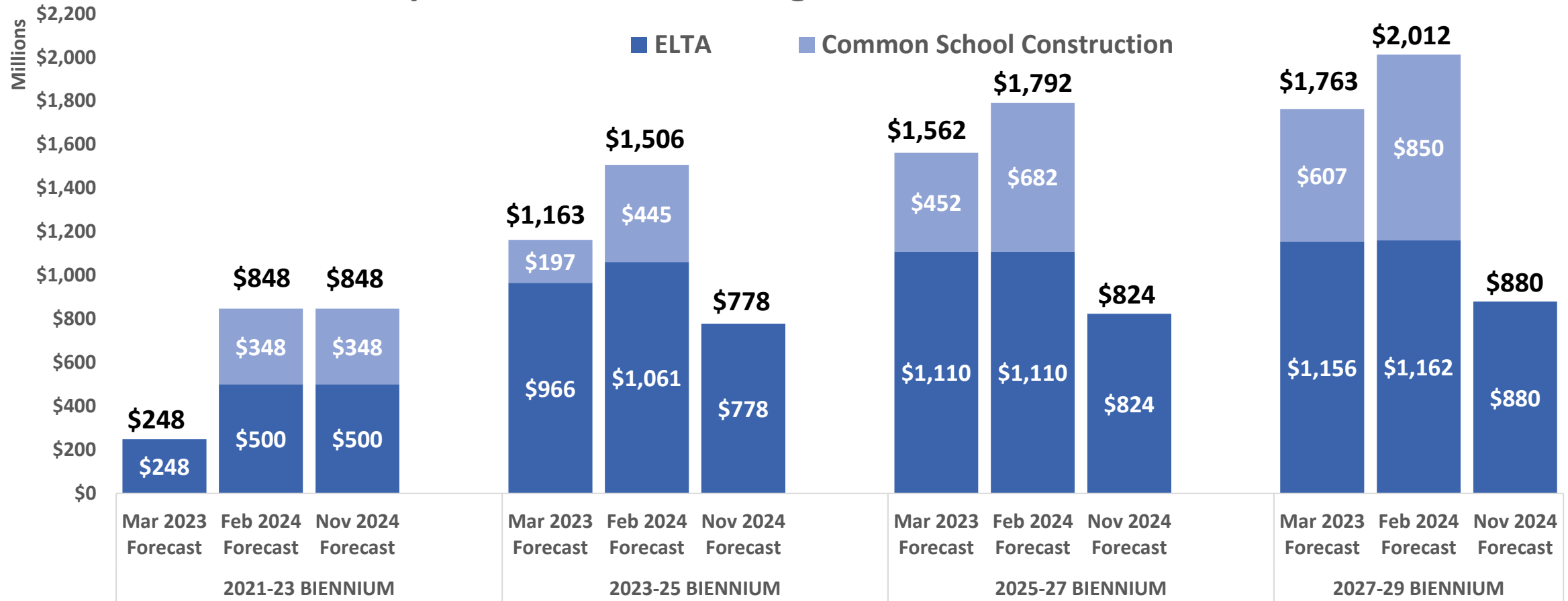
- The first \$524 million collected each fiscal year (adjusted annually for inflation) is deposited into the Education Legacy Trust Account
- The remainder is deposited into the Common School Construction Account.



# Forecasted Collections for the Capital Gains tax

Revenue forecasts for the capital gains tax have fluctuated substantially.

## Capital Gains Tax - Changes Over Several Forecasts



Source: Economic & Revenue Forecast Council



# Estate Tax

## The estate tax applies to transfers of property located in Washington on the death of the owner.

- The tax rate varies from 10-20 percent depending on the value of the taxable estate.

## The taxable estate is the amount after all allowable deductions, including the applicable exclusion amount.

- The applicable exclusion amount is \$2,193,000 (last adjusted for inflation in 2018).
- Deductions for farms and family-owned businesses.

## The estate tax is estimated to generate \$889 million in the 2023-25 biennium.

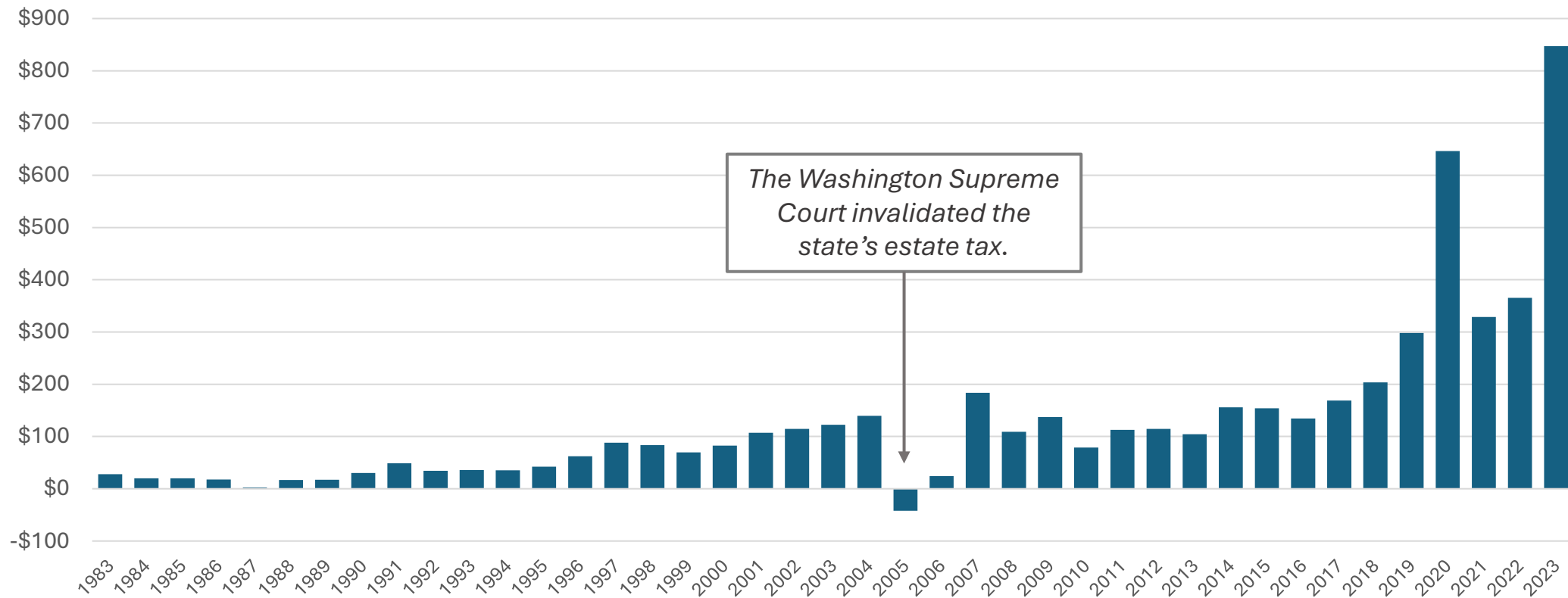
- All revenue from the estate tax is deposited into the Education Legacy Trust Fund.
- Makes up 1.34 percent of state Near General fund revenues.

Taxable amount	Rate	Tax owed
\$0 to \$1,000,000	10%	\$10% of taxable amount
\$1,000,000 to \$2,000,000	14%	\$100,000 plus 14% of the amount over \$1,000,000
\$2,000,000 to \$3,000,000	15%	\$240,000 plus 15% of the amount over \$2,000,000
\$3,000,000 to \$4,000,000	16%	\$390,000 plus 16% of the amount over \$3,000,000
\$4,000,000 to \$6,000,000	18%	\$550,000 plus 18% of the amount over \$4,000,000
\$6,000,000 to \$7,000,000	19%	\$910,000 plus 19% of the amount over \$6,000,000
\$7,000,000 to \$9,000,000	20%	\$1,100,000 plus 19.5% of the amount over \$7,000,000
\$9,000,000 and up	20%	\$1,490,000 plus 20% of the amount over \$9,000,000

# The estate tax can be a volatile tax source because a single or small number of estates can substantially impact tax collections.

## Annual Estate Tax Collections

\$ in millions



The Washington Supreme Court invalidated the state's estate tax.

Source: Data compiled from Table 2 of Department of Revenue Tax Statistics



# Hazardous Substance Tax

**The Hazardous substance tax (HST) is a tax on the first possession of hazardous substances in Washington.**

- The tax applies to petroleum products, certain pesticides, and certain chemicals that the Department of Ecology determines to present a threat to human health or the environment.
- The HST applies to approximately 8,000 hazardous substances.

**The HST has two tax rates, depending on the substance:**

- Petroleum products are subject to a volumetric tax rate of \$1.48 per barrel (adjusted annually for inflation).
- For non-petroleum products, and petroleum products not easily measured on a per-barrel basis, the tax rate is 0.7 percent of the wholesale value.

**The HST is estimated to generate about \$693 million in the 2023-25 biennium.**

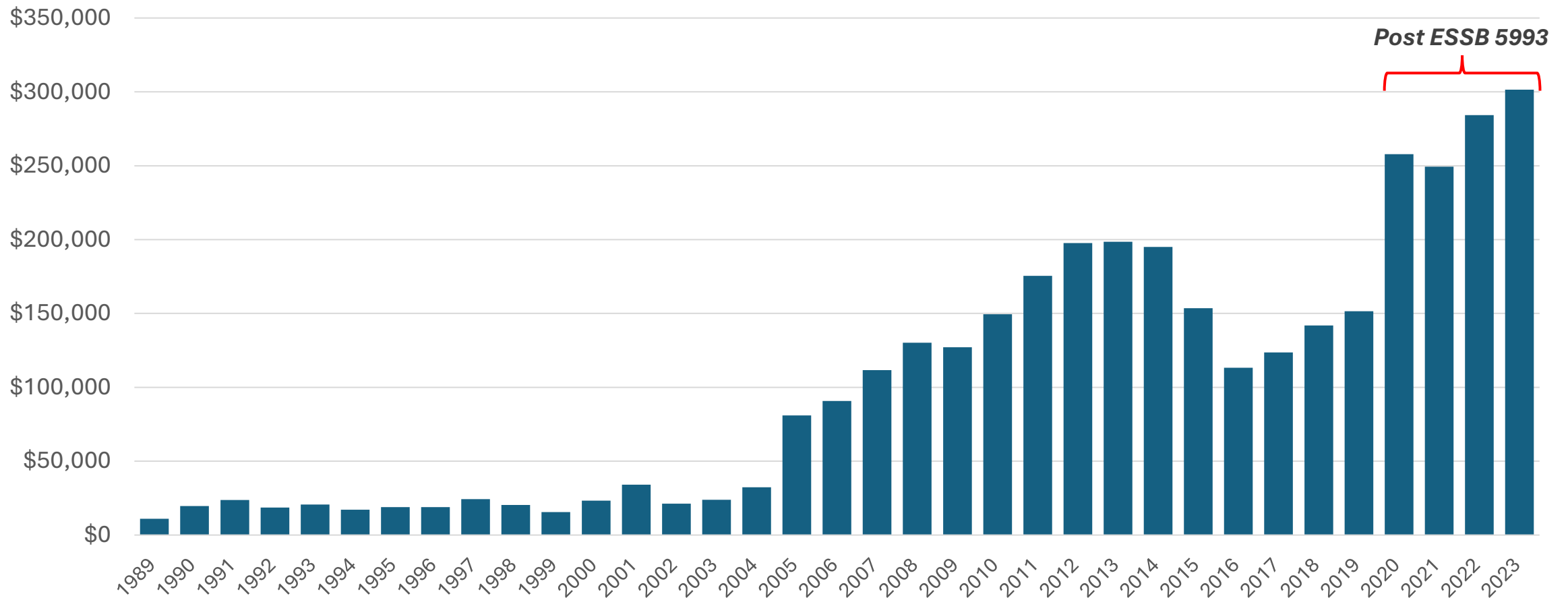
**HST revenue is distributed to various accounts:**

- The first \$50 million of HST revenues from liquid petroleum products are deposited each biennium into the state Motor Vehicle Fund for transportation stormwater activities and projects
- Remaining HST revenue from liquid petroleum products is deposited into the three Model Toxics Control Act accounts:
  - 60 percent into the Model Toxics Control Operating Account
  - 25 percent into the Model Toxics Control Capital Account
  - 15 percent into the Model Toxics Control Stormwater Account
- Remaining HST revenue from other hazardous substances is deposited in the Model Toxics Control Capital Account

# In 2019, ESSB 5993 made substantial changes to the Hazardous Substance Tax.

## Annual Hazardous Substance Tax Collections

\$ in thousands



# Wrap-up: Recent significant changes in Washington's tax structure

## Property Tax:

- Legislation enacted in 2017 substantially recalibrated the state property tax and local school district enrichment levies as part of major school funding reform legislation.
- Legislation enacted in 2019 increased income thresholds for the senior citizen property tax relief program and tied periodic increases to those thresholds to county median household income.

## Sales Tax:

- In 2018, the U.S. Supreme Court eliminated the physical presence requirement, enabling states to collect sales taxes on online sales by remote sellers.
- In 2021, the legislature created/funded the working families tax credit program.

## B&O Tax:

- Legislation enacted in 2019 created a 1.2% surcharge on large financial institutions. Revenues are deposited in the state General Fund.
- Legislation enacted in 2020 increased the B&O tax rate from 1.5% to 1.75% for large service firms and implemented a 1.22% advanced computing surcharge. The revenues are deposited in the Workforce Education Investment Account.
- Legislation enacted in 2022 increased the small business B&O tax credit to exclude approximately the first \$125,000 of business income.

## Capital Gains Tax:

- In 2021, the legislature enacted a 7% tax on net long-term capital gains exceeding \$250,000 per year.

## Hazardous Substance Tax (HST):

- Legislation enacted in 2019 substantially modified the HST by adopting a volumetric tax rate for petroleum products with an inflationary adjustment; creating separate operating, capital, and stormwater accounts for HST revenues; and directing \$50 million per biennium to the motor vehicle fund.

