

# Washington's Tax System is the Most Regressive in the Nation

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Low- and middle-income families in Washington pay far higher shares of their incomes in state and local taxes than do the richest Washingtonians, according to a new study by the Institute on Taxation & Economic Policy.

“At a time when cuts in federal aid and declining state tax revenues are forcing state lawmakers to seek higher taxes, it’s important to assess who currently bears the burden of state and local taxes,” said Robert S. McIntyre, ITEP’s tax policy director and an author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Washington has the most unfair tax system in the nation.”

## Washington's Tax Code: Soak the Poor and Middle Class, Spare the Rich

When all Washington taxes are totaled up, the study found that:

- The wealthiest one percent of Washington taxpayers—with average incomes of \$1.6 million—pay only 3.3% of their income in Washington state and local taxes. After accounting for tax savings from federal itemized deductions the effective rate becomes just 3.2%.
- Middle-income Washington taxpayers earning between \$31,000 and \$48,000 pay 11.1% of their income in Washington state and local taxes, almost three and a half times the effective rate of the very wealthy.
- But Washington families earning less than \$17,000—the poorest fifth of Washington non-elderly taxpayers—pay a whopping 17.6% of their income in state and local taxes, more than five times the rate on the best off.

The study found that Washington’s taxes are so extremely regressive because the state lacks an income tax and instead relies primarily on regressive sales and excise taxes to pay for public services.

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## Washington Has Nation's Most Regressive Tax System

The study found that Washington's tax system earns it the dubious distinction of leading the list of the "Terrible Ten" most regressive in the nation. Even before federal deduction benefits, Washington asks poor families—those in the bottom 20% of the income scale—to pay 5.4 times as great a share of their earnings in taxes as do the wealthy. By the same measure, middle-income families in Washington pay 3.4 times as high a share of their income in taxes as the wealthiest families.

"Washington is one of only nine states nationwide that do not have a broad-based personal income tax," McIntyre said. "The lack of a progressive income tax to offset regressive sales and property taxes is the most important factor in making the Washington tax system so regressive. Taxes ought to be based on people's ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall sharply as is the case in Washington. And the lack of diversity in Washington's tax structure means that lawmakers have few choices available when increased revenues are necessary—a critical constraint in the current fiscal situation."

## Tax Regressivity Worsened since 1989

The study also examined the impact of changes in the regressivity of Washington taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens increased for the low- and middle income Washingtonians and fell for the wealthiest Washington taxpayers.
- Repealing the state's annual "car tax" has had a slightly progressive impact on the overall tax burden, yet property taxes still increased for lower and middle classes.

"Recent cuts in the car tax have done little to address the basic unfairness of Washington's tax structure," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions placed a far greater share of the tax burden on low- and middle-income taxpayers."

### **Two pages of tables detailing the Washington findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

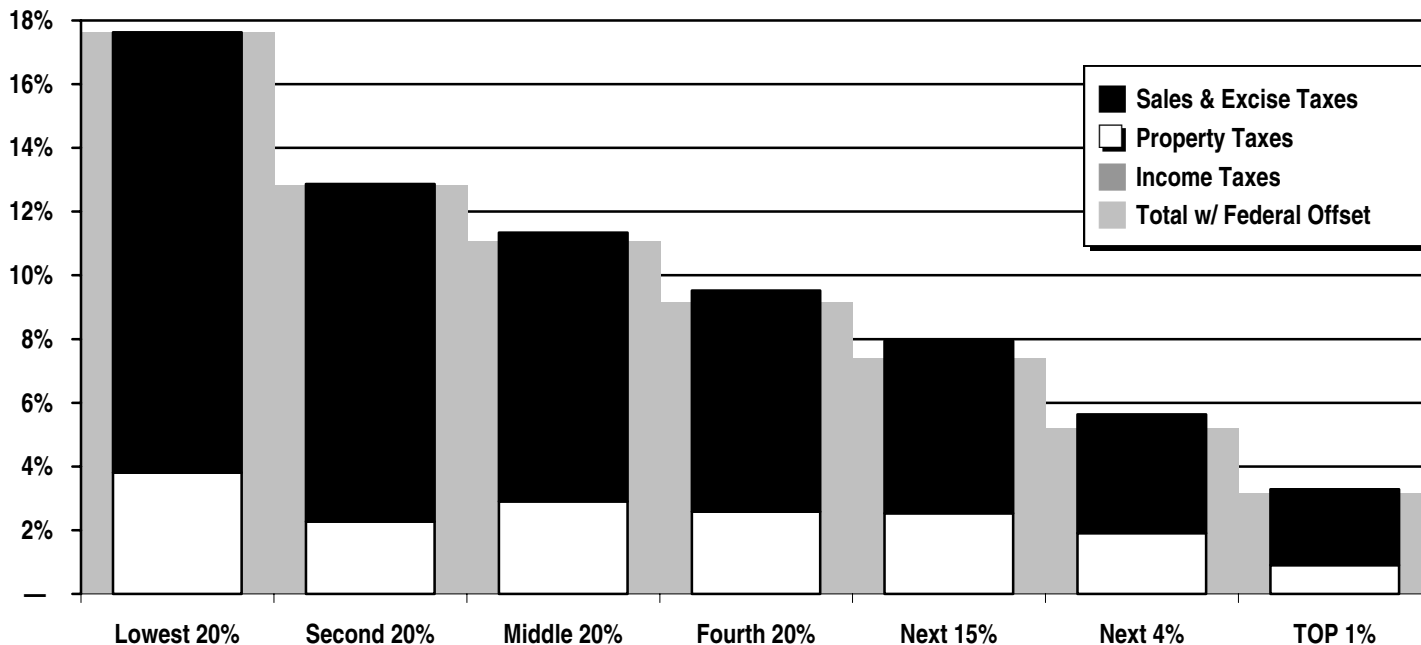
*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

# Washington

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$31,000	\$31,000 – \$48,000	\$48,000 – \$75,000	\$75,000 – \$143,000	\$143,000 – \$922,000	\$922,000 or more
Average Income in Group	\$9,600	\$23,200	\$38,500	\$60,000	\$98,700	\$225,000	\$1,655,000
<b>Sales &amp; Excise Taxes</b>	<b>13.8%</b>	<b>10.6%</b>	<b>8.4%</b>	<b>6.9%</b>	<b>5.4%</b>	<b>3.7%</b>	<b>2.4%</b>
General Sales—Individuals	4.9%	4.2%	3.5%	2.9%	2.3%	1.6%	0.9%
Other Sales & Excise—Ind.	4.1%	2.7%	2.0%	1.6%	1.2%	0.8%	0.4%
Sales & Excise on Business	4.8%	3.8%	3.0%	2.4%	1.9%	1.4%	1.1%
<b>Property Taxes</b>	<b>3.8%</b>	<b>2.3%</b>	<b>2.9%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>1.9%</b>	<b>0.9%</b>
Property Taxes on Families	3.7%	2.2%	2.8%	2.5%	2.4%	1.6%	0.5%
Other Property Taxes	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%	0.4%
<b>Income Taxes</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	—	—	—	—	—	—	—
<b>TOTAL TAXES</b>	<b>17.6%</b>	<b>12.9%</b>	<b>11.3%</b>	<b>9.5%</b>	<b>7.9%</b>	<b>5.6%</b>	<b>3.3%</b>
Federal Deduction Offset	-0.0%	-0.0%	-0.3%	-0.4%	-0.5%	-0.4%	-0.1%
<b>TOTAL AFTER OFFSET</b>	<b>17.6%</b>	<b>12.8%</b>	<b>11.1%</b>	<b>9.2%</b>	<b>7.4%</b>	<b>5.2%</b>	<b>3.1%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# Washington Tax Trends

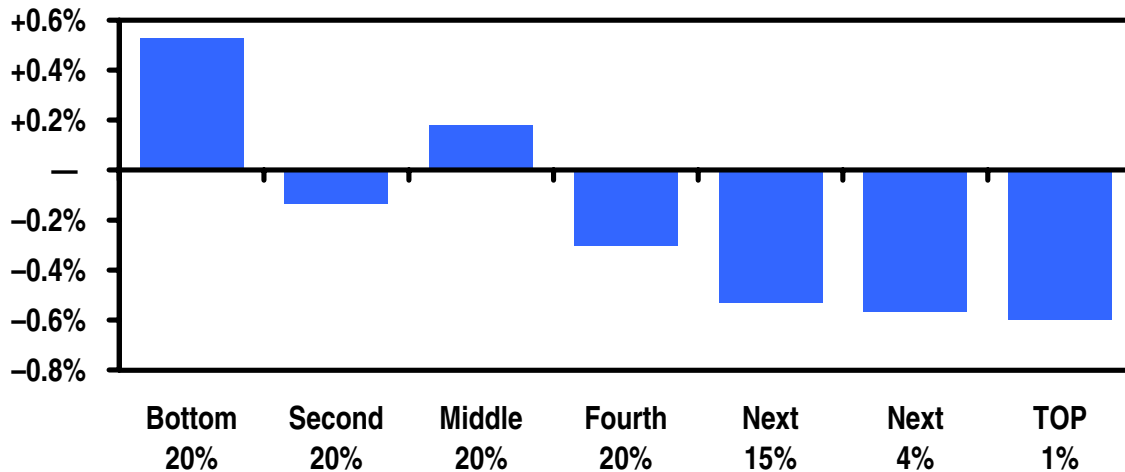
## Progressive Features

✓ None

## Regressive Features

- ✗ No income taxes
- ✗ High reliance on sales tax
- ✗ One of the highest cigarette taxes nationwide

### Changes in Taxes as Shares of Income, 1989 – 2002

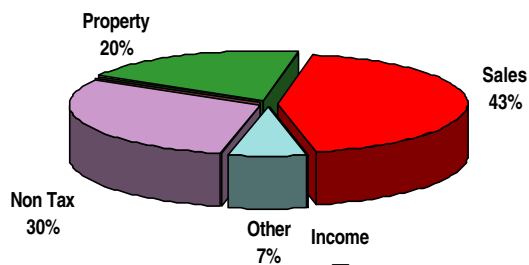


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
<b>Sales &amp; Excise</b>	+0.0%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.1%
<b>Property</b>	+0.5%	+0.1%	+0.6%	+0.0%	-0.2%	-0.5%	-0.6%
<b>Income</b>	—	—	—	—	—	—	—
<b>Federal Offset</b>	+0.0%	-0.0%	-0.1%	-0.1%	-0.1%	+0.1%	+0.1%
<b>Overall Change</b>	+0.5%	-0.1%	+0.2%	-0.3%	-0.5%	-0.6%	-0.6%

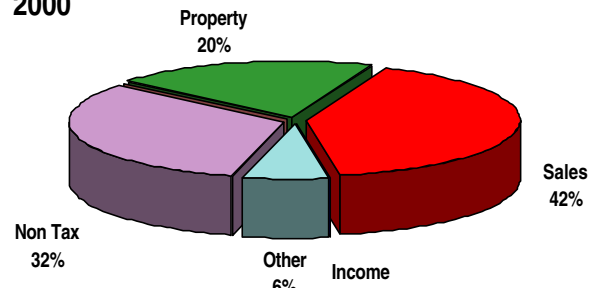
Washington has increased its cigarette tax by \$1.09 per pack since 1989. The repeal of the 2.2 percent vehicle license represented a slightly progressive, yet expensive, tax cut. Since the state has no income tax and consumption taxes are the major source of funding for government services, these changes collectively made the nation's most regressive tax system even more burdensome for the lowest income Washingtonians.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census