

Income Tax Would Hurt Washington Entrepreneurs

*By Don C. Brunell, President
Association of Washington Business*

Each year, the Small Business & Entrepreneurship Council (SBE Council) publishes a list of the best to worst state tax systems for entrepreneurship and small business.

It pulls together 16 different tax measures and combines those into one tax score that compares tax burdens in the 50 states and District of Columbia. Among the taxes included are income, capital gains, property, death/inheritance, unemployment and various consumption-based taxes, including state gas and diesel taxes.

The overriding advantage for the states with the best tax ratings is they have no income tax. Since our state has no income tax, SBE ranks Washington as the fifth best tax system in the nation for 2010. On the other hand, neighboring California, Oregon and Idaho rank among the bottom 15, primarily due to the income taxes they impose upon their people and businesses.

That all could change if Initiative 1098 qualifies and is approved by Washington voters in November.

The initiative would impose a 5 percent tax on income above \$200,000 for individuals and above \$400,000 for couples. That rate would increase to 9 percent on income exceeding \$500,000 for individuals and \$1 million for couples.

The initiative also increases the small business tax credit for business-and-occupation (B&O) taxes from \$420 to \$4,800, effectively exempting very small businesses from the tax. In addition, it cuts the state portion of the property tax by 20 percent — which sounds like a lot. But, because the lion's share of property taxes are local, the average tax bill would only go down by about 4 percent.

Interestingly, backers of the income tax decided to pursue an initiative rather than go through the Legislature. Adopting a state income tax in the Legislature requires amending the State Constitution, which takes a two-thirds majority vote. The initiative avoids that.

The initiative route also means lawmakers can change the income tax rates and levels after just two years with a simple majority vote. As we know, state lawmakers recently suspended Initiative 960, the voter-approved measure requiring a two-thirds vote to raise taxes.

So, what would be the impact of an income tax? It would take income away from individuals and families, of course. But it would also hurt entrepreneurs and small businesses. Why? Because small employers often pay taxes as individuals, rather than as corporations. Under Initiative 1098, they will pay both income taxes and the B&O taxes on their business income.

Why does that matter? Because private-sector employers will lead us out of this punishing recession when they increase production, expand and hire new people. That is made more difficult — and more unlikely — if those employers are burdened by higher taxes.

The problems posed by income taxes on families, individuals and businesses in states like Oregon and California hurt entrepreneurs and small businesses more, according to SBE. In fact, much of SBE's good rating for Washington's tax system is because Washington has no income tax — at least for now.

That is not to say everything is rosy in Washington.

Our B&O tax is levied on gross receipts, whether or not you make a profit. And Washington has the sixth highest gas tax at 37.5 cents a gallon — plus 18.4 cents federal gas tax — and employers pay the second highest unemployment tax in the nation according to the Washington Alliance for a Competitive Economy. In fact, WashACE reports Washington has the 15th highest cost of doing business in the nation.

Because of those high taxes, SBE ranks Washington 46th on gasoline taxes and 44th on unemployment insurance taxes.

The point the Small Business and Entrepreneurship Council makes is an income tax tends to be a negative, and that should be a strong warning sign for voters and elected officials in our state.

Raymond J. Keating, chief economist for SBE Council and author of the report, said, "Quite simply, economic recovery will be restrained by high and/or increasing taxes, or boosted by low and/or falling taxes. Governors and legislators have a choice."

Washington citizens have a choice, as well, in whether they adopt a state income tax.

About the Author

Don Brunell is the president of the Association of Washington Business. Formed in 1904, the Association of Washington Business is Washington's oldest and largest statewide business association, and includes more than 7,000 members representing 650,000 employees. AWB serves as both the state's chamber of commerce and the manufacturing and technology association. While its membership includes major employers like Boeing, Microsoft and Weyerhaeuser, 90 percent of AWB members employ fewer than 100 people. More than half of AWB's members employ fewer than 10. For more about AWB, visit www.awb.org.

Article used by permission. Copyright © Association of Washington Business. All rights reserved.