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Larry's Tax Law

When It Rains, It Pours - Rising Tax Rates and New Taxes Are on the Horizon in Washington State

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Frederick the Great, the monarch of Prussia from 1740 to 1786, is quoted as pronouncing:

"No government can exist without taxation. This money must necessarily be levied on the people; and the grand art consists of levying so as not to oppress."

B&O Tax Rate Increases

As previously reported, effective January 1, 2027, certain businesses with income attributable to Washington state will be faced with slight increases in the state's gross receipts tax called the Business and Occupations ("B&O") tax. Also, effective on this same date, the Washington Department of Revenue will be implementing a few new classifications (commonly referred to as "tax lines"), which businesses are required to use to report their gross revenues for purposes of the B&O tax.

The scheduled tax rate increases are as follows:

Tax Line	Current Rate	New Rate
Extracting	.484%	.500%
Insurance producers, Surplus Line Brokers and Child Care	.484%	.500%
Processing for Hire, Printing and Non-newspaper Publishing	.484%	.500%
Manufacturing	.484%	.500%
Wholesaling	.484%	.500%
Retailing	.471%	.500%
Radioactive Waste Cleanup	.471%	.500%
Manufacturing of Commercial Airplanes or Components	.484%	.500%

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Tax Line	Current Rate	New Rate
Manufacturing of Commercial Airplane Tooling	.484%	.500%
Wholesaling of Commercial Airplanes or Components	.484%	.500%
Wholesaling of Commercial Airplane Tooling	.484%	.500%
Retailing of Commercial Airplanes or Components	.484%	.500%
Retailing of Commercial Airplane Tooling	.471%	.500%
Warehousing, Public Road Construction, Government Contracting, Chemical Dependency Centers	.484%	.500%
Canned Salmon Labelers, Nonprofit R&D	.484%	.500%
Prescription Drug Warehousing	.138%	.500%
Retailing of Interstate Transportation Equipment	.484%	.500%

Business activities getting a new tax line for reporting purposes are Radio & TV Broadcasting and Splitting/Processing of Dried Peas. Businesses in Radio & TV Broadcasting and in Splitting/Processing of Dried Peas will not face an increase in their current respective B&O tax rates of 0.484% and 0.138%.

It appears the biggest loser in the tax rate increases is businesses that warehouse prescription drugs. Those businesses will see an increase of more than 362%. Retailers will see a 6% increase. Most of the named businesses will see roughly a 3.33% increase.

Putting matters in perspective, a Washington retailer with $120 million of gross sales will see a modest increase in its B&O tax bill of approximately $35,000. On the other hand, a business that warehouses prescription drugs with the same gross revenue will experience an increase in its B&O tax bill of $434,400.

New (or Newer) Washington Taxes

As previously reported, on May 4, 2021, a capital gains tax was signed into Washington law. That tax was quickly welcomed with a judicial fight. The opponents' primary argument in the dispute was that the state constitution prohibits the enactment of a tax based upon income. Ultimately, the Washington Supreme Court upheld the tax, strangely concluding that a capital

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gains tax is not a tax on income but rather is an excise tax based on the sale of property.

On top of the capital gains tax, Washington lawmakers most recently enacted a "millionaires' tax." The tax rate is 9.9% and applies to household income above $1 million. It is set to go into effect on January 1, 2028. As you would expect, this new tax was also welcomed with a judicial fight. The case is pending in the Klickitat County Superior Court.

Opponents of the tax were able to get a ballot initiative (I-645) in front of voters on November 3, 2026, to repeal the tax. That effort failed. Since the tax impacts 1% or less of Washington households, I suspect many voters adopted Mark Twain's attitude about taxes.

"I love taxes that other people have to pay."

The case, regardless of the outcome, will assuredly make its way up to the Washington Supreme Court. We will not likely know the outcome for a year or two.

It is interesting to note that the voters in California took a different view of a wealth tax. On November 3, 2026, they rejected the state's wealth tax initiative.

Concluding Thoughts

We have to inquire, with the B&O tax increases, the newish capital gains tax and the new millionaire's tax, whether Washington lawmakers adhered to Frederick the Great's pronouncement that "the grand art [of taxation] consists of levying so as not to oppress."

The B&O tax rate increases will not, in and of themselves, likely have significant impact on where companies will decide to do business. However, one thing is for sure, Washington is no longer a tax haven like Nevada, Texas, South Dakota, Wyoming and Florida.

If the tax burden is too high, taxpayers may pack up and leave the state, looking for a more tax-friendly home. We know, to some degree, the capital gains tax had that impact with the highly publicized reports of wealthy people like Jeff Bezos leaving the state. Time will tell whether the millionaire's tax will cause further exodus from the state.

Posted in Legislation, State and Local Tax, Tax Laws

Tagged as Business and Occupation Tax (B&O Tax), capital gains tax, millionaire's tax, Washington state, Washington Supreme Court

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