



Initiative 1098: Will business owners pay state income tax?

Short Answer: According to IRS data, only a small percentage of Washington business owners would pay state income tax under I-1098. Of those Washington tax filers claiming net business income from a sole proprietorship, S-corporation and/or partnership, only 10.6% show an AGI of more than \$200,000. Since 85% of high-income returns are filed jointly, a substantial proportion of those tax filers would be exempt from paying state income tax on AGI up to \$400,000 per year.

Background: A tax filer claiming business income on their personal tax return would only be taxed if his/her Adjusted Gross Income (AGI), net of allowable business expenses/losses under IRS rules, exceeds \$200,000 for single filers or \$400,000 for joint filers – and then only on the amount exceeding that income threshold.

According to IRS data from 2007, Washington residents collectively filed an estimated 520,565 tax returns that reported net business income from sole proprietorships, S-corporations and/or partnerships. Of those, nearly 90% showed an Adjusted Gross Income (AGI) of less than \$200,000. All of these business owners would be completely exempt from the income tax proposed by Initiative 1098. Since 85% of high-income returns are filed jointly, a substantial proportion of the remaining tax filers would be exempt from paying state income tax.

Most business owners will also see a tax cut. According to analysis by the Department of Revenue, I-1098 would exempt 81% of Washington businesses from B&O tax payments, and reduce B&O tax payments for another 12%. Every business that owns property would also see a 20% cut in the state portion of their property taxes.

Washington State tax filers claiming net business income

Item	Total	Under \$200,000 AGI		Over \$200,000 AGI	
		Number (% of Total)	Avg. Business Income (US)	Number (% of Total)	Avg. Business Income (US)
WA tax returns w/ net business income	520,565	466,259 (89.6%)	\$16,797	54,306 (10.4%)	\$238,867
<i>Returns w/ net business/ professional income (Schedule C)</i>	<i>399,226</i>	<i>378,474 (94.7%)</i>	<i>\$14,729</i>	<i>20,752 (5.3%)</i>	<i>\$111,533</i>
<i>Returns w/ net partnership or S-corp. income (Schedule E)</i>	<i>121,339</i>	<i>87,785 (72.3%)</i>	<i>\$25,717</i>	<i>33,554 (27.7%)</i>	<i>\$317,618</i>

Sources: Individual Income Tax Returns 2007, Publication 1304 (Rev. 07-2009), <http://www.irs.gov/pub/irs-soi/07inalcr.pdf>; Individual Income and Tax Data, Washington State, Tax Year 2007, IRS SOI Tax Stats - Historic Table 2: <http://www.irs.gov/taxstats/article/0..id=171535.00.html>;

Washington State tax filers marital status and income

Item	Under \$200,000 AGI (3,148,570 returns)		Over \$200,000 AGI (111,258 returns)	
	Joint	Individual	Joint	Individual
WA tax returns	1,135,210 (36%)	2,013,360 (64%)	94,647 (85.1%)	16,611 (14.9%)

Source: Individual Income and Tax Data, Washington State, Tax Year 2007, IRS SOI Tax Stats - Historic Table 2: <http://www.irs.gov/taxstats/article/0..id=171535.00.html>;