

How Washington Business Taxes Work

Understanding Washington Business Tax

Washington has the 11th best business tax climate in the country, according to the Tax Foundation. The good news about Washington taxes is that there is no actual income tax. There is, however, a business and occupation (B & O) tax, sales tax, and use tax that affect most businesses in Washington State. Let the following be your guide to understanding Washington business taxes.

Washington Business & Occupation Tax

Washington has a gross receipts tax. While the claim that we don't have an income tax is technically true, you pay the B&O tax on your gross income. This means you pay taxes on the total amount of revenue you pull in for your business, whether you make a profit or not.

B & O tax rates

When paying the B & O tax to the Department of Revenue, you declare your income in different categories. Most Washington businesses fall under the 1.5% gross receipts tax rate. The following chart gives the rates for each main category:

The B & O tax rate	
Services and Other Activities (What most businesses fall into):	.015
Manufacturing:	.00484
Wholesaling:	.00484
Retailing:	.00471

So if you're in the service and sales category, you owe \$15 for every \$1,000 of income. That may sound high to some of you, but compare to income tax in other states. Let's say you live in Idaho where there's an 8% personal income tax. You'll pay a CPA to file your tax return with the IRS, pay somewhere between 20-25% to the IRS, and then pay another 8% to the Idaho Department of Revenue. If you have a profitable business, it will be way cheaper to pay a gross income tax than to pay 8% of your net income.

The B & O can get complicated if you do business in more than one category; you may need to file in multiple categories. There are also [specialty B & O classifications](#), so for instance, if you're in the logging industry, you may be required to file in each of the following B & O categories: Extracting, Extracting for Hire, Manufacturing and Wholesaling. Certain Washington cities also charge [city B & O rates](#).

B & O tax credit

There are no deductions for business expenses, except for income from a different state. So, if you went over and did work in Portland, you would pay Oregon income tax and be able to claim a deduction for the gross receipts you made in Oregon.

Also, if you have a small business, there is a tax credit for you—one of the best things about Washington State taxes. The way it works out is that if your gross income is under a certain amount, you pay no B & O tax. As your income goes up, you get a smaller and smaller credit, until you make enough to pay the full percentage. So, for example, if you pay Service/Other B & O annually, and your annual business income is \$56,000, this gross income is tax-free. If you make \$122,000 or more, you'll pay the full 1.5%. If you're in the manufacturing category, you won't have to pay B & O tax until your annual income is at about \$86,000, with a sliding scale after that.

The small business tax credit is broken up, based on how often you file, as follows: \$71 for monthly taxpayers, \$211 for quarterly taxpayers and \$841 for annual tax payers.

Washington Sales Tax

The Washington sales tax you must charge, collect, and pay the state depends on what county you're in. The interesting part of this is, because Washington has an income tax on your gross receipts, they will always know what your gross sales are, and thus, automatically calculate the sales tax that you should have collected and owe the state. So, if you screw up and don't collect the right amount of tax, you still will owe the right amount to Washington.

The base Washington state sales tax rate is 6.5, and each location (county or city) charges a local rate on top of that. So, for instance, in Issaquah, total sales tax is 9.5%, but in Pomeroy it's 7.5%. The Washington Department provides a [Tax Rate Lookup Tool](#) for sales and use tax.

Will I have to charge sales tax on services I provide in Washington State?

Yes. Washington businesses must charge sales tax on most services and goods sold, including construction, recreation, digital and personal services. Food and prescriptions drugs are exempt from WA sales tax.

Washington Use Tax

Use tax is a tax law written to tax the heck out of everyone. Let's say you buy a desk at a garage sale for your office. Technically you should have to pay sales tax for that, but no garage sale person or Craigslist seller is going to charge you sales tax. So, Washington has a law called use tax, governed under Chapter 82.12 of the Revised Code of Washington.

In theory, if you bought a desk for \$100 at a garage sale, you should report that and pay use tax because you couldn't pay sales tax.

Another loophole the use tax aims to close is out-of-state purchases. Say someone buys a \$750,000 excavator in Oregon or Montana where there's no sales tax and brings it into Washington State to work with it. If they get caught with it in Washington State, the Department of Revenue will charge that person or business use tax.

Use Tax Rates in Washington

The use tax is always going to be the same as the sales tax in your local area. While the sales tax rate is determined by where you buy something, the use tax is determined by the sales tax rate where you first use it.

Use tax affects individuals also. If a Washington resident went to Portland to buy school supplies or make a big purchase and bring it back to their home in Washington, they are supposed to report that personally to the Washington Department of Revenue and pay sales tax on that.

Washington Property Tax

The Washington State personal property tax is a true double tax by every definition. Again, say you pay sales tax to buy a desk for your office. You'll first pay sales or use tax, and then business personal property tax every year you own it. Isn't there just something wrong about business personal property tax?

How Personal Property is Taxed

You will be taxed on the current market value of all your assets you use for business. The funny thing about business personal property tax is that the codes are written so that they can change the rate each year. So let's say you have a \$50,000 commercial saw, but your saw is going at auctions for \$15,000 right now because of the economy. You can claim \$15,000 as the value, but if you paid a 1% tax rate last year, and the county doesn't have enough money, they can raise the tax rate to cover the gap. People see this all the time with their home property taxes. The value went down over the last couple years, but their taxes didn't!

How do I pay property tax?

Personal property taxes in Washington are collected by each county. To find out what your rate is and how to pay, contact your Washington county's treasurer office. [List of WA county assessor/treasurers contact information](#)

Returns are due with your county assessor every April 30th. If you don't pay them on time, there's a 1% penalty for every late month.

General Washington Taxes FAQ

How do I know how often I will need to report my Washington business taxes?

When you file your [business license application](#), you will get assigned to a monthly, quarterly or annual filing frequency.

When are Washington business taxes due?

- Monthly returns are due on the 25th of the following month.
- Quarterly returns are due on the last day of the month of regular business quarters.
- Annual returns are due every January 31st following the calendar year.

What method do I use to pay taxes?

Your B & O and use tax can be paid using the Combined Excise Tax Return. The only available option for filing your return is electronically using the Washington Department of Revenue's [e-file system](#). When we incorporate your Washington business for you, we can also obtain a Master Business License, which functions as your registration with the Department of Revenue. Once registered, you'll automatically receive an e-file account set up and a packet of information walking you through the process.

How do Washington business taxes affect LLCs vs. Corporations vs. Sole Proprietorships vs. DBAs?

A sole proprietorship and DBA is not an actual business entity in Washington. Rather, it is you operating as a DBA. If you operate personally as a business, you face just the same Washington state taxes as a [Washington LLC](#) or a [Washington Corporation](#). You might as well hire a [Washington Registered Agent](#) and form a real business entity to have some liability protection for your business.

If you'd like us to help you [start your business in Washington](#), we would love to help you out. It's all we do, and we try to do it better than any other national incorporation site you'll find. Plus we actually live here, pay taxes here, and work here, so we know what we're talking

about.

Questions? Call [\(509\) 342-2802](tel:5093422802) - Washington Registered Agent, LLC © 2017

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