



Initiative 1098: How will Washington's effective income tax rates stack up?

Short Answer: The top 1% of taxpayers in Washington will have an average effective tax rate of 4%. That puts Washington's ranking for this group of wealthy taxpayers at 27th out of the 44 states (including Washington, D.C.) that tax income.¹ (See reverse)

Households with income below \$200,000 will not be affected – and neither will the vast majority of those with adjusted gross income (AGI) between \$200,000 and \$400,000. That's because roughly 85% of income tax returns with adjusted gross income above \$200,000 are joint returns, and I-1098's income tax provisions kick in at \$400,000 for couples.

Background: Initiative 1098 adds a tax on the top 1.2% of filers to fund education and health care.

- Individual filers with income of \$200,000 or less and joint filers with income of \$400,000 or less – nearly 99% of Washington tax filers – *would not pay*.²
- A 5% rate applies only to individual AGI between \$200,000 and \$500,000, or joint AGI between \$400,000 and \$1 million. This means a couple with income of \$400,001 would pay 5 cents in state income tax.
- A 9% rate applies to individual AGI in excess of \$500,000, and joint AGI in excess of \$1 million. For example, an individual with income of \$500,001 would pay \$15,000 for the increment between \$200,000 and \$500,000, and 9 cents for the dollar above \$500,000, or \$15,000.09.

Taxpayers could also deduct state income tax from federal taxable income, so about one quarter of the new state tax would be offset by a reduction in their federal income taxes. And I-1098's provision for a 20% reduction in the state portion of the property tax will apply to all property owners.

Initiative 1098 Tax Rates and Income Thresholds for Individual and Joint Filers

Rate	Individual Filer Thresholds	Joint Filer Thresholds
n/a	All AGI under \$200,000	All AGI under \$400,000
5%	AGI between \$200,000 - \$500,000	AGI between \$400,000 - \$1,000,000
9%	AGI over \$500,000	AGI over \$1,000,000

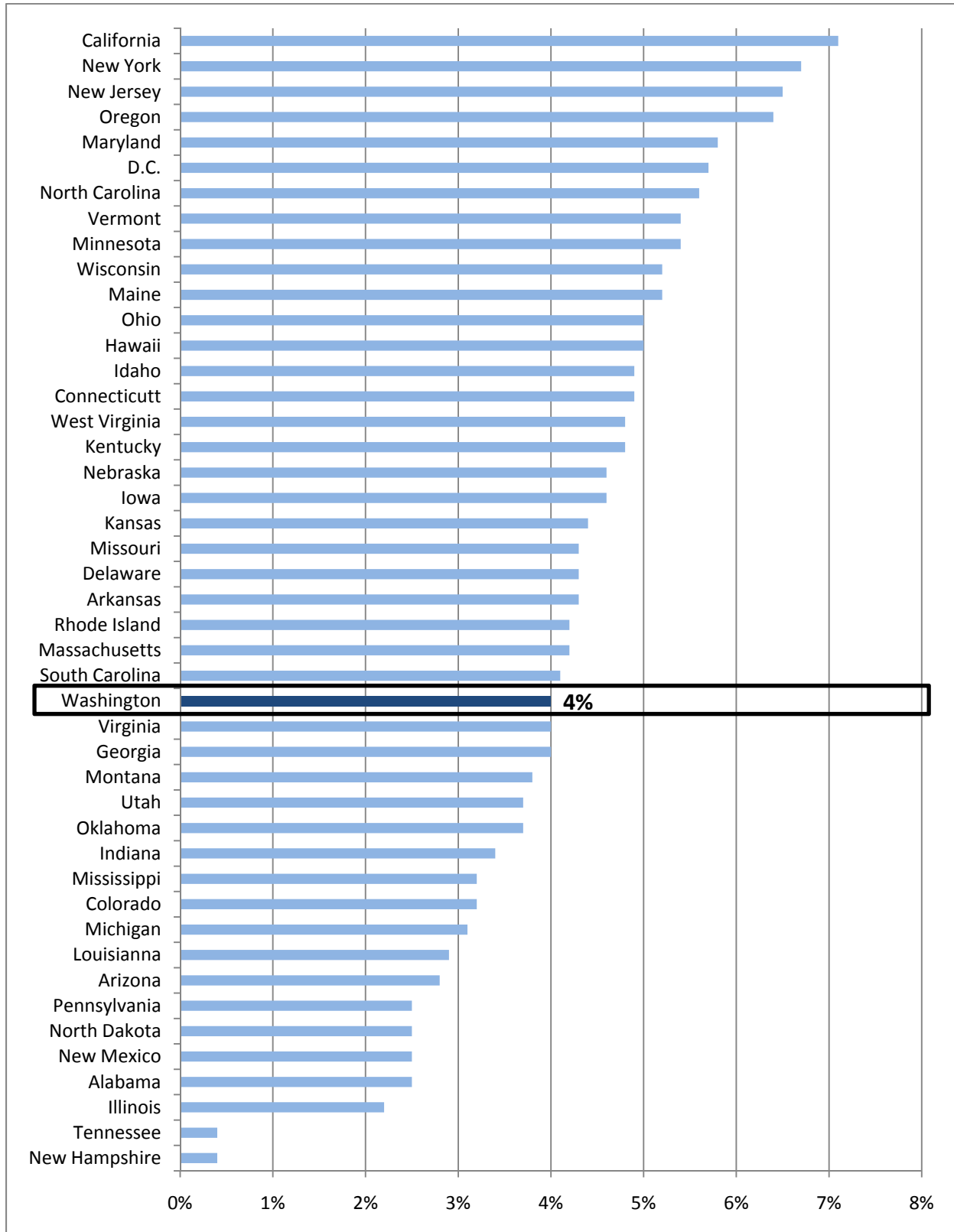
AGI: Adjusted gross income

Please see reverse for average effective income tax rates under Initiative 1098.

¹ Income range for top 1%: \$537,000 and above

² WA State Office of Financial Management, Fiscal Impact for Initiative 1098, <http://www.ofm.wa.gov/initiatives/2010/1098.pdf>

Average Effective Income Tax Rates under I-1098: Top 1% of Taxpayers by State



Source: Institute on Taxation and Economic Policy, "Who Pays", November 2009, <http://www.itepnet.org/whopays3.pdf>
 'Top 1%' of WA filers income range: \$537,000 and over.