



Looming budget shortfall

Overview

The biggest issue facing the 2025 legislative session is the looming budget shortfall.

The budget shortfall – estimated to be between \$10-16 billion over the next four-year outlook – is the difference between expected revenues and the amount needed to sustain current programs and any new programs.

A budget shortfall may signal that revenues are in decline. But that's not the case. The state's revenue collections continue to increase. It's just that state spending has outpaced revenue collections.

- As an example, in the 2023-25 budget, lawmakers increased spending by 16% even though revenues could only sustain about a quarter of that spending. They instead relied on reserve funds to bridge the gap. This is not a sustainable way to budget.
- State revenues have grown considerably and rapidly, doubling over the last decade alone. What was a \$31.4 billion budget in 2011 is now \$72 billion in 23-25.
- The state is expected to raise over \$10 billion MORE in revenue over the next four years.

Before leaving office, Gov. Jay Inslee proposed his final budget, increasing state spending from the current \$72 billion to about \$79 billion in 2025-27. His budget relies on the following tax increases:

- A wealth tax of 1% on worldwide wealth of more than \$100 million, estimated to impact roughly 3,400 people in the state. This tax is estimated to raise \$10.3 billion over four years.
- A temporary increase in the B&O rate on service-related businesses with revenues of more than \$1 million, and then in 2027, a permanent 10% increase in B&O for all businesses.

Incoming Gov. Bob Ferguson has stated that he plans to scour the budget and look for cuts and efficiencies and only consider tax increases if necessary.

Democratic legislative leaders have stated that new revenues will be needed, and several have stated they plan to tax “wealthy individuals and wealthy businesses.” Here’s a snapshot of some of the ideas being looked at by Democratic lawmakers:

- Statewide payroll tax on big businesses (at the moment, companies with payroll of more than \$8 million) — imposing a 6.2% tax on compensation above \$168,600. This is estimated to generate \$3.7 billion per year from about 4,000 businesses in the state.
- Business & Occupation tax increase — proposals range from a flat increase in the B&O in the “services” category to a 1% surcharge on companies with taxable income of more than \$500 million.
- Boosting the capital gains tax from 7% to 9.9% for stocks and other profits exceeding \$1 million.
- Increasing property taxes by allowing local governments to raise property tax collection by 3% annually, instead of the current 1% growth limit.
- Split-roll property tax — a tax that exempts some portion of homeowners’ property tax which shifts the tax burden to business properties.

Republicans have made it clear that they do not support increases in taxes, that the state should live within its means, and that as the cost of doing business goes up, consumers will feel it too.

Other taxes being considered include:

- A wealth tax of 1% on individuals with \$50 - \$250 million in financial assets like stocks and bonds — estimated to raise between \$2.5 to \$4.5 billion per year.
- A new tax on homes with values of more than \$3 million.
- A storage unit tax.

- A new tax on guns and ammunition.

The Washington Hospitality Association is partnering with others in the business community to reframe this supposed “budget crisis.” The resulting gap between promised spending and available tax revenues is the result of ordinary choices, not a crisis.

The budget should be managed with ordinary choices, not crisis measures that continue to increase the cost of living in the state. We will engage with social media, journalists, influencers and others to amplify these messages.

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