



## **Largest tax hike in state history starts October 1, 2025**

Sales, B&O taxes set to increase over the next 15 months

*September 10, 2025*

### **Key points**

- The largest tax increase in state history will be phased in over the next 15 months, starting October 1
- Most of these tax hikes will impact businesses first; consumers will start to see prices at the register increase as businesses, especially small businesses, are forced to pass along these higher costs
- There is a lot of confusion and uncertainty about how and to what these new and increased taxes and surcharges apply
- The state Department of Revenue is racing to provide guidance before October 1 to help businesses properly comply and avoid being hit with penalties if mistakes are made in collecting, reporting, and paying these new taxes

### **Services newly subject to sales tax (effective October 1, 2025)**

- For the first time, sales tax will apply to several services used by businesses and consumers, which means an average increase of up to 10% in certain parts of the state – even for services already under contract in these categories:
  - Advertising
  - IT tech support and training services
  - Security, security monitoring, investigations, armored cars
  - Web site development and custom software
  - Temporary staffing services
- This will affect business-to-business activities. For example, a small business that uses an outside security monitoring service, calls in an IT specialist to fix or upgrade its computer network, or hires a few temporary workers to help with seasonal sales, will see their costs increase for each of these activities. If that small firm can't absorb those added costs, they will be forced to pass them along as higher prices to their customers for the products or services they provide.

### **B&O increases take effect October 1, 2025**

- On October 1, service businesses will see the first wave of state Business & Occupations (B&O) tax increases. Rates for service businesses with \$5 million or more in annual sales will **increase 20%** from 1.75% to 2.1%
- Businesses must pay the B&O tax even though they may not have any profits or are operating at a loss
- Many small businesses routinely purchase services from other small business as part of their day-to-day operations. As higher B&O taxes on these service providers are passed on to customers, small businesses (customers themselves) using these services may have to also pass these expenses on to their customers, and so on. Ultimately, these tax increases result in higher prices for consumers.

- Some examples of business-to-business services include:
  - Using an accounting firm to prepare federal, state, and local tax returns, or a bookkeeping service to process paychecks
  - Retaining a law firm to review contracts
  - Hiring a janitorial or landscape service for custodial or maintenance work
  - Having an architect or engineering firm design a building expansion project

### **B&O increases taking effect January 1, 2026**

- In January, the second wave of B&O hikes will hit, this time targeting certain very big businesses – those with at least \$250 million in annual revenue
- A new one-half of one percent (0.5%) *surcharge* will apply to earnings over \$250 million, in addition to the B&O taxes they already pay on revenue up to that threshold (some may see their B&O taxes increase due to other provisions in the new law)
- This won't directly impact small business specifically, but those that get supplies or services from these big firms will most likely pay more ... and may have to pass along some of those higher costs to their customers
- Some Washington business likely to be impacted include:
  - Amazon
  - Costco
  - Microsoft
  - Starbucks
  - T-Mobile
- At some point, a local small business that gets office supplies at Costco, sources inventory or ships products through Amazon, or uses Microsoft products on its computers will face higher prices as those big businesses pass along their added B&O tax costs to consumers.

### **B&O increases taking effect January 1, 2027**

- In 2027, the third wave of B&O tax hikes hits as **businesses of ALL sizes** will see their base B&O tax rate increase by either 3% or 6%, depending on industry. The **new B&O base rate** will increase to **0.5%**.
- (Reminder) Businesses must pay the B&O tax even though they may not have any profits or are operating at a loss
- **NFIB will continue working with legislators to adjust the Small Business Tax Credit to help offset the impact of these tax increases on our smallest businesses**