S-4858.2

SUBSTITUTE SENATE BILL 6346

State of Washington 69th Legislature 2026 Regular Session

By Senate Ways & Means (originally sponsored by Senators Pedersen, Chapman, Frame, Bateman, Orwall, Slatter, Alvarado, Hunt, Lovelett, Riccelli, Shewmake, Valdez, Wellman, Hasegawa, Robinson, Lovick, Conway, Trudeau, Cleveland, Kauffman, C. Wilson, Dhingra, Stanford, Nobles, Saldaña, Salomon, and Cortes)

READ FIRST TIME 02/09/26.

AN ACT Relating to investing in Washington families and businesses to fund K-12 education, health care, higher education, other essential governmental services, and the working families' tax credit, and to reduce certain sales and use taxes and certain business and occupation taxes by establishing a tax on millionaires; amending RCW 82.32.050, 82.32.060, 82.32.090, 2.10.180, 2.12.090, 6.15.020, 41.24.240, 41.32.052, 41.34.080, 41.35.100, 41.40.052, 41.44.240, 41.26.053, 43.43.310, 82.08.0206, 82.04.4451, 82.32.045, 82.04.288, and 1.90.100; amending 2023 c 456 s 3 (uncodified); adding a new section to chapter 82.08 RCW; adding a new section to chapter 82.12 RCW; adding a new Title to the Revised Code of Washington to be codified as Title 82A RCW; creating new sections; prescribing penalties; providing an effective date; and providing an expiration date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** INTENT. (1) The legislature finds that the state, through the state's general fund, invests in K-12 education, health care, higher education, other essential governmental services, and the working families' tax credit, all of which help Washingtonians succeed and thrive.

(2) These general fund dollars help the state meet its paramount duty to make ample provision for the education of all children in the state, including children who qualify for special education services, creating the opportunity for each child to succeed in school and achieve success in life.

(3) The general fund supports health care programs that deliver critical, life-saving medical care, provide support for those with developmental and other disabilities, offers long-term care for the elderly, and protects the long-term health and well-being of the public.

(4) Further, the general fund invests in higher education, including two and four-year colleges, apprenticeships, and other postsecondary education and training programs, ensuring Washington students remain competitive in the workforce and broader economy.

(5) The general fund also invests in human services that provide vital basic-needs assistance to the state's lowest-income households and educate the youngest learners.

(6) Therefore, the intent of this act is to maintain and preserve essential governmental services for Washingtonians, particularly within K-12 education, health care, higher education, and human services, and support working families by ensuring continued investment in the working families' tax credit by depositing revenues from this act into the general fund.

(7) The legislature further recognizes that reforming our tax code to be common sense, balanced, and sustainable is essential to the long-term economic success of Washington. The Washington tax structure, developed during the Great Depression, relies heavily on excise and consumption taxes, with consequences for equity, adequacy, and long-term fiscal stability that persist today. The legislature recognizes that more progress is needed for the state to have a fair and balanced tax system that can provide sustainable, ample funding for K-12 education, health care, higher education, human services, and other essential governmental services. Washington's tax system remains the second most regressive in the nation as it asks those with the least to pay the most as a percentage of their income. Low-income Washingtonians pay at least three times more in state and local taxes as a percentage of their income than the state's highest income households.

(8) Further, due to the action of the federal government through the passage of HR 1, Washington's highest-income households are set

to receive an average federal tax break of $90,850 while Washington's lowest-income households are set to receive a mere $200. These tax breaks were largely funded through cuts to federal funding in health care and food security programs, negatively impacting Washington's working families.

(9) Thus, the legislature intends to limit the tax established by this act to only individuals with annual adjusted gross income of $1,000,000 or more. Washingtonians with an annual adjusted gross income of less than $1,000,000 will not owe this tax. As a result, the millionaires' tax is estimated to affect only the wealthiest one-half of one percent of the households in this state, taking a significant step toward reducing the disproportionate reliance on working people to fund K-12 education, health care, higher education, human services, the working families' tax credit, and other essential governmental services to benefit Washingtonians.

(10) The legislature further intends to exempt certain sources of income from the tax including, but not limited to, the sale of qualified family owned small businesses and the sale of all residential and other real property.

(11) It is also the intent of the legislature to rebalance the tax system by reducing taxes on consumers and businesses through small business and other business and occupation tax credits, as well as by exempting from the retail sales tax essential household items such as personal care products.

(12) Thus, to help meet the state's paramount duty of amply providing every child in the state with an education and supporting the health and well-being of Washingtonians, it is the intent of the legislature, by adopting this act, insofar as possible, to:

(a) Impose a tax on those individuals with the greatest ability to pay, specifically those earning Washington adjusted gross income during the taxable year of at least $1,000,000;

(b) Make the Washington millionaires' tax law identical in effect to the provisions of the internal revenue code relating to the measurement of adjusted gross income of individuals, modified as necessary to achieve the goals and purpose of this act;

(c) Achieve this result by the application of the various provisions of the internal revenue code relating to the definition of income, exemptions and exclusions therefrom, accounting methods, basis, depreciation, and other pertinent provisions, subject to additional exemptions and modifications as provided in this act,

resulting in a final amount called "Washington adjusted taxable income"; and

(d) Impose a tax on residents of this state measured by Washington adjusted taxable income wherever derived and to impose a tax on nonresidents measured by Washington adjusted taxable income from sources within this state.

(13) The legislature finds that, in 2024, Washington counties were responsible for more than 90 percent of the costs associated with public defense in the state, creating a system of legal representation that varies greatly depending on where a person lives in Washington state. While fully funding public defense is not the responsibility of the state, the state is responsible under the United States Constitution for ensuring the protection of the right to counsel for all defendants. Furthermore, the Washington state supreme court's decision to modify caseload standards in 2025 will significantly increase the overall cost of providing public defense in Washington state. Through the creation and funding of the local government public defense stabilization account, the legislature intends to provide funding to help counties meet their obligations.

PART I
DEFINITIONS

NEW SECTION. **Sec. 101.** DEFINITIONS. The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Capital asset" has the same meaning as provided in chapter 82.87 RCW.

(2) "Department" means the department of revenue of the state of Washington.

(3) "Federal adjusted gross income" means adjusted gross income as determined under section 62 of the internal revenue code.

(4) "Individual" means a natural person.

(5) "Internal revenue code" means the United States internal revenue code of 1986, as amended and in effect on January 1, 2026, or such subsequent date as the department may provide by rule consistent with the purpose of this chapter.

(6) "Long-term capital asset," "long-term capital gain," and "long-term capital loss" have the same meanings as provided in chapter 82.87 RCW.

(7) "Pass-through entity" means a disregarded entity for federal tax purposes, such as a partnership, limited liability company, or S corporation.

(8)(a) "Resident" means an individual:

(i) Who is domiciled in this state during the taxable year, unless the individual (A) maintained no permanent place of abode in this state during the entire taxable year, (B) maintained a permanent place of abode outside of this state during the entire taxable year, and (C) spent in the aggregate not more than 30 days of the taxable year in this state; or

(ii) Who is not domiciled in this state during the taxable year, but maintained a place of abode and was physically present in this state for more than 183 days during the taxable year.

(b) For purposes of this subsection, "day" means a calendar day or any portion of a calendar day.

(c) An individual who is a resident under (a) of this subsection is a resident for that portion of a taxable year in which the individual was domiciled in this state or maintained a place of abode in this state.

(9) "Taxable year" means the taxpayer's taxable year as defined under section 7701(a)(23) of the internal revenue code.

(10) "Taxpayer" means an individual receiving income subject to tax under this chapter.

(11) "Washington base income" means federal adjusted gross income as modified under sections 302 through 306 and 401 through 407 of this act.

(12) "Washington taxable income" means Washington base income as further modified by sections 307 through 310 of this act.

NEW SECTION. **Sec. 102.** UNDEFINED TERMS—CONFORMITY WITH FEDERAL INTERNAL REVENUE CODE. Any term used in this chapter has the same meaning as when used in a comparable context in the internal revenue code, unless a different meaning is clearly required or the term is specifically defined in this chapter.

PART II
DETERMINATION OF TAX

NEW SECTION. **Sec. 201.** TAX IMPOSED—RATES. (1) Beginning January 1, 2028, a tax is imposed on the receipt of Washington taxable

income. Only individuals are subject to payment of the tax, which equals 9.90 percent multiplied by an individual's Washington taxable income.

(2) If an individual's Washington taxable income is less than zero for a taxable year, no tax is due under this section and no amount is allowed as a carryover for use in the calculation of that individual's Washington taxable income, for any taxable year. To the extent that a loss carryforward is included in an individual's adjusted gross income and the loss carryforward is derived from or connected with sources in this state, the loss carryforward is included in the calculation of that individual's Washington taxable income.

NEW SECTION. **Sec. 202.** DISTRIBUTION OF TAX REVENUES. (1) Taxes collected under this chapter must be deposited as follows:

(a) Seven percent to the local government public defense funding stabilization account created in section 711 of this act; and

(b) The remainder to the state general fund to fund the sales and use tax relief in sections 903 and 904 of this act, the working families' tax credit program, including its expansion in section 901 of this act, and the business and occupation tax relief in sections 905 and 906 of this act.

(2) All interest and penalties collected under this chapter must be deposited in the state general fund.

NEW SECTION. **Sec. 203.** CREDIT FOR INCOME TAXES DUE ANOTHER JURISDICTION. (1) A resident individual is allowed a credit against the tax imposed under this chapter for the amount of any income tax paid to another state, or political subdivision of the state, on income taxed under this chapter, subject to the following conditions, which must be imposed separately with respect to each taxing jurisdiction:

(a) The credit is allowed only for taxes paid to the other jurisdiction on net income from sources within that jurisdiction that is included in the individual's Washington base income; and

(b) The amount of the credit may not exceed the smaller of:

(i) The amount of tax paid to the other jurisdiction on net income from sources within the other jurisdiction; or

(ii) The amount of tax due under this chapter before application of credits allowable by this chapter, multiplied by a fraction. The

numerator of the fraction is the amount of the taxpayer's federal adjusted gross income subject to tax in the other jurisdiction. The denominator of the fraction is the taxpayer's total Washington base income. The fraction may never be greater than one.

(2) If the laws of the other taxing jurisdiction contain a provision exempting a resident of this state from liability for the payment of income taxes on income earned for personal services performed in such jurisdiction, then the department may enter into a reciprocal agreement with such jurisdiction providing a similar tax exemption on income earned for personal services performed in this state.

NEW SECTION. **Sec. 204.** CREDIT FOR BUSINESS AND OCCUPATION AND PUBLIC UTILITY TAXES. (1) Beginning in tax year 2028 with taxes due in 2029, to avoid taxing the same Washington taxable income under the business and occupation tax or public utility tax and the tax imposed under this chapter, a nonrefundable credit is allowed against taxes due under this chapter on income that is also subject to the tax imposed under chapter 82.04 or 82.16 RCW. The credit is equal to the amount of tax paid under chapter 82.04 or 82.16 RCW for income included in both the calculation of the tax paid under chapter 82.04 or 82.16 RCW and the tax imposed under this chapter.

(2) The credit under this section is earned in regard to income reportable for federal income tax purposes and may be claimed against taxes due under this chapter, for the tax reporting period in which the income is reportable for federal income tax purposes. The credit claimed for a tax reporting period may not exceed the tax otherwise due under this chapter for that tax reporting period. Unused credit may not be carried forward or backward to another tax reporting period. No refunds may be granted for unused credit under this section.

NEW SECTION. **Sec. 205.** CREDIT FOR WASHINGTON CAPITAL GAINS TAXES. Beginning in tax year 2028 with taxes due in 2029, a nonrefundable credit is allowed against taxes due under this chapter for the amount of tax imposed on Washington capital gains for the same tax year. "Washington capital gains" has the same meaning as provided in RCW 82.87.020.

NEW SECTION. **Sec. 206.** CREDIT FOR PASS-THROUGH ENTITY TAX PAYMENTS. Beginning in tax year 2028 for taxes due in 2029, a credit is allowed against taxes due under this chapter for the amount of the tax expense incurred by a pass-through entity under section 502 of this act attributable to the owner as provided in section 502(3) of this act. For a resident, the credit under this section must be reduced by the amount of any credit claimed under section 203 of this act based on the same Washington taxable income.

NEW SECTION. **Sec. 207.** CARRYFORWARDS AND CARRYBACKS. The amount of tax credits received by any taxpayer under sections 203 through 206 of this act may not exceed the total amount of tax due for that reporting period, and no carryback or carryforward of any unused excess credits is allowed.

PART III
ADJUSTED GROSS INCOME MODIFICATIONS

NEW SECTION. **Sec. 301.** INTRODUCTORY. In computing Washington base income for a taxable year, modifications must be made to the taxpayer's federal adjusted gross income as required under sections 302 through 306 and 401 through 407 of this act, unless the modification has the effect of duplicating an item of income or deduction. If an item of income is excluded from federal adjusted gross income, including income derived directly from treaty-protected tribal rights, it is excluded from the tax under this chapter unless specifically included as provided in sections 302 through 306 of this act.

NEW SECTION. **Sec. 302.** LONG-TERM CAPITAL GAINS AND LOSSES. (1) In computing a taxpayer's Washington base income, the taxpayer must deduct from the taxpayer's federal adjusted gross income any long-term capital gains that have been included in computing federal adjusted gross income.

(2) In computing a taxpayer's Washington base income, a taxpayer must add to the taxpayer's federal adjusted gross income any long-term capital losses that have been included in computing federal adjusted gross income.

(3) After making the modifications required under subsections (1) and (2) of this section, in computing a taxpayer's Washington base

income, a taxpayer must add to the taxpayer's federal adjusted gross income the amount of Washington capital gains subject to tax under chapter 82.87 RCW for the same taxable year, plus the amounts deducted under RCW 82.87.060 (1) and (4). This subsection (3) applies only to taxpayers owing tax under chapter 82.87 RCW for that taxable year. "Washington capital gains" has the same meaning as provided in RCW 82.87.020.

NEW SECTION. **Sec. 303.** STATE AND LOCAL OBLIGATIONS. In computing a taxpayer's Washington base income, the taxpayer must add to the taxpayer's federal adjusted gross income any income that has been excluded under section 103 of the internal revenue code in computing federal adjusted gross income, except interest on obligations of the state of Washington or political subdivisions of the state of Washington.

NEW SECTION. **Sec. 304.** STATE AND LOCAL INCOME TAXES—BUSINESS AND OCCUPATION AND PUBLIC UTILITY TAXES. In computing a taxpayer's Washington base income, the taxpayer must add to the taxpayer's federal adjusted gross income:

(1) Taxes on or measured by net income which have been deducted under the internal revenue code in computing federal adjusted gross income;

(2) The amount of taxes paid or accrued which have been deducted for federal purposes, but for which either a business and occupation tax credit or public utility tax credit, or both, is allowed.

NEW SECTION. **Sec. 305.** CARRYOVERS. In computing a taxpayer's Washington base income, the taxpayer must add to the taxpayer's federal adjusted gross income, any amounts that have been deducted in computing federal adjusted gross income to the extent the amounts have been carried over from taxable years ending before the effective date of this section.

NEW SECTION. **Sec. 306.** FEDERAL OBLIGATIONS. In computing a taxpayer's Washington base income, the taxpayer must deduct, to the extent included, from the taxpayer's federal adjusted gross income, any income derived from obligations of the United States that this state is prohibited by federal law from subjecting to a net income tax. However, the amount deducted under this section must be reduced

by any expense, including amortizable bond premiums, incurred in the production of such income to the extent the expense has been deducted in calculating federal adjusted gross income.

NEW SECTION. **Sec. 307.** CHARITABLE CONTRIBUTIONS. In determining a taxpayer's Washington taxable income, the taxpayer may deduct from their Washington base income the amount of charitable contributions they claimed for the taxable year under section 170 of the internal revenue code, up to a maximum deduction of $100,000 per individual, or in the case of spouses or domestic partners, their combined charitable deduction is limited to $100,000, regardless of whether they file joint or separate returns.

NEW SECTION. **Sec. 308.** PASS-THROUGH ENTITY TAX PAYMENTS. In computing a taxpayer's Washington taxable income, the taxpayer must add to the taxpayer's Washington base income the taxpayer's distributive share of the tax expense incurred by a pass-through entity under section 502 of this act to the extent the expense has been deducted in calculating the taxpayer's federal adjusted gross income.

NEW SECTION. **Sec. 309.** In determining a taxpayer's Washington taxable income, the taxpayer may deduct from the taxpayer's Washington base income the amount deposited in a capital construction fund under section 7518 of the internal revenue code if the amount has reduced the taxpayer's federal taxable income for the taxable year.

NEW SECTION. **Sec. 310.** ONE MILLION DOLLAR STANDARD DEDUCTION. In computing a taxpayer's Washington taxable income, a taxpayer may deduct from the taxpayer's Washington base income a standard deduction of $1,000,000 per individual, or in the case of spouses or domestic partners, their combined standard deduction is limited to $1,000,000, regardless of whether they file joint or separate returns. The amount of the standard deduction must be annually adjusted pursuant to section 312 of this act. The standard deduction must be adjusted for nonresidents as provided in section 311 of this act.

NEW SECTION. **Sec. 311.** ADJUSTMENT OF DEDUCTIONS FOR NONRESIDENTS. The deduction from Washington base income allowed under section 310 of this act for individual taxpayers who are not residents of this state for the entire taxable year must be reduced by multiplying the amount of the deduction by a fraction. The numerator of the fraction is the individual's Washington base income. The denominator of the fraction is the individual's federal adjusted gross income from all sources. The fraction may never be greater than one.

NEW SECTION. **Sec. 312.** INDEX FOR INFLATION. (1) Beginning October 2029 and each October thereafter, the department must adjust the standard deduction under section 310 of this act by multiplying the current standard deduction amount by one plus the percentage by which the most current consumer price index available on October 1st of the current year exceeds the consumer price index for the prior 12-month period, and rounding the result to the nearest $1,000. If an adjustment under this subsection (1) would reduce the standard deduction amount, the department must not adjust the amounts for use in the following year. The department must publish the adjusted standard deduction amount on its public website by October 31st of each year. The adjusted standard deduction amount calculated under this subsection (1) takes effect for taxes due in the following calendar year.

(2) For purposes of this section, the following definitions apply:

(a) "Consumer price index" means the consumer price index for all urban consumers, all items, for the Seattle area as calculated by the United States bureau of labor statistics or its successor agency.

(b) "Seattle area" means the geographic area sample that includes Seattle and surrounding areas.

PART IV
DIVISION OF INCOME

NEW SECTION. **Sec. 401.** ALLOCATION AND APPORTIONMENT OF INCOME. (1) For resident individuals, all income must be allocated to this state.

(2) For nonresident individuals, income derived from sources within this state must be allocated to this state. Income derived from sources within this state means:

(a) Wages and other compensation from employment within this state as provided in section 403 of this act;

(b) Compensation attributable to professional athletics as provided in section 404 of this act;

(c) Income of a nonresident student athlete derived from the commercial use of the student athlete's name, image, or likeness as provided in section 407 of this act;

(d) Amounts attributable to any business, trade, profession, or occupation carried on within this state, including an individual's distributive share of income from a pass-through entity operating within this state as provided in section 402 of this act, to the extent determined under section 405 of this act;

(e) Rents, short-term gains, and other amounts attributable to the ownership or disposition of any interest in real or tangible personal property in this state; and

(f) Income from intangible personal property, including annuities, dividends, interest, and gains from the disposition of intangible personal property, to the extent that the intangible personal property was employed in a business, trade, profession, or occupation carried on within this state.

(3) Deductible expenses, capital losses, and net operating losses of a nonresident are based solely on income, gains, losses, and deductible expenses derived from or connected with sources in this state but are otherwise determined in the same manner as the corresponding federal deductions except as provided in this chapter.

(4) Compensation paid by the United States for service in the armed forces of the United States performed in this state by a nonresident does not constitute income derived from sources within this state.

NEW SECTION. **Sec. 402.** PASS-THROUGH ENTITIES—DISTRIBUTIVE SHARE. (1) Income derived from sources within this state include an apportioned share of the individual's distributive share of income, gains, losses, and deductions from pass-through entities that operate in the state, as provided in subsection (2) of this section.

(2) The tax due under this chapter for partners, members, or shareholders of a pass-through entity are computed by including a pro

rata share of the Washington base income and the credits allowed under sections 203 through 205 of this act, if the modification or credit relates to the income of the pass-through entity. Each member's, partner's, or shareholder's pro rata share of a modification or credit is the amount of modification or credit multiplied by a fraction. The numerator of the fraction is the member's, partner's, or shareholder's distributive share of pass-through income. The denominator of the fraction is the total income of the pass-through entity. The fraction may never be greater than one.

(3) The following definitions apply throughout this section.

(a) "Pass-through income" includes both distributed and undistributed federal taxable income of the pass-through entity.

(b) "Pro rata share" means pro rata share as reflected on the member's, partner's, or shareholder's federal schedule K-1 form.

NEW SECTION. **Sec. 403.** GENERAL RULE FOR ALLOCATING NONRESIDENT INCOME DERIVED FROM COMPENSATION TO WASHINGTON. (1) Unless provided otherwise in this chapter, a nonresident individual is subject to tax on the portion of federal adjusted gross income derived from employment within the state of Washington, regardless of the location of the commercial domicile of the employer.

(2) Compensation for services performed by a nonresident as part of their employment must be allocated to this state to the extent such services are rendered within the state. If services are performed both within and outside the state, the compensation must be apportioned based on the ratio of days worked in the state to total days worked, or by another reasonable method approved by the department.

(3) For the purpose of this section, the following definitions apply:

(a) "Compensation" means wages, salaries, commissions, and any other form of remuneration paid to employees for personal services.

(b) "Employer" means any individual or type of organization, including any partnership, association, trust, estate, joint stock company, insurance company, limited liability company, or corporation, whether domestic or foreign, or the receiver, trustee in bankruptcy, trustee, or the legal representative of a deceased person, having any person in employment or, having become an

employer, has not ceased to be an employer as provided in this chapter.

(c) "Employment" means personal service, of whatever nature, as known to the common law or any other legal relationship performed for an employer by an individual for compensation or under any contract calling for the performance of personal services, written or oral, express or implied, where the employer is subject to tax under RCW 50.24.010 on any portion of compensation paid by the employer to the individual for the performance of the personal services.

NEW SECTION. **Sec. 404.** APPORTIONING INCOME FOR NONRESIDENT MEMBERS OF A PROFESSIONAL ATHLETIC TEAM. (1) For nonresident members of a professional athletic team, the portion of compensation attributable to athletic performances in the state must be apportioned to Washington as provided under this section.

(2)(a) The portion of the compensation of a member of a professional athletic team apportioned to Washington is that portion of compensation received for the tax year that bears the same ratio to total compensation received for the tax year as the number of duty days within this state bears to the total number of duty days spent both within and outside this state during the tax year.

(b) Notwithstanding the description of the portion of compensation subject to apportionment to the state of Washington under this subsection, the department may provide by rule alternative methodologies for determining the portion of compensation subject to apportionment to the state of Washington that the department determines to be fair and equitable.

(3)(a) A person who transacts business in the state of Washington and who pays wages, salary, bonuses, or other taxable income to a member of a professional athletic team, must submit a report to the department each year indicating any member of a professional athletic team who may be reasonably assumed to owe tax under this chapter for the calendar year.

(b) The report required under (a) of this subsection (3) must include:

(i) The total amount of compensation paid during the year to the members of the professional athletic team for which the report is being made;

(ii) A roster of the members of the professional athletic team for which the report is being made who were members at any time during the year, that lists for each member:

(A) A taxpayer identification number;

(B) Compensation paid to the member; and

(C) The number of duty days in this state and the total number of duty days for the year; and

(iii) Any other information the department may require by rule.

(c) The report must be filed with the department on or before April 15th following the year for which the report is being made or at another time as the department may require by rule.

(4) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Compensation" means wages, salaries, bonuses, and any other income included with federal adjusted gross income and paid to a member of a professional athletic team.

(b) "Duty days" means the days during the tax year from the beginning of the official preseason training period of a professional athletic team through the last game in which the professional athletic team competes or is scheduled to compete during the tax year.

(c) "Member of a professional athletic team" means a nonresident athlete or other individual rendering service to a professional athletic team if the total compensation of the athlete or other individual exceeds $1,000,000 in a tax year.

NEW SECTION. **Sec. 405.** GENERAL RULE FOR APPORTIONING AND ALLOCATING NONRESIDENT INCOME FROM BUSINESS ACTIVITY CONDUCTED IN THE STATE. (1) The portion of federal adjusted gross income of a nonresident derived from or connected with a business, trade, or profession carried on in this state, including a sole proprietorship and any distributive share of a pass-through entity of a business, trade, or profession carried on in this state, must be apportioned and allocated as provided in this section. This section does not apply to compensation received as an employee allocated under section 403 of this act.

(2) Income from a business, trade, or profession carried on in this state, including any distributive share of a pass-through entity of a business, trade, or profession carried on in this state, must be classified as either apportionable income or nonapportionable income.

(3) All apportionable income must be apportioned to this state by multiplying the income by the receipts factor. The receipts factor is a fraction the numerator of which is the total receipts of the taxpayer in this state during the tax period and the denominator of which is the total receipts of the taxpayer everywhere during the tax period.

(a) Receipts from the sale of tangible personal property are in this state if:

(i) The property is delivered or shipped to a purchaser, other than the United States government, within this state regardless of the free on board point or other conditions of the sale; or

(ii) The property is shipped from an office, store, warehouse, factory, or other place of storage in this state and (A) the purchaser is the United States government or (B) the taxpayer is not taxable in the state of the purchaser.

(b)(i) Receipts, other than receipts described in (a) of this subsection (3), are in this state if the taxpayer's market for the sales is in this state. The taxpayer's market for sales is in this state:

(A) In the case of sale, rental, lease, or license of real property, if and to the extent the property is located in this state;

(B) In the case of rental, lease, or license of tangible personal property, if and to the extent the property is located in this state;

(C) In the case of sale of a service, if and to the extent the service is delivered to a location in this state; and

(D) In the case of intangible property:

(I) That is rented, leased, or licensed, if and to the extent the property is used in this state, provided that intangible property used in marketing a good or service to a consumer is "used in this state" if that good or service is purchased by a consumer who is in this state; and

(II) That is sold, if and to the extent the property is used in this state, if:

(1) A contract right, government license, or similar intangible property that authorizes the holder to conduct a business activity in a specific geographic area is "used in this state" if the geographic area includes all or part of this state;

(2) Receipts from intangible property sales that are contingent on the productivity, use, or disposition of the intangible property must be treated as receipts from the rental, lease, or licensing of

such intangible property under subsection (4)(a)(i) of this section; and

(3) All other receipts from a sale of intangible property must be excluded from the numerator and denominator of the receipts factor.

(c) If the state or states of assignment under (b) of this subsection (3) cannot be determined, the state or states of assignment must be reasonably approximated.

(d) If the taxpayer is not taxable in a state to which a receipt is assigned under this subsection (3), or if the state of assignment cannot be determined under (b) of this subsection (3) or reasonably approximated under (c) of this subsection (3), the receipt must be excluded from the denominator of the receipts factor.

(4)(a) If the allocation and apportionment provisions in subsection (3) of this section do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for or the department may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

(i) Separate accounting;

(ii) The exclusion of any one or more of the factors;

(iii) The inclusion of one or more additional factors that will fairly represent the taxpayer's business activity in this state; or

(iv) The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

(b) If the allocation and apportionment provisions of this section do not fairly represent the extent of business activity in this state for taxpayers engaged in a particular industry or in a particular transaction or activity, the department may, in addition to the authority provided in (a) of this subsection (4), adopt rules for determining alternative allocation and apportionment methods for such taxpayers. Rules adopted pursuant to this subsection (4)(b) must be applied uniformly, except that with respect to any taxpayer to whom such rule applies, the taxpayer may petition for, or the department may require, adjustment under (a) of this subsection (4).

(c)(i) The party petitioning for, or the department requiring, the use of any method to effectuate an equitable allocation and apportionment of the taxpayer's income pursuant to (a) of this subsection (4) must prove by clear and convincing evidence:

(A) That the allocation and apportionment provisions of this section do not fairly represent the extent of the taxpayer's business activity in this state; and

(B) That the alternative to such provisions is reasonable.

(ii) The same burden of proof applies whether the taxpayer is petitioning for, or the department is requiring, the use of any reasonable method to effectuate an equitable allocation and apportionment of the taxpayer's income. However, if the department can show that in any two of the prior five tax years, the taxpayer had used an allocation or apportionment method at variance with its allocation or apportionment method or methods used for such other tax years, then the department does not bear the burden of proof in imposing a different method pursuant to (a) of this subsection (4).

(iii) If the department requires any method to effectuate an equitable allocation and apportionment of the taxpayer's income, the department may not impose any civil or criminal penalty with reference to the tax due that is attributable to the taxpayer's reasonable reliance solely on the allocation and apportionment provisions of this section.

(iv) A taxpayer that has received written permission from the department to use a reasonable method to effectuate an equitable allocation and apportionment of the taxpayer's income may not have that permission revoked with respect to transactions and activities that have already occurred unless there has been a material change in, or a material misrepresentation of, the facts provided by the taxpayer upon which the department reasonably relied.

(5) Rents and royalties from real or tangible personal property, capital gains, interest, dividends, or patent or copyright royalties, to the extent that they constitute nonapportionable income, must be allocated as provided in subsections (6) through (9) of this section.

(6)(a) Net rents and royalties from real property located in this state are allocable to this state.

(b) Net rents and royalties from tangible personal property are allocable to this state: (i) If and to the extent that the property is utilized in this state; or (ii) in their entirety if the taxpayer's commercial domicile is in this state and the taxpayer is not organized under the laws of or taxable in the state in which the property is utilized.

(c) The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction the numerator of which is the number of days of physical location of the property in the state during the rental or royalty period in the taxable year and the denominator of which is the number

of days of physical location of the property everywhere during all rental or royalty periods in the taxable year. If the physical location of the property during the rental or royalty period is unknown or unascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the rental or royalty payer obtained possession.

(7)(a) Short-term capital gains and losses from sales of real property located in this state are allocable to this state.

(b) Short-term capital gains and losses from sales of tangible personal property are allocable to this state if: (i) The property had a situs in this state at the time of the sale; or (ii) the taxpayer's commercial domicile is in this state and the taxpayer is not taxable in the state in which the property had a situs.

(c) Short-term capital gains and losses from sales of intangible personal property are allocable to this state if the taxpayer's commercial domicile is in this state.

(8) Interest and dividends are allocable to this state if the taxpayer's commercial domicile is in this state.

(9)(a) Patent and copyright royalties are allocable to this state: (i) If and to the extent that the patent or copyright is utilized by the payer in this state; or (ii) if and to the extent that the patent or copyright is utilized by the payer in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in this state.

(b) A patent is utilized in a state to the extent that it is employed in production, fabrication, manufacturing, or other processing in the state or to the extent that a patented product is produced in the state. If the basis of receipts from patent royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the patent is utilized in the state in which the taxpayer's commercial domicile is located.

(c) A copyright is utilized in a state to the extent that printing or other publication originates in the state. If the basis of receipts from copyright royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located.

(10) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Apportionable income" means:

(i) All income that is apportionable under the Constitution of the United States and is not allocated under the laws of this state, including:

(A) Income arising from transactions and activity in the regular course of the taxpayer's trade or business; and

(B) Income arising from tangible and intangible property if the acquisition, management, employment, development, or disposition of the property is or was related to the operation of the taxpayer's trade or business; and

(ii) Any income that would be allocable to this state under the Constitution of the United States, but that is apportioned rather than allocated pursuant to the laws of this state.

(b) "Commercial domicile" means the principal place from which the trade or business of the taxpayer is directed or managed.

(c) "Nonapportionable income" means all income other than apportionable income.

(d) "Receipts" means all gross receipts of the taxpayer that are not allocated under this section, and that are received from transactions and activity in the regular course of the taxpayer's trade or business, except that receipts of a taxpayer from hedging transactions and from the maturity, redemption, sale, exchange, loan, or other disposition of cash or securities, shall be excluded.

(e) "State" means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, and any foreign country or political subdivision thereof.

(f) "Taxpayer" means a pass-through entity or individual conducting business activity in the state of Washington.

NEW SECTION. **Sec. 406.** PRORATION OF PART-YEAR INCOME. (1) Except as provided in subsection (2) of this section, the adjusted gross income of a part-year resident is the sum of the following:

(a) For the portion of the year in which the taxpayer was a resident of Washington, the taxpayer's entire adjusted gross income; and

(b) For the portion of the year in which the taxpayer was a nonresident, the taxpayer's adjusted gross income derived from sources within this state, as provided in sections 403 through 405 of this act.

(2) The adjusted gross income of a part-year resident with federal adjusted gross income that includes an item of income, gain, loss, deduction, or credit from a pass-through entity must include the sum of the following:

(a) The total amount of the item that is taken into account in federal adjusted gross income, multiplied by the ratio of the number of days the taxpayer was a resident of Washington during the tax year of the entity over the total number of days in the tax year of the entity; and

(b) The total amount of the item that is taken into account in federal adjusted gross income and that is derived from or connected with sources within this state, as determined under sections 403 through 405 of this act, multiplied by the ratio of the number of days the taxpayer was a nonresident of Washington during the tax year of the entity over the total number of days in the tax year of the entity.

NEW SECTION. **Sec. 407.** ALLOCATION AND APPORTIONMENT OF NONRESIDENT STUDENT ATHLETE INCOME. (1) The portion of adjusted gross income of a nonresident student athlete derived from the commercial use of the student athlete's name, image, or likeness is allocated to this state if the publicity services provided by the student athlete related to such commercial use of the student athlete's name, image, or likeness primarily occur in Washington.

(2) The portion of adjusted gross income of a nonresident student athlete derived from payments by an institution of higher education representing a percentage of institutional athletic revenues shall be apportioned to Washington in a form and manner consistent with a duty-day methodology. By January 1, 2028, the department shall submit proposed legislation to the legislature that would implement an apportionment methodology as specified under this subsection (2).

(3) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Commercial use" means the use of an individual's name, image, or likeness for advertising, selling, or soliciting purchases of products, goods, or services.

(b) "Name, image, or likeness" means an individual's readily identifiable name, voice, signature, photograph, or likeness.

(c) "Publicity services" includes, but is not limited to, the following activities: Appearing in photoshoots; filming commercials;

recording audio endorsements; posting sponsored content on social media platforms; attending promotional events; either wearing or using, or both, branded products; and granting rights by the student athlete to use the student athlete's name, image, or likeness in either advertisements or online campaigns, or both.

(d) "Student athlete" means an individual who is enrolled at an institution of higher education and eligible to engage in any varsity intercollegiate athletics program at the institution.

PART V
ESTIMATED TAX PAYMENTS AND PASS-THROUGH ENTITY TAX ELECTION

NEW SECTION. **Sec. 501.** ESTIMATED TAX IMPOSED—DUE DATE OF ESTIMATED TAXES—AMOUNT OF ESTIMATED TAX—UNDERPAYMENT PENALTY. (1) Each individual subject to taxation by this chapter that is required by the internal revenue code to make payment of estimated taxes must pay to the department on forms prescribed by the department the estimated taxes due under this chapter.

(2) The provisions of the internal revenue code relating to the determination of reporting periods and due dates of payments of estimated tax applies to the estimated tax payments due under this section.

(3) The amount of the estimated tax is the annualized tax divided by the number of months in the reporting period. No estimated tax is due if the annualized tax is less than $5,000. RCW 82.32.050 and 82.32.090 apply to underpayments of estimated tax unless the estimated tax remitted to the department is either at least 90 percent of the tax shown on the return required under section 702(1) of this act or 100 percent of the tax shown on the previous year's tax return.

(4) For purposes of this section, the annualized tax is the taxpayer's projected tax liability for the tax year as computed pursuant to internal revenue code section 6654 and the regulations thereunder.

(5) The department shall adopt rules for making estimated tax payments under this section on wages, salaries, and other compensation subject to federal income tax withholding.

(6) Estimated payments are not required under this section before July 1, 2029.

NEW SECTION. **Sec. 502.** PASS-THROUGH ENTITY TAX ELECTION. (1)(a) Beginning January 1, 2028, a tax is imposed at a rate of 9.90 percent of the taxable income of an electing entity for each taxable year in which an election under this section is in effect.

(b) The tax is paid by the electing entity.

(2)(a) A pass-through entity may elect to be subject to the tax imposed under this section by filing an election with the department on or before the due date prescribed by the department for making such election, but no later than April 15th.

(b) The election is made annually and is irrevocable for the taxable year once filed.

(c) The election must be made by: (i) In the case of a partnership or limited liability company, any person authorized to sign the entity's return; and (ii) in the case of an S corporation, an officer authorized to sign the return.

(3)(a) The taxable income of an electing entity consists of:

(i) The entire distributive share of income, gain, loss, and deduction attributable to resident owners, regardless of source; and

(ii) The state source distributive share of income, gain, loss, and deduction attributable to nonresident owners.

(b) Taxable income is determined by applying all state specific additions, subtractions, and modifications that would apply to the owners individually.

(c) Guaranteed payments, separately stated items, and investment income is included in taxable income to the same extent these items would be included in an owner's individual Washington taxable income under this chapter.

(4)(a) An electing entity shall make estimated tax payments in the same manner and at the same times as required for individual estimated tax payments under section 501 of this act.

(b) Estimated tax payments are based on the electing entity's reasonable estimate of taxable income for the taxable year.

(c) Estimated tax payments paid by the electing entity under this section are in lieu of the estimated tax payments imposed on owners under section 501 of this act with respect to the income included in the electing entity's taxable income.

(d) Estimated tax payments are not required under this subsection before July 1, 2029.

(5)(a) Each owner of an electing entity is allowed a credit against the tax imposed under this section equal to the owner's

proportionate share of the tax paid by the electing entity under this chapter as provided in section 206 of this act.

(b) Resident owners shall include in their Washington taxable income their full distributive share of the electing entity's income, gains, losses, and deductions and shall claim the credit allowed under section 206 of this act.

(c) Nonresident owners shall include in their Washington taxable income their distributive share of the electing entity's income, gains, losses, and deductions as allocated and apportioned under section 405 of this act and shall claim the credit allowed under section 206 of this act.

(6)(a) The electing entity shall file an annual return reporting taxable income, tax due, estimated payments, and any other information required by the department in a form and manner required by the department.

(b) The department may adopt rules necessary to administer this section, which to the extent possible, must be consistent with the requirements under this chapter for individuals. The department may adopt rules to streamline and simplify the process and procedures for making an election under this section.

(7) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Distributive share" means the owner's share of income, gain, loss, or deduction as determined under the entity's governing documents and federal income tax law.

(b) "Electing entity" means a pass-through entity that has made a valid election under subsection (2)(c) of this section.

(c) "Nonresident owner" means an owner who is not a resident of this state for individual income tax purposes.

(d) "Owner" means a partner, member, or shareholder of a pass-through entity.

(e) "Resident owner" means an owner who is a resident of this state for individual income tax purposes.

(f) "State source income" means income, gain, or loss derived from sources within this state, determined under the allocation and apportionment provisions of section 405 of this act.

PART VI

CRIMES

NEW SECTION. **Sec. 601.** CRIMES. (1) Any person who knowingly attempts to evade the tax imposed under this chapter or payment thereof is guilty of a class C felony as provided in chapter 9A.20 RCW.

(2) Any person required to collect tax imposed under this chapter who knowingly fails to truthfully account for or pay over the tax is guilty of a class C felony as provided in chapter 9A.20 RCW.

(3) Any person who knowingly fails to pay tax, pay estimated tax, make returns, or supply information, as required under this chapter, is guilty of a gross misdemeanor as provided in chapter 9A.20 RCW.

PART VII
ADMINISTRATIVE PROVISIONS

NEW SECTION. **Sec. 701.** METHOD OF ACCOUNTING. (1) A taxpayer's method of accounting for purposes of the tax imposed under this chapter is the same as the taxpayer's method of accounting for federal income tax purposes. If no method of accounting has been regularly used by a taxpayer for federal income tax purposes or if the method used does not clearly reflect income, tax due under this chapter is computed by the cash method of accounting.

(2) If a person's method of accounting is changed for federal income tax purposes, it must be similarly changed for purposes of this chapter.

NEW SECTION. **Sec. 702.** FILING TAX RETURNS. (1)(a) Except as otherwise provided in this section or RCW 82.32.080, taxpayers owing tax under this chapter must file, on forms prescribed by the department, a return with the department on or before the date the taxpayer's federal income tax return for the taxable year is required to be filed. Individuals not owing tax under this chapter are not required to file a return under this section.

(b)(i) Except as provided in (b)(ii) of this subsection (1), returns and all supporting documents must be filed electronically using the department's online tax filing service or other method of electronic reporting as the department may authorize.

(ii) The department may waive the electronic filing requirement in this subsection for good cause as provided in RCW 82.32.080.

(2)(a) Every taxpayer owing tax under this chapter must include with the Washington return described in subsection (1) of this

section a copy of the taxpayer's federal income tax return filed with the internal revenue service of the United States, including:

(i) All federal income tax forms, schedules, and other attachments that directly relate to the taxpayer's federal adjusted gross income; and

(ii) Any information, returns, and federal tax documents received by the taxpayer that directly relate to the taxpayer's federal adjusted gross income including, but not limited to, form W-2, form 1099-INT, form 1099-DIV, form 1099-NEC, form 1099-MISC, form 1099-B, schedule K-1 (form 1065), and schedule K-1 (form 1120-S).

(b) A taxpayer must provide to the department, upon request, other federal tax return information needed to verify the tax owed under this chapter.

(c) The department may prescribe by rule additional reporting or verification requirements under this subsection (2) to substantiate an individual's federal adjusted gross income.

(3) Each taxpayer required to file a return under this section must, without assessment, notice, or demand, pay any tax due thereon to the department on or before the date fixed for the filing of the return, regardless of any filing extension. The tax must be paid by electronic funds transfer as defined in RCW 82.32.085 or by other forms of electronic payment as may be authorized by the department. The department may waive the electronic payment requirement for good cause as provided in RCW 82.32.080. If any tax due under this chapter is not paid by the due date, interest and penalties as provided in chapter 82.32 RCW apply to the deficiency.

(4) If a taxpayer has obtained an extension of time for filing the federal income tax return for the taxable year and the taxpayer provides the department, on or before the date fixed for the filing of the return, regardless of any filing extension, evidence satisfactory to the department confirming the federal extension, the taxpayer is entitled to the same extension of time for filing the return required under this section. An extension under this subsection for the filing of a return under this chapter is not an extension of time to pay the tax due under this chapter.

(5)(a) If any return due under subsection (1) of this section, along with a copy of the federal income tax return, is not filed with the department by the due date or any extension granted by the department, the department must assess a penalty in the amount of five percent of the tax due for the taxable year covered by the

return for each month or portion of a month that the return remains unfiled. The total penalty assessed under this subsection may not exceed 25 percent of the tax due for the taxable year covered by the delinquent return. The penalty under this subsection is in addition to any penalties assessed for the late payment of any tax due on the return.

(b) The department must waive or cancel the penalty imposed under this subsection if:

(i) The department is persuaded that the taxpayer's failure to file the return by the due date was due to circumstances beyond the taxpayer's control; or

(ii) The taxpayer has not been delinquent in filing any return due under this section during the preceding five calendar years and the taxpayer has not been contacted by the department for enforcement purposes regarding the reporting period covered by the waiver request.

(6) The department must waive or cancel the penalty imposed under RCW 82.32.090(1) on a payment required under this section when the circumstances under which the delinquency occurred do not qualify for waiver or cancellation under RCW 82.32.105(1) if all of the following apply:

(a) A taxpayer requests a waiver of penalty for a payment required under this section;

(b) The taxpayer has not been contacted by the department for enforcement purposes regarding the reporting period covered by the waiver request; and

(c) The taxpayer has timely remitted payment on all tax returns due under this section during the preceding five calendar years.

(7)(a) In the event a taxpayer's federal income tax return is changed in a manner that is final after their return required under subsection (1) of this section is filed with the department and the taxpayer's federal income tax return is changed in a manner that impacts either the calculation of their Washington adjusted gross income or their tax liability under this chapter, or both, the taxpayer must amend the taxpayer's return due under subsection (1) of this section for the same tax year in which their federal income tax return is changed. For the purposes of this subsection (7), a federal income tax return is changed in a manner that is final when such change is not subject to either administrative review by the United States internal revenue service or judicial review in a court of

competent jurisdiction, or both. A change is also final in the case of an audit finding in the following circumstances:

(i) The taxpayer has received audit findings from the internal revenue service for the tax period and the taxpayer does not timely file an administrative appeal with the internal revenue service.

(ii) The taxpayer consented to any of the audit findings for the tax period through a form or other written agreement with the United States internal revenue service.

(b) If the return is not amended, as required under this subsection (7), with the department within 90 days of the federal income tax return change becoming final, the department must assess on the 91st day a penalty in the amount of five percent of any additional tax due for the taxable year covered by the return for each month or portion of a month that the return is not timely amended as required by this subsection. The total penalty assessed under this subsection (7)(b) may not exceed 25 percent of the additional tax due for the taxable year covered by the delinquent return amendment. The penalty under this subsection (7)(b) is in addition to any penalties assessed under this section.

(8)(a) No assessment or correction of an assessment for additional taxes, penalties, or interest due may be made by the department more than four years after the year in which a return is filed under subsection (1) of this section except:

(i) When the taxpayer's federal income tax return is changed in a manner that requires an amended return under subsection (7) of this section; or

(ii) As provided in RCW 82.32.050(4).

(b) In the event the statute of limitations is extended under (a)(i) of this subsection, no assessment or correction of an assessment for additional taxes, penalties, or interest due may be made by the department more than four years after the year in which an amended return is filed with the department as required under subsection (7) of this section. Any assessment or correction of an assessment for additional taxes, penalties, or interest due under this subsection (8)(b) but made by the department more than four years after the year in which a return is filed under subsection (1) of this section must be directly related to the federal income tax return change described in subsection (7) of this section.

NEW SECTION. **Sec. 703.** REQUIREMENT FOR SEPARATE OR JOINT RETURNS. (1) If the federal income tax liabilities of both spouses are determined on a joint federal return for the taxable year, they must file a joint return under this chapter.

(2) Except as otherwise provided in this subsection (2), if the federal income tax liability of any individual, including either spouse of a marital community, is determined on a separate federal return for the taxable year, they must file separate returns under this chapter. State registered domestic partners may file a joint return under this chapter even if they filed separate federal returns for the taxable year.

(3) The liability for tax due under this chapter of each spouse or state registered domestic partner is joint and several, unless:

(a) The spouse is relieved of liability for federal tax purposes as provided under 26 U.S.C. Sec. 6015 of the internal revenue code; or

(b) The department determines that the state registered domestic partner qualifies for relief as provided by rule of the department. Such rule, to the extent possible without being inconsistent with this chapter, must follow 26 U.S.C. Sec. 6015.

(4)(a) Unless the context clearly indicates otherwise, individuals who are spouses or state registered domestic partners are not considered separate taxpayers for the purposes of this chapter regardless of whether they file a joint or separate return for the tax imposed under this chapter. The activities and assets of each spouse or state registered domestic partner are combined as if they were one individual for the purposes of determining the applicability of any threshold amounts, caps, deductions, credits, or any other amounts related to the activities or assets of an individual throughout this chapter.

(b)(i) Except as provided in (b)(ii) of this subsection (4), when an individual does not file a joint return for the tax imposed under this chapter, both spouses or state registered domestic partners must allocate between themselves their respective share of the marital community's or domestic partnership's assets and activity. The allocation must be reported to the department on any returns required to be filed pursuant to this chapter in a manner prescribed by the department.

(ii) If both spouses or state registered domestic partners cannot agree on an allocation of assets and activity as authorized under

(b)(i) of this subsection (4), each spouse is limited to one-half of the total assets and activities of their marital community or domestic partnership.

NEW SECTION. **Sec. 704.** ADMINISTRATION OF CHAPTER CONSISTENT WITH CHAPTER 82.32 RCW. Except as otherwise provided by law and to the extent not inconsistent with the provisions of this chapter, chapter 82.32 RCW applies to the administration of taxes imposed under this chapter.

Sec. 705. RCW 82.32.050 and 2025 c 409 s 12 are each amended to read as follows:

(1) If upon examination of any returns or from other information obtained by the department it appears that a tax or penalty has been paid less than that properly due, the department shall assess against the taxpayer such additional amount found to be due and shall add thereto interest on the tax only. The department shall notify the taxpayer by mail, or electronically as provided in RCW 82.32.135, of the additional amount and the additional amount shall become due and shall be paid within 30 days from the date of the notice, or within such further time as the department may provide.

(a) For tax liabilities arising before January 1, 1992, interest shall be computed at the rate of nine percent per annum from the last day of the year in which the deficiency is incurred until the earlier of December 31, 1998, or the date of payment. After December 31, 1998, the rate of interest shall be variable and computed as provided in subsection (2) of this section. The rate so computed shall be adjusted on the first day of January of each year for use in computing interest for that calendar year.

(b) For tax liabilities arising after December 31, 1991, the rate of interest shall be variable and computed as provided in subsection (2) of this section from the last day of the year in which the deficiency is incurred until the date of payment. The rate so computed shall be adjusted on the first day of January of each year for use in computing interest for that calendar year.

(c)(i) Except as otherwise provided in this subsection (1)(c), interest imposed after December 31, 1998, shall be computed from the last day of the month following each calendar year included in a notice, and the last day of the month following the final month

included in a notice if not the end of a calendar year, until the due date of the notice.

(ii) For interest associated with annual tax reporting periods having a due date as prescribed in RCW 82.32.045(3) ((~~and~~)), 82.87.110, and section 702 of this act, interest must be computed from the last day of April immediately following each such annual reporting period included in the notice, until the due date of the notice.

(iii) For purposes of computing interest under (c)(i) and (ii) of this subsection (1):

(A) The same computation of interest applies regardless of whether the department grants additional time for filing any return under RCW 82.32.080(4)(a)(i).

(B) If the department extends a due date under subsection (3) of this section or RCW 82.32.080(4)(b), and payment is not made in full by the extended due date, interest is computed from the last day of the month in which the extended due date occurs until the date of payment.

(iv) If payment in full is not made by the due date of the notice, additional interest shall be computed under this subsection (1)(c) until the date of payment. The rate of interest shall be variable and computed as provided in subsection (2) of this section. The rate so computed shall be adjusted on the first day of January of each year for use in computing interest for that calendar year.

(2) For the purposes of this section, the rate of interest to be charged to the taxpayer shall be an average of the federal short-term rate as defined in 26 U.S.C. Sec. 1274(d) plus two percentage points. The rate set for each new year shall be computed by taking an arithmetical average to the nearest percentage point of the federal short-term rate, compounded annually. That average shall be calculated using the rates from four months: January, April, and July of the calendar year immediately preceding the new year, and October of the previous preceding year.

(3) During a state of emergency declared under RCW 43.06.010(12), the department, on its own motion or at the request of any taxpayer affected by the emergency, may extend the due date of any assessment or correction of an assessment for additional taxes, penalties, or interest as the department deems proper.

(4) No assessment or correction of an assessment for additional taxes, penalties, or interest due may be made by the department more

than four years after the close of the tax year, except (a) against a taxpayer who has not registered as required by this chapter, (b) upon a showing of fraud or of misrepresentation of a material fact by the taxpayer, or (c) where a taxpayer has executed a written waiver of such limitation. The execution of a written waiver shall also extend the period for making a refund or credit as provided in RCW 82.32.060(2).

(5) For the purposes of this section, the following definitions apply:

(a) "Due date of the notice" means the date indicated in the notice by which the amount due in the notice must be paid, or such later date as provided by RCW 1.12.070(3).

(b) "Return" means any document a person is required by the state of Washington to file to satisfy or establish a tax or fee obligation that is administered or collected by the department and that has a statutorily defined due date. "Return" also means an application for refund under RCW 82.08.0206.

Sec. 706. RCW 82.32.060 and 2025 c 409 s 13 are each amended to read as follows:

(1) If, upon receipt of an application by a taxpayer for a refund or for an audit of the taxpayer's records, or upon an examination of the returns or records of any taxpayer, it is determined by the department that within the statutory period for assessment of taxes, penalties, or interest prescribed by RCW 82.32.050 any amount of tax, penalty, or interest has been paid in excess of that properly due, the excess amount paid within, or attributable to, such period must be credited to the taxpayer's account or must be refunded to the taxpayer, at the taxpayer's option. Except as provided in subsection (2) of this section, no refund or credit may be made for taxes, penalties, or interest paid more than four years prior to the beginning of the calendar year in which the refund application is made or examination of records is completed.

(2)(a) The execution of a written waiver under RCW 82.32.050 or 82.32.100 will extend the time for making a refund or credit of any taxes paid during, or attributable to, the years covered by the waiver if, prior to the expiration of the waiver period, an application for refund of such taxes is made by the taxpayer or the department discovers a refund or credit is due.

(b) A refund or credit must be allowed for an excess payment resulting from the failure to claim a bad debt deduction, credit, or refund under RCW 82.04.4284, 82.08.037, 82.12.037, 82.14B.150, or 82.16.050(5) for debts that became bad debts under 26 U.S.C. Sec. 166, as amended or renumbered as of January 1, 2003, less than four years prior to the beginning of the calendar year in which the refund application is made or examination of records is completed.

(3) Any such refunds must be made by means of vouchers approved by the department and by the issuance of state warrants drawn upon and payable from such funds as the legislature may provide. However, taxpayers who are required to pay taxes by electronic funds transfer under RCW 82.32.080 must have any refunds paid by electronic funds transfer if the department has the necessary account information to facilitate a refund by electronic funds transfer.

(4) Any judgment for which a recovery is granted by any court of competent jurisdiction, not appealed from, for tax, penalties, and interest which were paid by the taxpayer, and costs, in a suit by any taxpayer must be paid in the same manner, as provided in subsection (3) of this section, upon the filing with the department of a certified copy of the order or judgment of the court.

(a) Interest at the rate of three percent per annum must be allowed by the department and by any court on the amount of any refund, credit, or other recovery allowed to a taxpayer for taxes, penalties, or interest paid by the taxpayer before January 1, 1992. This rate of interest applies for all interest allowed through December 31, 1998. Interest allowed after December 31, 1998, must be computed at the rate as computed under RCW 82.32.050(2). The rate so computed must be adjusted on the first day of January of each year for use in computing interest for that calendar year.

(b) For refunds or credits of amounts paid or other recovery allowed to a taxpayer after December 31, 1991, the rate of interest must be the rate as computed for assessments under RCW 82.32.050(2) less one percent. This rate of interest applies for all interest allowed through December 31, 1998. Interest allowed after December 31, 1998, must be computed at the rate as computed under RCW 82.32.050(2). The rate so computed must be adjusted on the first day of January of each year for use in computing interest for that calendar year.

(5) Interest allowed on a credit notice or refund issued after December 31, 2003, must be computed as follows:

(a) If all overpayments for each calendar year and all reporting periods ending with the final month included in a notice or refund were made on or before the due date of the final return for each calendar year or the final reporting period included in the notice or refund:

(i) Interest must be computed from January 31st following each calendar year included in a notice or refund;

(ii) Interest must be computed from the last day of the month following the final month included in a notice or refund; or

(iii) For interest associated with annual tax reporting periods having a due date as prescribed in RCW 82.32.045(3) ((~~and~~)), 82.87.110, and section 702 of this act, interest must be computed from the last day of April following each such annual reporting period included in a notice or refund.

(b) If the taxpayer has not made all overpayments for each calendar year and all reporting periods ending with the final month included in a notice or refund on or before the dates specified by RCW 82.32.045 for the final return for each calendar year or the final month included in the notice or refund, interest must be computed from the last day of the month following the date on which payment in full of the liabilities was made for each calendar year included in a notice or refund, and the last day of the month following the date on which payment in full of the liabilities was made if the final month included in a notice or refund is not the end of a calendar year.

(c) Interest included in a credit notice must accrue up to the date the taxpayer could reasonably be expected to use the credit notice, as defined by the department's rules. If a credit notice is converted to a refund, interest must be recomputed to the date the refund is issued, but not to exceed the amount of interest that would have been allowed with the credit notice.

Sec. 707. RCW 82.32.090 and 2025 c 409 s 14 are each amended to read as follows:

(1) If payment of any tax due on a return to be filed by a taxpayer is not received by the department of revenue by the due date, there is assessed a penalty of nine percent of the amount of the tax; and if the tax is not received on or before the last day of the month following the due date, there is assessed a total penalty of 19 percent of the amount of the tax under this subsection; and if

the tax is not received on or before the last day of the second month following the due date, there is assessed a total penalty of 29 percent of the amount of the tax under this subsection. No penalty so added may be less than $5.

(2) If the department of revenue determines that any tax has been substantially underpaid, there is assessed a penalty of five percent of the amount of the tax determined by the department to be due. If payment of any tax determined by the department to be due is not received by the department by the due date specified in the notice, or any extension thereof, there is assessed a total penalty of 15 percent of the amount of the tax under this subsection; and if payment of any tax determined by the department to be due is not received on or before the 30th day following the due date specified in the notice of tax due, or any extension thereof, there is assessed a total penalty of 25 percent of the amount of the tax under this subsection. No penalty so added may be less than $5. As used in this ((~~section~~)) subsection, "substantially underpaid" means that the taxpayer has paid less than 80 percent of the amount of tax determined by the department to be due for all of the types of taxes included in, and for the entire period of time covered by, the department's examination, and the amount of underpayment is at least $1,000.

(3) If a warrant is issued by the department of revenue for the collection of taxes, increases, and penalties, there is added thereto a penalty of 10 percent of the amount of the tax, but not less than $10.

(4) If the department finds that a person has engaged in any business or performed any act upon which a tax is imposed under this title and that person has not obtained from the department a registration certificate as required by RCW 82.32.030, the department must impose a penalty of five percent of the amount of tax due from that person for the period that the person was not registered as required by RCW 82.32.030. The department may not impose the penalty under this subsection (4) if a person who has engaged in business taxable under this title without first having registered as required by RCW 82.32.030, prior to any notification by the department of the need to register, obtains a registration certificate from the department.

(5) If the department finds that a taxpayer has disregarded specific written instructions as to reporting or tax liabilities, or

willfully disregarded the requirement to file returns or remit payment electronically, as provided by RCW 82.32.080, the department must add a penalty of 10 percent of the amount of the tax that should have been reported and/or paid electronically or the additional tax found due if there is a deficiency because of the failure to follow the instructions. A taxpayer disregards specific written instructions when the department has informed the taxpayer in writing of the taxpayer's tax obligations and the taxpayer fails to act in accordance with those instructions unless, in the case of a deficiency, the department has not issued final instructions because the matter is under appeal pursuant to this chapter or departmental regulations. The department may not assess the penalty under this section upon any taxpayer who has made a good faith effort to comply with the specific written instructions provided by the department to that taxpayer. A taxpayer will be considered to have made a good faith effort to comply with specific written instructions to file returns and/or remit taxes electronically only if the taxpayer can show good cause, as defined in RCW 82.32.080, for the failure to comply with such instructions. A taxpayer will be considered to have willfully disregarded the requirement to file returns or remit payment electronically if the department has mailed or otherwise delivered the specific written instructions to the taxpayer on at least two occasions. Specific written instructions may be given as a part of a tax assessment, audit, determination, closing agreement, or other written communication, provided that such specific written instructions apply only to the taxpayer addressed or referenced on such communication. Any specific written instructions by the department must be clearly identified as such and must inform the taxpayer that failure to follow the instructions may subject the taxpayer to the penalties imposed by this subsection. If the department determines that it is necessary to provide specific written instructions to a taxpayer that does not comply with the requirement to file returns or remit payment electronically as provided in RCW 82.32.080, the specific written instructions must provide the taxpayer with a minimum of 45 days to come into compliance with its electronic filing and/or payment obligations before the department may impose the penalty authorized in this subsection.

(6) If the department finds that all or any part of a deficiency resulted from engaging in a disregarded transaction, as described in

RCW 82.32.655(3), the department must assess a penalty of 35 percent of the additional tax found to be due as a result of engaging in a transaction disregarded by the department under RCW 82.32.655(2). The penalty provided in this subsection may be assessed together with any other applicable penalties provided in this section on the same tax found to be due, except for the evasion penalty provided in subsection (7) of this section. The department may not assess the penalty under this subsection if, before the department discovers the taxpayer's use of a transaction described under RCW 82.32.655(3), the taxpayer discloses its participation in the transaction to the department.

(7) If the department finds that all or any part of the deficiency resulted from an intent to evade the tax payable hereunder, a further penalty of 50 percent of the additional tax found to be due must be added.

(8) The penalties imposed under subsections (1) through (4) of this section can each be imposed on the same tax found to be due. This subsection does not prohibit or restrict the application of other penalties authorized by law.

(9) The department may not impose the evasion penalty in combination with the penalty for disregarding specific written instructions or the penalty provided in subsection (6) of this section on the same tax found to be due.

(10) If a taxpayer substantially underpays an estimated payment of tax imposed under RCW 82.87.040 pursuant to RCW 82.87.110(3), there is assessed a penalty of five percent of the amount of the actual tax due for tax imposed under RCW 82.87.040. As used in this ((~~section~~)) subsection, "substantially underpaid" means that an individual's estimated payment for taxes imposed under RCW 82.87.040 was less than 80 percent of the actual tax due, and at least $1,000.

(11) If the total estimated tax payments under section 501 of this act for the tax year are substantially underpaid, there is assessed a penalty of five percent of the amount of the underpaid tax. If a pass-through entity makes an election under section 502 of this act, this subsection (11) applies to the estimated tax payments of the pass-through entity in lieu of the individual. As used in this subsection, "substantially underpaid" means that an individual's total annual estimated tax payments under section 501 of this act were less than 80 percent of the actual annual tax due, and at least $5,000.

(12) For the purposes of this section, "return" means any document a person is required by the state of Washington to file to satisfy or establish a tax or fee obligation that is administered or collected by the department, and that has a statutorily defined due date. "Return" also includes the submission of any estimated payment of tax as provided in RCW 82.87.110(3) and the confirmation of an extension of the filing due date required under RCW 82.87.110(5).

NEW SECTION. **Sec. 708.** ESTIMATION AGREEMENTS. The department may reasonably estimate the items of business or nonbusiness income of a taxpayer having an office within the state and one or more other states or foreign countries which may be apportioned or allocated to the state and may enter into estimation agreements with such taxpayers for the determination of their liability for the tax imposed by this chapter.

NEW SECTION. **Sec. 709.** PROVISIONS OF INTERNAL REVENUE CODE CONTROL. (1) To the extent possible without being inconsistent with this chapter, all of the provisions of subtitle F (procedure and administration) of the internal revenue code relating to the following subjects apply to the taxes imposed under this chapter:

(a) Timing and amount of tax prepayments under section 501 of this act;

(b) Liability of transferees; and

(c) Time and manner of making returns, extensions of time for filing returns, verification of returns, and the time when a return is deemed to be filed by the department.

(2) The department by rule may provide modifications and exceptions to the provisions listed in subsection (1) of this section, if reasonably necessary to facilitate the prompt, efficient, and equitable collection of tax under this chapter.

NEW SECTION. **Sec. 710.** RULES. The department may adopt rules under chapter 34.05 RCW for the administration and enforcement of this chapter. The rules, to the extent possible without being inconsistent with this chapter, must follow the internal revenue code and the regulations and rulings of the United States treasury department with respect to the federal income tax. The department may adopt as a part of these rules any portions of the internal revenue

code and United States treasury department regulations and rulings, in whole or in part.

NEW SECTION. **Sec. 711.** LOCAL GOVERNMENT PUBLIC DEFENSE FUNDING STABILIZATION ACCOUNT. (1) The local government public defense funding stabilization account is hereby created in the state treasury. All receipts specified under section 202(1)(a) of this act must be deposited in the account. Moneys in the account may be spent only after appropriation. Expenditures from the account may be used only for distributions to counties and cities for public defense services consistent with chapter 10.101 RCW. Counties and cities receiving funds must comply with the requirements of RCW 10.101.060.

(2) On a quarterly basis, the state treasurer shall distribute moneys deposited in the local government public defense funding stabilization account as follows:

(a) 10 percent to cities on a pro rata basis, based upon the annual number of misdemeanor criminal cases filed in courts under each city's jurisdiction, as determined by the office of public defense.

(b) The remainder to counties as follows:

(i) Six percent shall be distributed as a base allocation among the counties. A county's base allocation is equal to the total amount to be distributed under this subsection (2)(b)(i) divided by 39.

(ii) 94 percent shall be distributed as follows:

(A) 40 percent shall be distributed on a pro rata basis to each county based on the county's personal income ratio as determined under subsection (3) of this section; and

(B) 60 percent shall be distributed on a pro rata basis to each county based upon the annual number of criminal cases filed in the county superior court as a percentage of the total annual number of criminal cases filed in the superior courts of all counties, as determined under subsection (5) of this section.

(3) The office of financial management shall calculate each county's personal income ratio by December 31, 2028, and December 31st of each year thereafter, using the most recent annual county personal income data published by the federal bureau of economic analysis for the state of Washington and notify the state treasurer. The updated county personal income ratio applies to county distributions in the following calendar year.

(4) For the purpose of this section, "county's personal income ratio" means the personal income of the county divided by the personal income of the state of Washington, as determined under subsection (3) of this section.

(5) For the purposes of this section, the annual number of criminal cases filed in the county superior court is determined by the most recent annual report of the courts of Washington, as published by the office of the administrator for the courts.

(6) For the purposes of this section, the annual number of misdemeanor criminal cases filed in courts under the city's jurisdiction is determined by the most recent annual report of the courts of Washington, as published by the office of the administrator for the courts.

PART VIII
APPLICATION OF TAX TO PUBLIC PENSIONS

Sec. 801. RCW 2.10.180 and 2012 c 159 s 17 are each amended to read as follows:

(1) Except as provided in subsections (2), (3), ((~~and~~)) (4)<u>, and (5)</u> of this section, the right of a person to a retirement allowance, disability allowance, or death benefit, the retirement, disability or death allowance itself, any optional benefit, any other right accrued or accruing to any person under the provisions of this chapter, and the moneys in the fund created under this chapter, are hereby exempt from any state, county, municipal, or other local tax and shall not be subject to execution, garnishment, or any other process of law whatsoever whether the same be in actual possession of the person or be deposited or loaned.

(2) Subsection (1) of this section shall not be deemed to prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of premiums due on any group insurance policy or plan issued for the benefit of a group comprised of public employees of the state of Washington.

(3) Deductions made in the past from retirement benefits are hereby expressly recognized, ratified, and affirmed. Future deductions may only be made in accordance with this section.

(4) Subsection (1) of this section shall not prohibit the department of retirement systems from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18

RCW, (b) a notice of payroll deduction issued under chapter 26.23 RCW, (c) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (d) a mandatory benefits assignment order issued pursuant to chapter 41.50 RCW, (e) a court order directing the department of retirement systems to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

(5) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 802. RCW 2.12.090 and 2012 c 159 s 18 are each amended to read as follows:

(1) Except as provided in subsections (2), (3), ((~~and~~)) (4), and (5) of this section, the right of any person to a retirement allowance or optional retirement allowance under the provisions of this chapter and all moneys and investments and income thereof are exempt from any state, county, municipal, or other local tax and shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or the insolvency laws, or other processes of law whatsoever whether the same be in actual possession of the person or be deposited or loaned and shall be unassignable except as herein specifically provided.

(2) Subsection (1) of this section shall not prohibit the department of retirement systems from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18 RCW, (b) a notice of payroll deduction issued under chapter 26.23 RCW, (c) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (d) a mandatory benefits assignment order issued pursuant to chapter 41.50 RCW, (e) a court order directing the department of retirement systems to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

(3) Subsection (1) of this section shall not be deemed to prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of premiums due on any group insurance policy or plan issued for the benefit of a group comprised of public employees of the state of Washington.

(4) Deductions made in the past from retirement benefits are hereby expressly recognized, ratified, and affirmed. Future deductions may only be made in accordance with this section.

(5) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 803. RCW 6.15.020 and 2011 c 162 s 3 are each amended to read as follows:

(1) It is the policy of the state of Washington to ensure the well-being of its citizens by protecting retirement income to which they are or may become entitled. For that purpose generally and pursuant to the authority granted to the state of Washington under 11 U.S.C. Sec. 522(b)(2), the exemptions in this section relating to retirement benefits are provided.

(2) Unless otherwise provided by federal law, any money received by any citizen of the state of Washington as a pension from the government of the United States, whether the same be in the actual possession of such person or be deposited or loaned, shall be exempt from execution, attachment, garnishment, or seizure by or under any legal process whatever, and when a debtor dies, or absconds, and leaves his or her family any money exempted by this subsection, the same shall be exempt to the family as provided in this subsection. This subsection shall not apply to child support collection actions issued under chapter 26.18, 26.23, or 74.20A RCW, if otherwise permitted by federal law, or to collection actions for taxes imposed under Title 82A RCW (the new title created in section 1003 of this act).

(3) The right of a person to a pension, annuity, or retirement allowance or disability allowance, or death benefits, or any optional benefit, or any other right accrued or accruing to any citizen of the state of Washington under any employee benefit plan, and any fund created by such a plan or arrangement, shall be exempt from execution, attachment, garnishment, or seizure by or under any legal process whatever. This subsection shall not apply to child support collection actions issued under chapter 26.18, 26.23, or 74.20A RCW if otherwise permitted by federal law, or to collection actions for taxes imposed under Title 82A RCW (the new title created in section 1003 of this act). This subsection shall permit benefits under any such plan or arrangement to be payable to a spouse, former spouse,

child, or other dependent of a participant in such plan to the extent expressly provided for in a qualified domestic relations order that meets the requirements for such orders under the plan, or, in the case of benefits payable under a plan described in 26 U.S.C. Sec. 403(b) or 408 of the internal revenue code of 1986, as amended, or section 409 of such code as in effect before January 1, 1984, to the extent provided in any order issued by a court of competent jurisdiction that provides for maintenance or support. This subsection does not prohibit actions against an employee benefit plan, or fund for valid obligations incurred by the plan or fund for the benefit of the plan or fund.

(4) For the purposes of this section, the term "employee benefit plan" means any plan or arrangement that is described in RCW 49.64.020, including any Keogh plan, whether funded by a trust or by an annuity contract, and in 26 U.S.C. Sec. 401(a) or 403(a) of the internal revenue code of 1986, as amended; or that is a tax-sheltered annuity or a custodial account described in section 403(b) of such code or an individual retirement account or an individual retirement annuity described in section 408 of such code; or a Roth individual retirement account described in section 408A of such code; or a medical savings account or a health savings account described in sections 220 and 223, respectively, of such code; or a retirement bond described in section 409 of such code as in effect before January 1, 1984. The term "employee benefit plan" shall not include any employee benefit plan that is established or maintained for its employees by the government of the United States, by the state of Washington under chapter 2.10, 2.12, 41.26, 41.32, 41.34, 41.35, 41.37, 41.40, or 43.43 RCW or RCW 41.50.770, or by any agency or instrumentality of the government of the United States.

(5) An employee benefit plan shall be deemed to be a spendthrift trust, regardless of the source of funds, the relationship between the trustee or custodian of the plan and the beneficiary, or the ability of the debtor to withdraw or borrow or otherwise become entitled to benefits from the plan before retirement. This subsection shall not apply to child support collection actions issued under chapter 26.18, 26.23, or 74.20A RCW, if otherwise permitted by federal law, or to collection actions for taxes imposed under Title 82A RCW (the new title created in section 1003 of this act). This subsection shall permit benefits under any such plan or arrangement to be payable to a spouse, former spouse, child, or other dependent

of a participant in such plan to the extent expressly provided for in a qualified domestic relations order that meets the requirements for such orders under the plan, or, in the case of benefits payable under a plan described in 26 U.S.C. Sec. 403(b) or 408 of the internal revenue code of 1986, as amended, or section 409 of such code as in effect before January 1, 1984, to the extent provided in any order issued by a court of competent jurisdiction that provides for maintenance or support.

(6) Unless prohibited by federal law, nothing contained in subsection (3), (4), or (5) of this section shall be construed as a termination or limitation of a spouse's community property interest in an employee benefit plan held in the name of or on account of the other spouse, who is the participant or the account holder spouse. Unless prohibited by applicable federal law, at the death of the nonparticipant, nonaccount holder spouse, the nonparticipant, nonaccount holder spouse may transfer or distribute the community property interest of the nonparticipant, nonaccount holder spouse in the participant or account holder spouse's employee benefit plan to the nonparticipant, nonaccount holder spouse's estate, testamentary trust, inter vivos trust, or other successor or successors pursuant to the last will of the nonparticipant, nonaccount holder spouse or the law of intestate succession, and that distributee may, but shall not be required to, obtain an order of a court of competent jurisdiction, including a nonjudicial binding agreement or order entered under chapter 11.96A RCW, to confirm the distribution. For purposes of subsection (3) of this section, the distributee of the nonparticipant, nonaccount holder spouse's community property interest in an employee benefit plan shall be considered a person entitled to the full protection of subsection (3) of this section. The nonparticipant, nonaccount holder spouse's consent to a beneficiary designation by the participant or account holder spouse with respect to an employee benefit plan shall not, absent clear and convincing evidence to the contrary, be deemed a release, gift, relinquishment, termination, limitation, or transfer of the nonparticipant, nonaccount holder spouse's community property interest in an employee benefit plan. For purposes of this subsection, the term "nonparticipant, nonaccount holder spouse" means the spouse of the person who is a participant in an employee benefit plan or in whose name an individual retirement account is maintained. As used in this subsection, an order of a court of competent

jurisdiction entered under chapter 11.96A RCW includes an agreement, as that term is used under RCW 11.96A.220.

Sec. 804. RCW 41.24.240 and 1995 c 11 s 13 are each amended to read as follows:

(1) The right of any person to any future payment under the provisions of this chapter shall not be transferable or assignable at law or in equity, and none of the moneys paid or payable or the rights existing under this chapter, shall be subject to execution, levy, attachment, garnishment, or other legal process, or to the operation of any bankruptcy or insolvency law. This section shall not be applicable to any child support collection action taken under chapter 26.18, 26.23, or 74.20A RCW. Benefits under this chapter shall be payable to a spouse or ex-spouse to the extent expressly provided for in any court decree of dissolution or legal separation or in any court order or court-approved property settlement agreement incident to any court decree of dissolution or legal separation.

(2) Nothing in this chapter shall be construed to deprive any participant, eligible to receive a pension hereunder, from receiving a pension under any other act to which that participant may become eligible by reason of services other than or in addition to his or her services under this chapter.

(3) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 805. RCW 41.32.052 and 2012 c 159 s 20 are each amended to read as follows:

(1) Subject to subsections (2) ((~~and~~)), (3), and (4) of this section, the right of a person to a pension, an annuity, a retirement allowance, or disability allowance, to the return of contributions, any optional benefit or death benefit, any other right accrued or accruing to any person under the provisions of this chapter and the moneys in the various funds created by this chapter shall be unassignable, and are hereby exempt from any state, county, municipal or other local tax, and shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or other process of law whatsoever whether the same be in actual possession of the person or be deposited or loaned.

(2) This section shall not be deemed to prohibit a beneficiary of a retirement allowance who is eligible:

(a) Under RCW 41.05.080 from authorizing monthly deductions therefrom for payment of premiums due on any group insurance policy or plan issued for the benefit of a group comprised of public employees of the state of Washington or its political subdivisions;

(b) Under a group health care benefit plan approved pursuant to RCW 28A.400.350 or 41.05.065 from authorizing monthly deductions therefrom, of the amount or amounts of subscription payments, premiums, or contributions to any person, firm, or corporation furnishing or providing medical, surgical, and hospital care or other health care insurance; or

(c) Under this system from authorizing monthly deductions therefrom for payment of dues and other membership fees to any retirement association composed of retired teachers and/or public employees pursuant to a written agreement between the director and the retirement association.

Deductions under (a) and (b) of this subsection shall be made in accordance with rules that may be adopted by the director.

(3) Subsection (1) of this section shall not prohibit the department from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18 RCW, (b) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (c) ((~~a notice of payroll deduction~~)) an income withholding order issued pursuant to RCW 26.23.060, (d) a mandatory benefits assignment order issued by the department, (e) a court order directing the department of retirement systems to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

(4) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 806. RCW 41.34.080 and 2012 c 159 s 23 are each amended to read as follows:

(1) Subject to subsections (2) ((~~and~~)), (3), and (4) of this section, the right of a person to a pension, an annuity, a retirement allowance, any optional benefit, any other right accrued or accruing to any person under the provisions of this chapter, and the various

funds created by chapter 239, Laws of 1995; chapter 341, Laws of 1998; and chapter 247, Laws of 2000 and all moneys and investments and income thereof, is hereby exempt from any state, county, municipal, or other local tax, and shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or other process of law whatsoever, whether the same be in actual possession of the person or be deposited or loaned and shall be unassignable.

(2) This section shall not be deemed to prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of premiums due on any group insurance policy or plan issued for the benefit of a group comprised of public employees of the state of Washington or its political subdivisions and that has been approved for deduction in accordance with rules that may be adopted by the state health care authority and/or the department. This section shall not be deemed to prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of dues and other membership fees to any retirement association or organization the membership of which is composed of retired public employees, if a total of three hundred or more of such retired employees have authorized such deduction for payment to the same retirement association or organization.

(3) Subsection (1) of this section shall not prohibit the department from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18 RCW, (b) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (c) a ((~~notice of payroll deduction~~)) income withholding order issued pursuant to RCW 26.23.060, (d) a mandatory benefits assignment order issued by the department, (e) a court order directing the department to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

(4) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 807. RCW 41.35.100 and 2012 c 159 s 24 are each amended to read as follows:

(1) Subject to subsections (2) ((~~and~~)), (3), and (4) of this section, the right of a person to a pension, an annuity, or retirement allowance, any optional benefit, any other right accrued or accruing to any person under the provisions of this chapter, the various funds created by this chapter, and all moneys and investments and income thereof, are hereby exempt from any state, county, municipal, or other local tax, and shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or other process of law whatsoever, whether the same be in actual possession of the person or be deposited or loaned and shall be unassignable.

(2) This section does not prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of premiums due on any group insurance policy or plan issued for the benefit of a group comprised of public employees of the state of Washington or its political subdivisions and which has been approved for deduction in accordance with rules that may be adopted by the state health care authority and/or the department. This section also does not prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of dues and other membership fees to any retirement association or organization the membership of which is composed of retired public employees, if a total of three hundred or more of such retired employees have authorized such deduction for payment to the same retirement association or organization.

(3) Subsection (1) of this section does not prohibit the department from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18 RCW, (b) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (c) ((~~a notice of payroll deduction~~)) an income withholding order issued pursuant to RCW 26.23.060, (d) a mandatory benefits assignment order issued by the department, (e) a court order directing the department of retirement systems to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

(4) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 808. RCW 41.40.052 and 2012 c 159 s 26 are each amended to read as follows:

(1) Subject to subsections (2) ((~~and~~)), (3), and (4) of this section, the right of a person to a pension, an annuity, or retirement allowance, any optional benefit, any other right accrued or accruing to any person under the provisions of this chapter, the various funds created by this chapter, and all moneys and investments and income thereof, are hereby exempt from any state, county, municipal, or other local tax, and shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or other process of law whatsoever, whether the same be in actual possession of the person or be deposited or loaned and shall be unassignable.

(2)(a) This section shall not be deemed to prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of premiums due on any group insurance policy or plan issued for the benefit of a group comprised of public employees of the state of Washington or its political subdivisions and which has been approved for deduction in accordance with rules that may be adopted by the state health care authority and/or the department, and this section shall not be deemed to prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of dues and other membership fees to any retirement association or organization the membership of which is composed of retired public employees, if a total of three hundred or more of such retired employees have authorized such deduction for payment to the same retirement association or organization.

(b) This section does not prohibit a beneficiary of a retirement allowance from authorizing deductions from that allowance for charitable purposes on the same terms as employees and public officers under RCW 41.04.035 and 41.04.036.

(3) Subsection (1) of this section shall not prohibit the department from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18 RCW, (b) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (c) ((~~a notice of payroll deduction~~)) an income withholding order issued pursuant to RCW 26.23.060, (d) a mandatory benefits assignment order issued by the department, (e) a court order directing the department of retirement systems to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies

with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

(4) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 809. RCW 41.44.240 and 2012 c 159 s 27 are each amended to read as follows:

(1) The right of a person to a pension, annuity or a retirement allowance, to the return of contribution, the pension, annuity or retirement allowance itself, any optional benefit, any other right accrued or accruing to any person under the provisions of this chapter, and the moneys in the fund created under this chapter shall not be subject to execution, garnishment, or any other process whatsoever whether the same be in actual possession of the person or be deposited or loaned.

(2) This section shall not apply to child support collection actions taken under chapter 26.18, 26.23, or 74.20A RCW against benefits payable under any such plan or arrangement. Benefits under this chapter shall be payable to a spouse or ex-spouse to the extent expressly provided for in any court decree of dissolution or legal separation or in any court order or court-approved property settlement agreement incident to any court decree of dissolution or legal separation.

(3) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 810. RCW 41.26.053 and 2012 c 159 s 21 are each amended to read as follows:

(1) Subject to subsections (2) ((~~and~~)), (3), and (4) of this section, the right of a person to a retirement allowance, disability allowance, or death benefit, to the return of accumulated contributions, the retirement, disability or death allowance itself, any optional benefit, any other right accrued or accruing to any person under the provisions of this chapter, and the moneys in the fund created under this chapter, are hereby exempt from any state, county, municipal, or other local tax and shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or any other process of law whatsoever, whether the

same be in actual possession of the person or be deposited or loaned and shall be unassignable.

(2) On the written request of any person eligible to receive benefits under this section, the department may deduct from such payments the premiums for life, health, or other insurance. The request on behalf of any child or children shall be made by the legal guardian of such child or children. The department may provide for such persons one or more plans of group insurance, through contracts with regularly constituted insurance carriers or health care service contractors.

(3) Subsection (1) of this section shall not prohibit the department from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18 RCW, (b) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (c) ((~~a notice of payroll deduction~~)) an income withholding order issued pursuant to RCW 26.23.060, (d) a mandatory benefits assignment order issued by the department, (e) a court order directing the department of retirement systems to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

(4) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

Sec. 811. RCW 43.43.310 and 2012 c 159 s 28 are each amended to read as follows:

(1) Except as provided in subsections (2) ((~~and~~)), (3), and (4) of this section, the right of any person to a retirement allowance or optional retirement allowance under the provisions hereof and all moneys and investments and income thereof are exempt from any state, county, municipal, or other local tax and shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or the insolvency laws, or other processes of law whatsoever, whether the same be in actual possession of the person or be deposited or loaned and shall be unassignable except as herein specifically provided.

(2) Subsection (1) of this section shall not prohibit the department of retirement systems from complying with (a) a wage assignment order for child support issued pursuant to chapter 26.18

RCW, (b) an order to withhold and deliver issued pursuant to chapter 74.20A RCW, (c) ((~~a notice of payroll deduction~~)) an income withholding order issued pursuant to RCW 26.23.060, (d) a mandatory benefits assignment order issued pursuant to chapter 41.50 RCW, (e) a court order directing the department of retirement systems to pay benefits directly to an obligee under a dissolution order as defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and 41.50.700, or (f) any administrative or court order expressly authorized by federal law.

(3) Subsection (1) of this section shall not be deemed to prohibit a beneficiary of a retirement allowance from authorizing deductions therefrom for payment of premiums due on any group insurance policy or plan issued for the benefit of a group comprised of members of the Washington state patrol or other public employees of the state of Washington, or for contributions to the Washington state patrol memorial foundation.

(4) Subsection (1) of this section does not exempt any pension or other benefit received under this chapter from tax under Title 82A RCW (the new title created in section 1003 of this act).

PART IX
TAX RELIEF

Sec. 901. RCW 82.08.0206 and 2024 c 3 s 1 are each amended to read as follows:

(1) A working families' tax credit, funded by sales and use tax imposed, is provided to eligible low-income persons for calendar years beginning on or after January 1, 2022. The credit is refundable and is calculated as provided in this section.

(2) For purposes of the credit in this section, the following definitions apply:

(a)(i) "Eligible low-income person" means an individual who:

(A) Is eligible for the credit provided in Title 26 U.S.C. Sec. 32 of the internal revenue code;

(B) Properly files a federal income tax return for the prior federal tax year, and was a Washington resident during the year for which the credit is claimed; and

(C) Has paid either retail sales tax under this chapter or use tax under chapter 82.12 RCW, or both. There is a rebuttable presumption that a person paid either retail sales tax under this

chapter or use tax under chapter 82.12 RCW, or both, if they were a Washington resident during the year for which the credit is claimed.

(ii) "Eligible low-income person" also means an individual who meets the requirements provided in (a)(i)(B) of this subsection and would otherwise qualify for the credit provided in Title 26 U.S.C. Sec. 32 of the internal revenue code except that one or any combination of the following conditions apply:

(A) The individual filed a federal income tax return for the prior federal tax year using a valid individual taxpayer identification number in lieu of a social security number, and the individual's spouse, if any, and all qualifying children, if any, have a valid individual taxpayer identification number or a social security number; ((~~or~~))

(B) The individual filed their federal income tax return for the prior federal tax year under the married filing separately status. For purposes of the refund provided in this section, the special rule for separated spouse under Title 26 U.S.C. Sec. 32(d)(2)(B) of the internal revenue code does not apply; or

(C) The individual does not meet the age requirement under Title 26 U.S.C. Sec. 32(c)(1)(A)(ii)(II) of the internal revenue code, but is at least age 18 by the end of the prior federal tax year.

(b) "Income" means earned income as defined by Title 26 U.S.C. Sec. 32 of the internal revenue code.

(c) "Individual" means an individual or an individual and that individual's spouse if they file a federal joint income tax return.

(d) "Internal revenue code" means the United States internal revenue code of 1986, as amended, as of June 9, 2022, or such subsequent date as the department may provide by rule consistent with the purpose of this section.

(e) "Maximum qualifying income" means the maximum federally adjusted gross income for the prior federal tax year.

(f) "Qualifying child" means a qualifying child as defined by Title 26 U.S.C. Sec. 32 of the internal revenue code, except the child may have a valid individual taxpayer identification number in lieu of a social security number.

(g) "Washington resident" means an individual who is physically present and residing in this state for at least 183 days. "Washington resident" also includes an individual who is not physically present and residing in this state for at least 183 days but is the spouse of

a Washington resident. For purposes of this subsection, "day" means a calendar day or any portion of a calendar day.

(3)(a) Except as provided in (b) and (c) of this subsection, for calendar year 2023 and thereafter, the working families' tax credit refund amount for the prior calendar year is:

(i) $300 for eligible persons with no qualifying children;

(ii) $600 for eligible persons with one qualifying child;

(iii) $900 for eligible persons with two qualifying children; or

(iv) $1,200 for eligible persons with three or more qualifying children.

(b) Except as provided in (f) of this subsection, the refund amounts provided in (a) of this subsection will be reduced, rounded to the nearest dollar, as follows:

(i) For eligible persons with no qualifying children, beginning at $2,500 of income below the federal phase-out income for the prior federal tax year, by 18 percent per additional dollar of income until the minimum credit amount as specified in (c) of this subsection is reached.

(ii) For eligible persons with one qualifying child, beginning at $5,000 of income below the federal phase-out income for the prior federal tax year, by 12 percent per additional dollar of income until the minimum credit amount as specified in (c) of this subsection is reached.

(iii) For eligible persons with two qualifying children, beginning at $5,000 of income below the federal phase-out income for the prior federal tax year, by 15 percent per additional dollar of income until the minimum credit amount as specified in (c) of this subsection is reached.

(iv) For eligible persons with three or more qualifying children, beginning at $5,000 of income below the federal phase-out income for the prior federal tax year, by 18 percent per additional dollar of income until the minimum credit amount as specified in (c) of this subsection is reached.

(c) If the refund for an eligible person as calculated in this section is greater than zero cents, but less than $50, the refund amount is $50.

(d) The refund amounts in this section shall be adjusted for inflation every year beginning January 1, 2024, based upon changes in the consumer price index that are published by November 15th of the

previous year for the most recent 12-month period. The adjusted refund amounts must be rounded to the nearest $5.

(e) For purposes of this section, "consumer price index" means, for any 12-month period, the average consumer price index for that 12-month period for the Seattle, Washington area for urban wage earners and clerical workers, all items, compiled by the bureau of labor statistics, United States department of labor.

(f) The percentage rate of remittance reductions in (b) of this subsection must be adjusted every year beginning January 1, 2023, based on calculations by the department that result in the minimum credit being received at the maximum qualifying income level.

(4) The working families' tax credit shall be administered as provided in this subsection.

(a) The refund paid under this section will be paid to eligible filers who apply pursuant to this subsection.

(i) Application must be made to the department in a form and manner determined by the department. If the application process is initially done electronically, the department must provide a paper application upon request. The application must include any information and documentation as required by the department. The department may use the information provided by the individual to calculate the refund amount. Income reported on the application may be rounded to the nearest dollar.

(ii) An individual applying for the credit under this section must keep records necessary for the department to verify eligibility under this section. Any information provided by the individual is subject to audit verification by the department.

(iii) In addition to information provided on the application, the department may verify that an individual qualifies as a Washington resident through the use of automated verification tools or other reasonable means.

(iv)(A) Except as provided in (a)(iv)(B) of this subsection (4), application for a refund under this section must be made in the year following the year for which the federal tax return was filed, but in no case may any refund be provided for any period before January 1, 2022.

(B)(I) A person may apply for any refund for which they were eligible but did not claim under (a)(iv)(A) of this subsection (4) for up to three additional years. A person must complete an application to claim this refund within the three calendar years

after the end of the calendar year in which the federal income tax return for that tax year was legally due for federal income tax purposes, without regard to any federal extension.

(II) If a person seeks to increase the amount of a refund that has been made under this subsection (4), the person must apply for the amended refund within the nonclaims period established under RCW 82.32.060(1).

(v) A person may not claim a credit on behalf of a deceased individual. No individual may claim a credit under this section for any year in a disallowance period under Title 26 U.S.C. Sec. 32(k)(1) of the internal revenue code or for any year for which the individual is ineligible to claim the credit in Title 26 U.S.C. Sec. 32 of the internal revenue code by reason of Title 26 U.S.C. Sec. 32(k)(2) of the internal revenue code.

(b) The department shall protect the privacy and confidentiality of personal data of refund recipients in accordance with chapter 82.32 RCW.

(c) The department shall, in conjunction with other agencies or organizations, design and implement a public information campaign to inform potentially eligible persons of the existence of, and requirements for, the credit provided in this section.

(d) The department must work with the internal revenue service of the United States to administer the credit on an automatic basis as soon as practicable.

(5) Receipt of a refund under this section may not be used in eligibility determinations for any state income support programs or in making public charge determinations.

(6) The department may adopt rules necessary to implement this section. This includes establishing a date by which applications will be accepted, with the aim of accepting applications as soon as possible.

(7) The department must review the application and determine eligibility for the working families' tax credit based on information provided by the applicant and through audit and other administrative records, including, when it deems it necessary, verification through information from the internal revenue service of the United States, other federal agencies, Washington state agencies, third-party entities, or other persons. The department may accept a signed attestation in a form and manner determined by the department from an individual to presumptively validate that an individual meets all the

eligibility requirements as provided in this section. The signed attestation is subject to audit verification by the department to validate an individual's eligibility for the working families' tax credit.

(8) If, upon review of internal revenue service data or other information obtained by the department, it appears that an individual received a refund that the individual was not entitled to, or received a larger refund than the individual was entitled to, the department may assess against the individual the overpaid amount. The department may also assess such overpaid amount against the individual's spouse if the refund in question was based on both spouses filing a joint federal income tax return for the year for which the refund was claimed.

(a) Interest as provided under RCW 82.32.050 applies to assessments authorized under this subsection (8) starting six months after the date the department issued the assessment until the amount due under this subsection (8) is paid in full to the department. Except as otherwise provided in this subsection, penalties may not be assessed on amounts due under this subsection.

(b) If an amount due under this subsection is not paid in full by the date due, or the department issues a warrant for the collection of amounts due under this subsection, the department may assess the applicable penalties under RCW 82.32.090. Penalties under this subsection (8)(b) may not be made due until six months after the department's issuance of the assessment.

(c) If the department finds by clear, cogent, and convincing evidence that an individual knowingly submitted, caused to be submitted, or consented to the submission of, a fraudulent claim for refund under this section, the department must assess a penalty of 50 percent of the overpaid amount. This penalty is in addition to any other applicable penalties assessed in accordance with (b) of this subsection (8).

(9) If, within the period allowed for refunds under RCW 82.32.060, the department finds that an individual received a lesser refund than the individual was entitled to, the department must remit the additional amount due under this section to the individual.

(10) Interest does not apply to refunds provided under this section.

(11) Chapter 82.32 RCW applies to the administration of this section.

Sec. 902. 2023 c 456 s 3 (uncodified) is amended to read as follows:

(1) This section is the tax preference performance statement for the tax preference contained in section 2, chapter 195, Laws of 2021 ((~~and~~)), section 1, chapter 456, Laws of 2023, and section 901, chapter . . ., Laws of 2026 (section 901 of this act). This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for the preferential tax treatment.

(2) The legislature categorizes this tax preference as one intended to provide tax relief for certain individuals as indicated in RCW 82.32.808(2)(e).

(3) It is the legislature's specific public policy objective to allow low-income and middle-income workers to recover some or all of the sales tax they pay to support state and local government as a way to increase their economic security and to decrease the regressivity of our state tax code. It is the legislature's intent to provide a sales and use tax credit, in the form of a remittance, to low-income and middle-income working families.

(4) The joint legislative audit and review committee shall review this preference in 2028 and every 10 years thereafter. If a review finds that the working families' tax credit does not provide meaningful financial relief to low-income and middle-income households, RCW 82.08.0206 expires at the end of the calendar year two years after the adoption of the final report containing that finding. The joint legislative audit and review committee shall provide written notice of the expiration date of RCW 82.08.0206 to the department of revenue, the chief clerk of the house of representatives, the secretary of the senate, the office of the code reviser, and others as deemed appropriate by the joint legislative audit and review committee. In its review of the program, the joint legislative audit and review committee should use at least the following metrics: Size of the benefit per household, number of household beneficiaries statewide, and demographic information of beneficiaries to include family size, income level, race and ethnicity, and geographic location.(5) In order to obtain the data necessary to perform the review in subsection (4) of this section, the joint legislative audit and review committee may refer to the remittance data prepared by the department of revenue.

NEW SECTION. **Sec. 903.** A new section is added to chapter 82.08 RCW to read as follows:

(1) Beginning January 1, 2029, the tax levied by RCW 82.08.020 does not apply to the sales of grooming and hygiene products.

(2) For the purpose of this section, "grooming and hygiene products" means soaps and cleaning solutions, shampoo, toothpaste, mouthwash, antiperspirants, and sun tan lotions and screens, regardless of whether the item meets the definition of "over-the-counter drug," as defined in RCW 82.08.0281.

NEW SECTION. **Sec. 904.** A new section is added to chapter 82.12 RCW to read as follows:

(1) Beginning January 1, 2029, the tax levied by RCW 82.12.020 does not apply to the use of grooming and hygiene products.

(2) For purposes of this section, "grooming and hygiene products" has the same meaning as provided in section 903 of this act.

Sec. 905. RCW 82.04.4451 and 2022 c 295 s 1 are each amended to read as follows:

(1) In computing the tax imposed under this chapter, a credit is allowed against the amount of tax otherwise due under this chapter, as provided in this section. Except for taxpayers that report at least 50 percent of their taxable amount under RCW 82.04.255, 82.04.290(2)(a), and 82.04.285, the maximum credit for a taxpayer for a reporting period is ((~~$55~~)) $125 multiplied by the number of months in the reporting period, as determined under RCW 82.32.045. For a taxpayer that reports at least 50 percent of its taxable amount under RCW 82.04.255, 82.04.290(2)(a), and 82.04.285, the maximum credit for a reporting period is ((~~$160~~)) $375 multiplied by the number of months in the reporting period, as determined under RCW 82.32.045.

(2) When the amount of tax otherwise due under this chapter is equal to or less than the maximum credit, a credit is allowed equal to the amount of tax otherwise due under this chapter.

(3) When the amount of tax otherwise due under this chapter exceeds the maximum credit, a reduced credit is allowed equal to twice the maximum credit, minus the tax otherwise due under this chapter, but not less than zero.

(4) The department may prepare a tax credit table consisting of tax ranges using increments of no more than five dollars and a corresponding tax credit to be applied to those tax ranges. The table

shall be prepared in such a manner that no taxpayer will owe a greater amount of tax by using the table than would be owed by performing the calculation under subsections (1) through (3) of this section. A table prepared by the department under this subsection must be used by all taxpayers in taking the credit provided in this section.

Sec. 906. RCW 82.32.045 and 2023 c 374 s 12 are each amended to read as follows:

(1) Except as otherwise provided in this chapter and subsection (6) of this section, payments of the taxes imposed under chapters 82.04, 82.08, 82.12, 82.14, 82.16, and 82.27 RCW, along with reports and returns on forms prescribed by the department, are due monthly within 25 days after the end of the month in which the taxable activities occur.

(2) The department of revenue may relieve any taxpayer or class of taxpayers from the obligation of remitting monthly and may require the return to cover other longer reporting periods, but in no event may returns be filed for a period greater than one year. Except as provided in subsection (3) of this section, for these taxpayers, tax payments are due on or before the last day of the month next succeeding the end of the period covered by the return.

(3) For annual filers, tax payments, along with reports and returns on forms prescribed by the department, are due on or before April 15th of the year immediately following the end of the period covered by the return.

(4) The department of revenue may also require verified annual returns from any taxpayer, setting forth such additional information as it may deem necessary to correctly determine tax liability.

(5) Notwithstanding subsections (1) and (2) of this section, the department may relieve any person of the requirement to file returns if the following conditions are met:

(a) The person's value of products, gross proceeds of sales, or gross income of the business, from all business activities taxable under chapter 82.04 RCW, is less than ((~~$125,000~~)) $250,000 per year;

(b) The person's gross income of the business from all activities taxable under chapter 82.16 RCW is less than $24,000 per year; and

(c) The person is not required to collect or pay to the department of revenue any other tax or fee which the department is authorized to collect.

(6)(a) Taxes imposed under chapter 82.08 or 82.12 RCW on taxable events that occur beginning January 1, 2019, through June 30, 2019, and payable by a consumer directly to the department are due, on returns prescribed by the department, by July 25, 2019.

(b) This subsection (6) does not apply to the reporting and payment of taxes imposed under chapters 82.08 and 82.12 RCW:

(i) On the retail sale or use of motor vehicles, vessels, or aircraft; or

(ii) By consumers who are engaged in business, unless the department has relieved the consumer of the requirement to file returns pursuant to subsection (5) of this section.

Sec. 907. RCW 82.04.288 and 2025 c 420 s 201 are each amended to read as follows:

(1) Beginning January 1, 2026, in addition to all other taxes imposed under this chapter, persons must pay a surcharge on Washington taxable income over $250,000,000 in a calendar year.

(2) The rate of the tax is 0.5 percent of the amount of Washington taxable income over $250,000,000.

(3)(a) Any Washington taxable income subject to the tax in RCW 82.04.29004 is exempt from the surcharge imposed in this section.

(b)(i) Any Washington taxable income subject to the manufacturing tax rates in RCW 82.04.240, 82.04.2404, 82.04.241, 82.04.260, 82.04.2602, 82.04.287, 82.04.2909, or 82.04.294(1) is exempt from the surcharge imposed in this section.

(ii) Any Washington taxable income attributable to the wholesale or retail sale of products so manufactured by a person subject to the manufacturing tax rates specified in (b)(i) of this subsection (3) is exempt from the surcharge imposed in this section.

(iii) Any Washington taxable income attributable to retail sales that are exempt from the imposition of sales tax in RCW 82.08.0293, 82.08.0297, and 82.08.0281 is exempt from the surcharge imposed in this section.

(iv) Any Washington taxable income subject to the tax rates in RCW 82.04.260(12) is exempt from the surcharge imposed in this section.

(v) Any Washington taxable income attributable to the wholesale or retail sale of petroleum products by a person who is both located in a state other than Washington and the owner of such materials processed for it in Washington by an affiliated processor for hire

subject to the rate in RCW 82.04.280(1)(c), is exempt from the surcharge imposed in this section. For the purposes of this subsection (3)(b)(v), the following definitions apply:

(A) "Affiliated" means a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with another person;

(B) "Control" means the possession, directly or indirectly, of more than 50 percent of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting shares, by contract, or otherwise; and

(C) "Petroleum product" has the same meaning as in RCW 82.21.020.

(4)(a) The surcharge imposed under this section does not apply to taxable income for which a credit is allowed under RCW 82.04.440.

(b) The surcharge imposed under this section does not apply to a person engaged in business primarily as a farmer or eligible apiarist as defined in RCW 82.04.213.

(c) The surcharge imposed under this section does not apply to a person subject to the tax imposed pursuant to RCW 82.04.299.

(d) The surcharge imposed under this section does not apply to taxable income for wholesale and retail transactions of fuel as defined in RCW 82.38.020.

(5) Any income that is exempt from the surcharge imposed under this section is not included in the calculation of Washington taxable income in subsection (1) of this section.

(6) This section expires December 31, ((~~2029~~)) 2028.

NEW SECTION. **Sec. 908.** Sections 905 and 906 of this act apply to taxes initially due and payable on or after January 1, 2029.

PART X
MISCELLANEOUS

Sec. 1001. RCW 1.90.100 and 2024 c 5 s 1 (Initiative Measure No. 2111) are each amended to read as follows:

(1) Neither the state nor any county, city, or other local jurisdiction in the state of Washington may tax any individual person on any form of personal income. For the purposes of this chapter, "income" has the same meaning as "gross income" in 26 U.S.C. Sec. 61.

(2) Subsection (1) of this section does not apply to the tax authorized in chapter 82A.--- RCW (the new chapter created in section 1003 of this act).

NEW SECTION. **Sec. 1002.** NULL AND VOID. If a court of final jurisdiction invalidates section 201 of this act, this act is null and void in its entirety.

NEW SECTION. **Sec. 1003.** CODIFICATION. Sections 101 through 704 and 708 through 711 of this act constitute a new chapter in a new title in the Revised Code of Washington, to be codified as Title 82A RCW.

NEW SECTION. **Sec. 1004.** CONFORMING AMENDMENTS. If any amendments in this act, or any sections enacted or affected by chapter . . ., Laws of 2026 (this act), are enacted in a 2026 legislative session that do not take cognizance of chapter . . ., Laws of 2026 (this act), the code reviser must prepare a bill for introduction in the 2027 or 2028 legislative session that incorporates any such amendments into the reorganization adopted by chapter . . ., Laws of 2026 (this act) and corrects any incorrect cross-references.

NEW SECTION. **Sec. 1005.** (1) Section 901 of this act takes effect January 1, 2029.

(2) Refunds may not be provided under section 901 of this act for any period before January 1, 2028.

NEW SECTION. **Sec. 1006.** Except as provided in section 902 of this act, RCW 82.32.805 and 82.32.808 do not apply to this act.

NEW SECTION. **Sec. 1007.** The tax imposed in this act is necessary for the support of the state government and its existing public institutions.

NEW SECTION. **Sec. 1008.** It is the intent of the legislature for the department of revenue to spend appropriated amounts to implement this act regardless of litigation.

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