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**HOUSE BILL 1016**

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**State of Washington 69th Legislature 2025 Regular Session**

**By** Representatives Abbarno, Shavers, and Leavitt

AN ACT Relating to employer tax incentives for the support of veterans and military families; adding a new section to chapter 82.04 RCW; adding a new section to chapter 82.16 RCW; creating a new section; and providing expiration dates.

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

NEW SECTION. **Sec.**  A new section is added to chapter 82.04 RCW to read as follows:

(1) Beginning January 1, 2026, a person is allowed a credit against the tax due under this chapter as provided in this section. The credit equals 20 percent of wages and benefits paid to or on behalf of a qualified employee up to a maximum of $3,000 for each qualified employee hired on or after January 1, 2026.

(2) No credit may be claimed under this section until a qualified employee has been employed for at least two consecutive full calendar quarters.

(3) Credits are available on a first-in-time basis. The department must keep a running total of all credits allowed under this section and section 2 of this act during each fiscal year. The department may not allow any credits that would cause the total credits allowed under this section and section 2 of this act to exceed $5,000,000 in any fiscal year. If all or part of a claim for credit is disallowed under this subsection, the disallowed portion is carried over to the next fiscal year. However, the carryover into the next fiscal year is only permitted to the extent that the cap for the next fiscal year is not exceeded. Priority must be given to credits carried over from a previous fiscal year. The department must provide written notice to any person who has claimed tax credits in excess of the limitation in this subsection. The notice must indicate the amount of tax due and provide that the tax be paid within 30 days from the date of the notice. The department may not assess penalties and interest as provided in chapter 82.32 RCW on the amount due in the initial notice if the amount due is paid by the due date specified in the notice, or any extension thereof.

(4) The credit may be used against any tax due under this chapter, and may be carried over until used, except as provided in subsection (9) of this section. No refunds may be granted for credits under this section.

(5) If an employer discharges a qualified employee for whom the employer has claimed a credit under this section, the employer may not claim a new credit under this section for a period of one year from the date the qualified employee was discharged. However, this subsection (5) does not apply if the qualified employee was discharged for misconduct, as defined in RCW 50.04.294, connected with his or her work or discharged due to a felony or gross misdemeanor conviction, and the employer contemporaneously documents the reason for discharge.

(6) Credits earned under this section may be claimed only on returns filed electronically with the department using the department's online tax filing service or other method of electronic reporting as the department may authorize. No application is required to claim the credit, but the taxpayer must keep records necessary for the department to determine eligibility under this section including records establishing the person's status as a veteran.

(7) No person may claim a credit against taxes due under both this chapter and chapter 82.16 RCW for the same qualified employee.

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

(a)(i) "Qualified employee" means a veteran, or spouse of an active duty military member who is employed in a permanent full-time position for at least two consecutive full calendar quarters. For seasonal employers, "qualified employee" also includes the equivalent of a full-time employee in work hours for two consecutive full calendar quarters.

(ii) For purposes of this subsection (8)(a), "full time" means a normal work week of at least 35 hours.

(b) "Veteran" means every person who has received a qualifying discharge as defined in RCW 73.04.005 or is currently serving honorably in any branch of the armed forces of the United States, including the national guard and armed forces reserves.

(9) Credits allowed under this section can be earned for tax reporting periods through January 1, 2036. No credits can be claimed after January 1, 2037.

(10) This section expires January 1, 2037.

NEW SECTION. **Sec.**  A new section is added to chapter 82.16 RCW to read as follows:

(1) Beginning January 1, 2026, a person is allowed a credit against the tax due under this chapter as provided in this section. The credit equals 20 percent of wages and benefits paid to or on behalf of a qualified employee up to a maximum of $3,000 for each qualified employee hired on or after January 1, 2026.

(2) No credit may be claimed under this section until a qualified employee has been employed for at least two consecutive full calendar quarters.

(3) Credits are available on a first-in-time basis. The department must keep a running total of all credits allowed under this section and section 1 of this act during each fiscal year. The department may not allow any credits that would cause the total credits allowed under this section and section 1 of this act to exceed $5,000,000 in any fiscal year. If all or part of a claim for credit is disallowed under this subsection, the disallowed portion is carried over to the next fiscal year. However, the carryover into the next fiscal year is only permitted to the extent that the cap for the next fiscal year is not exceeded. Priority must be given to credits carried over from a previous fiscal year. The department must provide written notice to any person who has claimed tax credits in excess of the limitation in this subsection. The notice must indicate the amount of tax due and provide that the tax be paid within 30 days from the date of the notice. The department may not assess penalties and interest as provided in chapter 82.32 RCW on the amount due in the initial notice if the amount due is paid by the due date specified in the notice, or any extension thereof.

(4) The credit may be used against any tax due under this chapter, and may be carried over until used, except as provided in subsection (9) of this section. No refunds may be granted for credits under this section.

(5) If an employer discharges a qualified employee for whom the employer has claimed a credit under this section, the employer may not claim a new credit under this section for a period of one year from the date the qualified employee was discharged. However, this subsection (5) does not apply if the qualified employee was discharged for misconduct, as defined in RCW 50.04.294, connected with his or her work or discharged due to a felony or gross misdemeanor conviction, and the employer contemporaneously documents the reason for discharge.

(6) Application for credit must be made prior to claiming a credit. The application must be in a form and manner prescribed by the department and must include, but is not limited to, information establishing a person's status as a qualified employee. Applications must be approved on a first-in-time basis. The department must rule on the application within 60 days of receipt, except that the department may extend the time of processing such application upon notice to the taxpayer that ruling on the application cannot be completed within such time. Credits earned under this section may be claimed only on returns filed electronically with the department using the department's online tax filing service or other method of electronic reporting as the department may authorize.

(7) No person may claim a credit against taxes due under both chapter 82.04 RCW and this chapter for the same qualified employee.

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

(a)(i) "Qualified employee" means a veteran, or spouse of an active duty military member who is employed in a permanent full-time position for at least two consecutive full calendar quarters. For seasonal employers, "qualified employee" also includes the equivalent of a full-time employee in work hours for two consecutive full calendar quarters.

(ii) For purposes of this subsection (8)(a), "full time" means a normal work week of at least 35 hours.

(b) "Veteran" means every person who has received a qualifying discharge as defined in RCW 73.04.005 or is currently serving honorably in any branch of the armed forces of the United States, including the national guard and armed forces reserves.

(9) Credits allowed under this section can be earned for tax reporting periods through January 1, 2036. No credits can be claimed after January 1, 2037.

(10) This section expires January 1, 2037.

NEW SECTION. **Sec.**  This section is the tax preference performance statement for the tax preferences contained in sections 1 and 2, chapter . . ., Laws of 2025 (sections 1 and 2 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 preferential tax treatment.

(1) The legislature categorizes the tax preferences as those intended to induce certain designated behavior by taxpayers and create or retain jobs, as indicated in RCW 82.32.808(2) (a) and (c).

(2) It is the legislature's specific public policy objective to provide employment for veterans and military families. It is the legislature's intent to provide employers a credit against the business and occupation tax or public utility tax for hiring veterans and military spouses, which would reduce an employer's tax burden thereby inducing employers to hire and create jobs for veterans and military spouses.

(3) If a review finds that the number of unemployed veterans and military spouses decreased by 10 percent, then the legislature intends for the legislative auditor to recommend extending the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3) of this section, the joint legislative audit and review committee should refer to the veteran unemployment rates available from the employment security department and the bureau of labor statistics and may refer to any other data collected by the state.

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