

ESSB 6346 - H AMD 2475

By Representative Berg

ADOPTED AS AMENDED 03/09/2026

1 Strike everything after the enacting clause and insert the
2 following:

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

8 (2) These general fund dollars help the state meet its paramount
9 duty to make ample provision for the education of all children in the
10 state, including children who qualify for special education services,
11 creating the opportunity for each child to succeed in school and
12 achieve success in life. The legislature intends to further support
13 academic success and well-being of our children in K-12 education by
14 providing access to breakfast and lunch for all children served
15 without charge each school day.

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

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

25 (5) The general fund also invests in human services that provide
26 vital basic-needs assistance to the state's lowest-income households
27 and educate the youngest learners. The legislature intends to further
28 support these young learners through transferring a portion of the
29 revenues from this act to the fair start for kids account, for child
30 care and early learning purposes.

31 (6) Therefore, the intent of this act is to maintain and preserve
32 essential governmental services for Washingtonians, particularly

1 within K-12 education, health care, higher education, and human
2 services, and support working families by ensuring continued
3 investment in, and expansion of who qualifies for, the working
4 families' tax credit by depositing revenues from this act into the
5 general fund.

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

21 (8) Further, due to the action of the federal government through
22 the passage of HR 1, Washington's highest-income households are set
23 to receive an average federal tax break of \$90,850 while Washington's
24 lowest-income households are set to receive a mere \$200, according to
25 the institute on taxation and economic policy. These tax breaks were
26 largely funded through cuts to federal funding in health care and
27 food security programs, negatively impacting Washington's working
28 families.

29 (9) Thus, the legislature intends to limit the tax established by
30 this act to households with annual adjusted gross income of
31 \$1,000,000 or more. Washingtonian households with an annual adjusted
32 gross income of less than \$1,000,000 will not owe this tax. As a
33 result, the millionaires' tax is estimated to affect only the
34 wealthiest one-half of one percent of the households in this state,
35 taking a significant step toward reducing the disproportionate
36 reliance on working people to fund K-12 education, health care,
37 higher education, human services, the working families' tax credit,
38 and other essential governmental services to benefit Washingtonians.
39 The application of the tax to households matches the policy of the
40 state's capital gains excise tax and the policy of the property tax

1 exemption for senior citizens, veterans, and people with
2 disabilities.

3 (10) The legislature further intends to exempt certain sources of
4 income from the tax including, but not limited to, the sale of
5 qualified family owned small businesses in accordance with RCW
6 82.87.070 and the sale of residential and other real property in
7 accordance with RCW 82.87.050.

8 (11) It is also the intent of the legislature to rebalance the
9 tax system by reducing taxes on consumers and businesses through
10 small business and other business and occupation tax credits, by
11 exempting from the retail sales tax essential household items such as
12 personal care products, certain over the counter drugs, and diapers,
13 and by providing the tax relief in sections 1101 through 1104 of this
14 act. The legislature further intends that the tax imposed under this
15 act operate together with certain tax reductions and tax credits
16 enacted by this act as an integrated reform of the state tax code,
17 and that repeal or invalidation of section 201 of this act would
18 reinstate certain sales and use tax on items made exempt by this act
19 and repeal working families tax credits and small business tax
20 credits enacted by this act.

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

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

28 (b) Make the Washington millionaires' tax law reflect the
29 provisions of the internal revenue code relating to the measurement
30 of adjusted gross income, modified as necessary to achieve the goals
31 and purpose of this act;

32 (c) Achieve this result by the application of the various
33 provisions of the internal revenue code relating to the definition of
34 income, exemptions and exclusions therefrom, accounting methods,
35 basis, depreciation, and other pertinent provisions, subject to
36 additional exemptions and modifications as provided in this act,
37 resulting in a final amount called "Washington adjusted taxable
38 income"; and

39 (d) Impose a tax on residents of this state measured by
40 Washington adjusted taxable income wherever derived and to impose a

1 tax on nonresidents measured by Washington adjusted taxable income
2 from sources within this state.

3 (13) The legislature finds that many of the tax reductions that
4 help Washingtonians have an impact on local government revenues. To
5 offset some of those impacts, the legislature intends to create a
6 city and county fiscal health account for future transfers from the
7 general fund to mitigate a portion of the revenue loss to local
8 government.

9 **PART I**
10 **DEFINITIONS**

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

14 (1) "Capital asset" has the same meaning as provided in chapter
15 82.87 RCW.

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

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

20 (4) "Individual" means a natural person.

21 (5) "Internal revenue code" means the United States internal
22 revenue code of 1986, as amended and in effect on January 1, 2026.

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

26 (7) "Pass-through entity" means a partnership, limited liability
27 company, or S corporation, which reports out the distributive share
28 of taxable income to its partners, members, or shareholders for
29 federal income tax purposes.

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

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

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

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

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

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

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

14 (11) "Washington base income" means federal adjusted gross income
15 as modified under sections 302 through 309 and 401 through 407 of
16 this act.

17 (12) "Washington taxable income" means Washington base income as
18 further modified by sections 310 through 314 of this act.

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

24 **PART II**
25 **DETERMINATION OF TAX**

26 NEW SECTION. **Sec. 201.** TAX IMPOSED—RATES. (1) Beginning January
27 1, 2028, a tax is imposed on the receipt of Washington taxable
28 income. Only individuals are subject to payment of the tax, which
29 equals 9.90 percent multiplied by an individual's Washington taxable
30 income.

31 (2) If an individual's Washington taxable income is less than
32 zero for a taxable year, no tax is due under this section.

33 NEW SECTION. **Sec. 202.** DISTRIBUTION OF TAX REVENUES. (1) Taxes
34 collected under this chapter must be deposited in the state general
35 fund to fund the sales and use tax relief in sections 903 through 908
36 of this act, the working families' tax credit program, including its

1 expansion in section 901 of this act, and the business and occupation
2 tax relief in sections 909 through 911 of this act, and to make
3 public investments in K-12 education, health care, human services,
4 and higher education.

5 (2) Beginning July 1, 2029, and each July 1st thereafter, the
6 state treasurer must deposit five percent of the revenues collected
7 pursuant to this chapter during the previous fiscal year into the
8 fair start for kids account created in RCW 43.216.772.

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

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

18 (a) The credit is allowed only for taxes paid by the individual,
19 or a pass-through entity in which the individual is an owner, to the
20 other jurisdiction on net income from sources within that
21 jurisdiction that is included in the individual's Washington base
22 income; and

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

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

26 (ii) The amount of tax due under this chapter before application
27 of credits allowable by this chapter, multiplied by a fraction. The
28 numerator of the fraction is the amount of the taxpayer's federal
29 adjusted gross income subject to tax in the other jurisdiction. The
30 denominator of the fraction is the taxpayer's total Washington base
31 income. The fraction may never be greater than one.

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

1 (3) The credit claimed under this section for a taxable year may
2 not exceed the tax otherwise due under this chapter for that taxable
3 year. Unused credit may not be carried forward or backward to another
4 taxable year. No refunds may be granted for unused credit under this
5 section.

6 (4) For purposes of this section, "state" means a state of the
7 United States, the District of Columbia, the Commonwealth of Puerto
8 Rico, or any territory or possession of the United States.

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

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

27 NEW SECTION. **Sec. 205.** CREDIT FOR WASHINGTON CAPITAL GAINS
28 TAXES. (1) Beginning in tax year 2028 with taxes due in 2029, a
29 nonrefundable credit is allowed against taxes due under this chapter
30 for the amount of tax imposed on Washington capital gains for the
31 same tax year. "Washington capital gains" has the same meaning as
32 provided in RCW 82.87.020.

33 (2) The credit claimed under this section for a taxable year may
34 not exceed the tax otherwise due under this chapter for that taxable
35 year. Unused credit may not be carried forward or backward to another
36 taxable year. No refunds may be granted for unused credit under this
37 section.

1 chapter 82.87 RCW for the same taxable year, plus the amount deducted
2 under RCW 82.87.060(1). Under this subsection (3), a taxpayer must
3 not include long-term capital gains or long-term capital losses, from
4 the sales or exchanges exempt under RCW 82.87.050, in the computation
5 of their Washington base income. This subsection (3) applies only to
6 taxpayers owing tax under chapter 82.87 RCW for that taxable year.
7 "Washington capital gains" has the same meaning as provided in RCW
8 82.87.020.

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

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

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

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

26 NEW SECTION. **Sec. 305.** CARRYOVERS. In computing a taxpayer's
27 Washington base income, the taxpayer must:

28 (1) Add to the taxpayer's federal adjusted gross income, any
29 amounts that have been deducted in computing federal adjusted gross
30 income to the extent the amounts have been carried over from taxable
31 years ending before January 1, 2028;

32 (2) (a) Add to the taxpayer's federal adjusted gross income, any
33 amounts of net operating loss carryover that have been deducted in
34 computing federal adjusted gross income not described in subsection
35 (1) of this section; and

36 (b) Deduct 80 percent of the amount of net operating loss
37 carryover that has been deducted in computing federal adjusted gross

1 income, to the extent that the loss carryover meets all of the
2 following criteria:

3 (i) The loss carryover is from losses apportioned to Washington
4 under sections 401 through 407 of this act;

5 (ii) The loss carryover is not added to federal adjusted gross
6 income under subsection (1) of this section; and

7 (iii) The loss carryover is from a previous tax year so long as
8 that previous tax year is after January 1, 2028.

9 NEW SECTION. **Sec. 306.** FEDERAL OBLIGATIONS. In computing a
10 taxpayer's Washington base income, the taxpayer must deduct, to the
11 extent included, from the taxpayer's federal adjusted gross income,
12 any income derived from obligations of the United States that this
13 state is prohibited by federal law from subjecting to a net income
14 tax. However, the amount deducted under this section must be reduced
15 by any expense, including amortizable bond premiums, incurred in the
16 production of such income to the extent the expense has been deducted
17 in calculating federal adjusted gross income.

18 NEW SECTION. **Sec. 307.** INCOMPLETE NONGRANTOR TRUSTS FOR
19 WASHINGTON RESIDENTS. In computing a resident taxpayer's Washington
20 base income, the taxpayer must add to the taxpayer's federal adjusted
21 gross income, all income from a trust treated as a nongrantor trust
22 for federal income tax purposes but funded with an incomplete gift
23 for purposes of section 2511 of the internal revenue code and its
24 accompanying regulations, to the extent the trust income is not
25 otherwise included in the calculation of Washington base income.

26 NEW SECTION. **Sec. 308.** TRIBAL INCOME. The following is exempt
27 from the tax imposed by this chapter:

28 (1) Income derived from the exercise of rights by any member of a
29 federally-recognized tribe secured by treaty, executive order, or act
30 of Congress if section 7872 of the internal revenue code does not
31 permit a like federal tax to be imposed on such income.

32 (2) Income received by any member of a federally-recognized
33 tribe, when both of the following conditions are met:

34 (a) The individual lived within their own tribe's Indian country;
35 and

36 (b) The individual worked or received income within their own
37 tribe's Indian country.

1 (3) Income received by any member of a federally-recognized tribe
2 that is derived directly from allotted and restricted Indian lands,
3 when all the following conditions are met:

4 (a) The land in question is held in trust by the United States
5 government;

6 (b) Such land is restricted and allotted and is held for an
7 individual Indian, and not for a tribe;

8 (c) The income is derived directly from the land;

9 (d) The statute, treaty, or other authority involved evinces
10 congressional intent that the allotments be used as a means of
11 protecting the Indian until such time as the land is removed from
12 trust; and

13 (e) The authority in question contains language indicating clear
14 congressional intent that the land, until conveyed in fee simple to
15 the allottee, is not subject to taxation.

16 NEW SECTION. **Sec. 309.** CHARITABLE CONTRIBUTIONS. (1) In
17 computing a taxpayer's Washington taxable income, the taxpayer may
18 deduct from their Washington base income the amount of charitable
19 contributions they claimed for the taxable year under section 170 of
20 the internal revenue code to a qualified organization, up to a
21 maximum deduction of \$100,000 per individual, or in the case of
22 spouses or domestic partners, their combined charitable deduction is
23 limited to \$100,000, regardless of whether they file joint or
24 separate returns.

25 (2) For the purposes of this section, "qualified organization"
26 has the same meaning as in RCW 82.87.080.

27 NEW SECTION. **Sec. 310.** PASS-THROUGH ENTITY TAX PAYMENTS. In
28 computing a taxpayer's Washington taxable income, the taxpayer must
29 add to the taxpayer's Washington base income the taxpayer's
30 distributive share of the tax expense incurred by a pass-through
31 entity under section 502 of this act to the extent the expense has
32 been deducted in calculating the taxpayer's federal adjusted gross
33 income.

34 NEW SECTION. **Sec. 311.** CAPITAL CONSTRUCTION FUND FOR VESSEL
35 IMPROVEMENTS OR ACQUISITION. In computing a taxpayer's Washington
36 taxable income, the taxpayer may deduct from the taxpayer's
37 Washington base income the amount deposited in a capital construction

1 fund under section 7518 of the internal revenue code if the amount
2 has reduced the taxpayer's federal taxable income for the taxable
3 year.

4 NEW SECTION. **Sec. 312.** WAGERING LOSSES. In computing a
5 taxpayer's Washington taxable income, the taxpayer must deduct an
6 amount equal to 90 percent of any Washington allocated wagering
7 losses for the tax year. The amount of the losses deducted cannot be
8 more than the Washington allocated wagering income included in the
9 taxpayer's Washington base income. Wagering losses may not be carried
10 forward or backward. The wagering loss deduction must be adjusted for
11 nonresidents as provided in section 401 of this act.

12 NEW SECTION. **Sec. 313.** COMMERCIAL CANNABIS ACTIVITIES. In
13 computing a taxpayer's Washington taxable income, the taxpayer may
14 deduct from the taxpayer's Washington base income the amount of
15 expenditures disallowed pursuant to section 280E of the internal
16 revenue code so long as the expenditures are related to the
17 commercial cannabis activities by a person licensed pursuant to RCW
18 69.50.325.

19 NEW SECTION. **Sec. 314.** ONE MILLION DOLLAR STANDARD DEDUCTION.
20 In computing a taxpayer's Washington taxable income, a taxpayer may
21 deduct from the taxpayer's Washington base income a standard
22 deduction of \$1,000,000 per individual, or in the case of spouses or
23 state registered domestic partners, their combined standard deduction
24 is \$1,000,000, regardless of whether they file joint or separate
25 returns. The amount of the standard deduction must be annually
26 adjusted pursuant to section 316 of this act. The standard deduction
27 must be adjusted for nonresidents as provided in section 315 of this
28 act.

29 NEW SECTION. **Sec. 315.** ADJUSTMENT OF DEDUCTIONS FOR
30 NONRESIDENTS. The deduction from Washington base income allowed under
31 section 314 of this act for individual taxpayers who are not
32 residents of this state for the entire taxable year must be reduced
33 by multiplying the amount of the deduction by a fraction. The
34 numerator of the fraction is the individual's Washington base income.
35 The denominator of the fraction is the individual's federal adjusted

1 gross income from all sources. The fraction may never be greater than
2 one.

3 NEW SECTION. **Sec. 316.** INDEX FOR INFLATION. (1) Beginning
4 October 2029 and each October of an odd-numbered year thereafter, the
5 department must adjust the standard deduction under section 314 of
6 this act by multiplying the current standard deduction amount by one
7 plus the percentage by which the most current consumer price index
8 available on October 1st of the current year exceeds the consumer
9 price index for the prior 12-month period, and rounding the result to
10 the nearest \$1,000. If an adjustment under this subsection (1) would
11 reduce the standard deduction amount, the department must not adjust
12 the amounts for use in the following year. The department must
13 publish the adjusted standard deduction amount on its public website
14 by October 31st of each year. The adjusted standard deduction amount
15 calculated under this subsection (1) takes effect for taxes due in
16 the following calendar year.

17 (2) For purposes of this section, "consumer price index" means
18 the consumer price index for all urban wage earners and clerical
19 workers as calculated by the United States bureau of labor statistics
20 or its successor agency.

21 **PART IV**
22 **DIVISION OF INCOME**

23 NEW SECTION. **Sec. 401.** ALLOCATION AND APPORTIONMENT OF INCOME.

24 (1) For resident individuals, all income must be allocated to this
25 state.

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

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

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

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

36 (d) Amounts attributable to any business, trade, profession, or
37 occupation carried on within this state, including an individual's

1 distributive share of income from a pass-through entity operating
2 within this state as provided in section 402 of this act, to the
3 extent determined under section 405 of this act;

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

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

12 (g) Income received from wagering transactions.

13 (3) If the nonresident individual performs services in Washington
14 five or fewer days cumulatively in any calendar year, no income must
15 be allocated pursuant to this section. This subsection (3) does not
16 apply to nonresident professional athletes, nonresident student
17 athletes, and nonresident entertainers.

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

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

27 (6) Income earned by a nonresident participating as a keynote
28 speaker, panelist, presenter, moderator, or similar role at a
29 convention trade show or business event held in this state may be
30 excluded if the individual meets the requirements of RCW 82.32.531.

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

36 (2) The allowable modifications and credits under this chapter
37 for partners, members, or shareholders of a pass-through entity are
38 computed by including a pro rata share of the Washington base income
39 and the credits allowed under sections 203 through 205 of this act,

1 if the modification or credit relates to the income of the pass-
2 through entity. Each member's, partner's, or shareholder's pro rata
3 share of a modification or credit is the amount of modification or
4 credit based on the pro rata share of net income or loss on a
5 member's, partner's, or shareholder's federal schedule K-1 form.

6 (3) For purposes of this section, "pro rata share" means pro rata
7 share as reflected on the member's, partner's, or shareholder's
8 federal schedule K-1 form.

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

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

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

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

26 (b) "Employment" means personal service, of whatever nature, as
27 known to the common law or any other legal relationship performed for
28 an employer by an individual for compensation or under any contract
29 calling for the performance of personal services, written or oral,
30 express or implied, where the employer is subject to tax under RCW
31 50.24.010 on any portion of compensation paid by the employer to the
32 individual for the performance of the personal services.

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

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

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

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

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

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

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

27 (A) A taxpayer identification number;

28 (B) Compensation paid to the member; and

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

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

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

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

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

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

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

10 NEW SECTION. **Sec. 405.** GENERAL RULE FOR APPORTIONING AND
11 ALLOCATING NONRESIDENT INCOME FROM BUSINESS ACTIVITY CONDUCTED IN THE
12 STATE. (1) The portion of federal adjusted gross income of a
13 nonresident derived from or connected with a business, trade, or
14 profession carried on in this state, including a sole proprietorship
15 and any distributive share of a pass-through entity of a business,
16 trade, or profession carried on in this state, must be apportioned
17 and allocated as provided in this section. This section does not
18 apply to compensation received as an employee allocated under section
19 403 of this act.

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

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

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

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

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

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

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

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

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

11 (D) In the case of intangible property:

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

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

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

23 (2) Receipts from intangible property sales that are contingent
24 on the productivity, use, or disposition of the intangible property
25 must be treated as receipts from the rental, lease, or licensing of
26 such intangible property under subsection (4)(a)(i) of this section;
27 and

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

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

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

38 (4)(a) If the allocation and apportionment provisions in
39 subsection (3) of this section do not fairly represent the extent of
40 the taxpayer's business activity in this state, the taxpayer may

1 petition for or the department may require, in respect to all or any
2 part of the taxpayer's business activity, if reasonable:

3 (i) Separate accounting;

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

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

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

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

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

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

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

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

36 (iii) If the department requires any method to effectuate an
37 equitable allocation and apportionment of the taxpayer's income, the
38 department may not impose any civil or criminal penalty with
39 reference to the tax due that is attributable to the taxpayer's

1 reasonable reliance solely on the allocation and apportionment
2 provisions of this section.

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

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

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

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

22 (c) The extent of utilization of tangible personal property in a
23 state is determined by multiplying the rents and royalties by a
24 fraction the numerator of which is the number of days of physical
25 location of the property in the state during the rental or royalty
26 period in the taxable year and the denominator of which is the number
27 of days of physical location of the property everywhere during all
28 rental or royalty periods in the taxable year. If the physical
29 location of the property during the rental or royalty period is
30 unknown or unascertainable by the taxpayer, tangible personal
31 property is utilized in the state in which the property was located
32 at the time the rental or royalty payer obtained possession.

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

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

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

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

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

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

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

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

27 (a) "Apportionable income" means:

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

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

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

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

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

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

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

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

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

17 NEW SECTION. **Sec. 406.** PRORATION OF PART-YEAR INCOME. (1)

18 Except as provided in subsection (2) of this section, the adjusted
19 gross income of a part-year resident is the sum of the following:

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

23 (b) For the portion of the year in which the taxpayer was a
24 nonresident, the taxpayer's adjusted gross income derived from
25 sources within this state, as provided in sections 403 through 405
26 and 407 of this act.

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

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

36 (b) The total amount of the item that is taken into account in
37 federal adjusted gross income and that is derived from or connected
38 with sources within this state, as determined under sections 403
39 through 405 and 407 of this act, multiplied by the ratio of the

1 NEW SECTION. **Sec. 501.** ESTIMATED TAX IMPOSED—DUE DATE OF
2 ESTIMATED TAXES—AMOUNT OF ESTIMATED TAX—UNDERPAYMENT PENALTY. (1)
3 Each individual with an estimated tax under this chapter in excess of
4 \$5,000 that is required by the internal revenue code to make payment
5 of estimated taxes must pay to the department on forms prescribed by
6 the department the estimated taxes due under this chapter.

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

11 (3) Estimated tax payments are not required under this section if
12 the annualized estimated tax is less than \$5,000. RCW 82.32.090
13 applies to underpayments of estimated tax.

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

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

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

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

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

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

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

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

1 (d) An election may exclude owners who choose not to participate.
2 At the time of election, the pass-through entity must identify the
3 participating and nonparticipating owners.

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

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

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

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

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

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

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

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

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

28 (5) (a) Each participating owner of an electing entity is allowed
29 a credit against the tax imposed under this section equal to the
30 owner's proportionate share of the tax paid by the electing entity
31 under this chapter as provided in section 206 of this act.

32 (b) Participating resident owners shall include in their
33 Washington base income their full distributive share of the electing
34 entity's income, gains, losses, and deductions and shall claim the
35 credit allowed under section 206 of this act.

36 (c) Participating nonresident owners shall include in their
37 Washington base income their distributive share of the electing
38 entity's income, gains, losses, and deductions as allocated and
39 apportioned under section 405 of this act and shall claim the credit
40 allowed under section 206 of this act.

1 (d) Participating part-year resident owners shall include in
2 their Washington base income their distributive share of the electing
3 entity's income, gains, losses, and deductions, and claim the credit
4 allowed under section 206 of this act, in the manner required under
5 (a) and (b) of this subsection for the portion of the year in which
6 the participating owner was a resident and nonresident, respectively.

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

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

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

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

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

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

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

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

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

32 **PART VI**

33 **CRIMES**

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

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

4 **PART VII**

5 **ADMINISTRATIVE PROVISIONS**

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

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

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

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

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

29 (2)(a) Every taxpayer owing tax under this chapter must include
30 with the Washington return described in subsection (1) of this
31 section a copy of the taxpayer's federal income tax return filed with
32 the internal revenue service of the United States, including:

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

36 (ii) Any information returns and federal tax documents received
37 by the taxpayer that directly relate to the taxpayer's federal

1 adjusted gross income including, but not limited to, form W-2, form
2 1099-INT, form 1099-DIV, form 1099-NEC, form 1099-MISC, form 1099-B,
3 schedule K-1 (form 1065), and schedule K-1 (form 1120-S).

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

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

10 (d) The department may prescribe by rule additional Washington-
11 specific reporting or verification requirements under this subsection
12 (2), such as a Washington schedule K-1 form, to substantiate an
13 individual's Washington base income.

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

24 (4) If a taxpayer has obtained an extension of time for filing
25 the federal income tax return for the taxable year, the taxpayer is
26 entitled to the same extension of time for filing the return required
27 under this section. An extension under this subsection for the filing
28 of a return under this chapter is not an extension of time to pay the
29 tax due under this chapter.

30 (5) (a) If any return due under subsection (1) of this section,
31 along with a copy of the federal income tax return, is not filed with
32 the department by the due date or any extension granted by the
33 department, the department must assess a penalty in the amount of
34 five percent of the unpaid tax due, as of the due date for the
35 return, for the taxable year covered by the return for each full
36 month that the return remains unfiled. The total penalty assessed
37 under this subsection may not exceed 25 percent of the unpaid tax
38 due, as of the due date for the return, for the taxable year covered
39 by the delinquent return. The penalty under this subsection is in

1 addition to any penalties assessed for the late payment of any tax
2 due on the return.

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

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

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

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

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

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

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

25 (7)(a) In the event a taxpayer's federal income tax return is
26 changed in a manner that is final after their return required under
27 subsection (1) of this section is filed with the department and the
28 taxpayer's federal income tax return is changed in a manner that
29 impacts either the calculation of their Washington adjusted gross
30 income or their tax liability under this chapter, or both, the
31 taxpayer must amend the taxpayer's return due under subsection (1) of
32 this section for the same tax year in which their federal income tax
33 return is changed. For the purposes of this subsection (7), a federal
34 income tax return is changed in a manner that is final when such
35 change is not subject to either administrative review by the United
36 States internal revenue service or judicial review in a court of
37 competent jurisdiction, or both. A change is also final in the case
38 of an audit finding in the following circumstances:

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

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

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

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

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

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

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

37 (9) If the federal government extends the due date for filing a
38 tax return, paying tax, or both, by reason of natural disaster or
39 other occurrence, the corresponding deadlines under this section
40 shall be adjusted in the same manner.

1 NEW SECTION. **Sec. 703.** REQUIREMENT FOR SEPARATE OR JOINT

2 RETURNS. (1) If the federal income tax liabilities of both spouses
3 are determined on a joint federal return for the taxable year, they
4 must file a joint return under this chapter.

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

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

14 (a) The spouse or state registered domestic partner is relieved
15 of liability for federal tax purposes as provided under sections 66
16 or 6015 of the internal revenue code; or

17 (b) Regardless of whether the spouse or state registered domestic
18 partner qualifies for relief as provided under (a) of this subsection
19 (3), the department determines that the spouse or state registered
20 domestic partner qualifies for relief as provided by rule of the
21 department in a manner consistent with sections 66 or 6015 of the
22 internal revenue code.

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

33 (b) When an individual does not file a joint return for the tax
34 imposed under this chapter, both spouses or state registered domestic
35 partners must allocate between themselves their respective share of
36 the marital community's or domestic partnership's income, gains,
37 losses, deductions, and credits in a manner consistent with the
38 community property laws of this state and the applicable provisions
39 of the internal revenue code, and its accompanying regulations,
40 addressing taxpayers domiciled in community property jurisdictions.

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

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

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

17 (a) For tax liabilities arising before January 1, 1992, interest
18 shall be computed at the rate of nine percent per annum from the last
19 day of the year in which the deficiency is incurred until the earlier
20 of December 31, 1998, or the date of payment. After December 31,
21 1998, the rate of interest shall be variable and computed as provided
22 in subsection (2) of this section. The rate so computed shall be
23 adjusted on the first day of January of each year for use in
24 computing interest for that calendar year.

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

31 (c)(i) Except as otherwise provided in this subsection (1)(c),
32 interest imposed after December 31, 1998, shall be computed from the
33 last day of the month following each calendar year included in a
34 notice, and the last day of the month following the final month
35 included in a notice if not the end of a calendar year, until the due
36 date of the notice.

37 (ii) For interest associated with annual tax reporting periods
38 having a due date as prescribed in RCW 82.32.045(3) (~~and~~),
39 82.87.110, and section 702 of this act, interest must be computed

1 from the last day of April immediately following each such annual
2 reporting period included in the notice, until the due date of the
3 notice.

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

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

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

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

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

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

34 (4) No assessment or correction of an assessment for additional
35 taxes, penalties, or interest due may be made by the department more
36 than four years after the close of the tax year, except (a) against a
37 taxpayer who has not registered as required by this chapter, (b) upon
38 a showing of fraud or of misrepresentation of a material fact by the
39 taxpayer, or (c) where a taxpayer has executed a written waiver of
40 such limitation. The execution of a written waiver shall also extend

1 the period for making a refund or credit as provided in RCW
2 82.32.060(2).

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

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

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

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

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

28 (2)(a) The execution of a written waiver under RCW 82.32.050 or
29 82.32.100 will extend the time for making a refund or credit of any
30 taxes paid during, or attributable to, the years covered by the
31 waiver if, prior to the expiration of the waiver period, an
32 application for refund of such taxes is made by the taxpayer or the
33 department discovers a refund or credit is due.

34 (b) A refund or credit must be allowed for an excess payment
35 resulting from the failure to claim a bad debt deduction, credit, or
36 refund under RCW 82.04.4284, 82.08.037, 82.12.037, 82.14B.150, or
37 82.16.050(5) for debts that became bad debts under 26 U.S.C. Sec.
38 166, as amended or renumbered as of January 1, 2003, less than four

1 years prior to the beginning of the calendar year in which the refund
2 application is made or examination of records is completed.

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

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

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

25 (b) For refunds or credits of amounts paid or other recovery
26 allowed to a taxpayer after December 31, 1991, the rate of interest
27 must be the rate as computed for assessments under RCW 82.32.050(2)
28 less one percent. This rate of interest applies for all interest
29 allowed through December 31, 1998. Interest allowed after December
30 31, 1998, must be computed at the rate as computed under RCW
31 82.32.050(2). The rate so computed must be adjusted on the first day
32 of January of each year for use in computing interest for that
33 calendar year.

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

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

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

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

5 (iii) For interest associated with annual tax reporting periods
6 having a due date as prescribed in RCW 82.32.045(3) (~~and~~),
7 82.87.110, and section 702 of this act, interest must be computed
8 from the last day of April following each such annual reporting
9 period included in a notice or refund.

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

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

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

29 (1) If payment of any tax due on a return to be filed by a
30 taxpayer is not received by the department of revenue by the due
31 date, there is assessed a penalty of nine percent of the amount of
32 the tax; and if the tax is not received on or before the last day of
33 the month following the due date, there is assessed a total penalty
34 of 19 percent of the amount of the tax under this subsection; and if
35 the tax is not received on or before the last day of the second month
36 following the due date, there is assessed a total penalty of 29
37 percent of the amount of the tax under this subsection. No penalty so
38 added may be less than \$5.

1 (2) If the department of revenue determines that any tax has been
2 substantially underpaid, there is assessed a penalty of five percent
3 of the amount of the tax determined by the department to be due. If
4 payment of any tax determined by the department to be due is not
5 received by the department by the due date specified in the notice,
6 or any extension thereof, there is assessed a total penalty of 15
7 percent of the amount of the tax under this subsection; and if
8 payment of any tax determined by the department to be due is not
9 received on or before the 30th day following the due date specified
10 in the notice of tax due, or any extension thereof, there is assessed
11 a total penalty of 25 percent of the amount of the tax under this
12 subsection. No penalty so added may be less than \$5. As used in this
13 (~~section~~) subsection, "substantially underpaid" means that the
14 taxpayer has paid less than 80 percent of the amount of tax
15 determined by the department to be due for all of the types of taxes
16 included in, and for the entire period of time covered by, the
17 department's examination, and the amount of underpayment is at least
18 \$1,000.

19 (3) If a warrant is issued by the department of revenue for the
20 collection of taxes, increases, and penalties, there is added thereto
21 a penalty of 10 percent of the amount of the tax, but not less than
22 \$10.

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

35 (5) If the department finds that a taxpayer has disregarded
36 specific written instructions as to reporting or tax liabilities, or
37 willfully disregarded the requirement to file returns or remit
38 payment electronically, as provided by RCW 82.32.080, the department
39 must add a penalty of 10 percent of the amount of the tax that should
40 have been reported and/or paid electronically or the additional tax

1 found due if there is a deficiency because of the failure to follow
2 the instructions. A taxpayer disregards specific written instructions
3 when the department has informed the taxpayer in writing of the
4 taxpayer's tax obligations and the taxpayer fails to act in
5 accordance with those instructions unless, in the case of a
6 deficiency, the department has not issued final instructions because
7 the matter is under appeal pursuant to this chapter or departmental
8 regulations. The department may not assess the penalty under this
9 section upon any taxpayer who has made a good faith effort to comply
10 with the specific written instructions provided by the department to
11 that taxpayer. A taxpayer will be considered to have made a good
12 faith effort to comply with specific written instructions to file
13 returns and/or remit taxes electronically only if the taxpayer can
14 show good cause, as defined in RCW 82.32.080, for the failure to
15 comply with such instructions. A taxpayer will be considered to have
16 willfully disregarded the requirement to file returns or remit
17 payment electronically if the department has mailed or otherwise
18 delivered the specific written instructions to the taxpayer on at
19 least two occasions. Specific written instructions may be given as a
20 part of a tax assessment, audit, determination, closing agreement, or
21 other written communication, provided that such specific written
22 instructions apply only to the taxpayer addressed or referenced on
23 such communication. Any specific written instructions by the
24 department must be clearly identified as such and must inform the
25 taxpayer that failure to follow the instructions may subject the
26 taxpayer to the penalties imposed by this subsection. If the
27 department determines that it is necessary to provide specific
28 written instructions to a taxpayer that does not comply with the
29 requirement to file returns or remit payment electronically as
30 provided in RCW 82.32.080, the specific written instructions must
31 provide the taxpayer with a minimum of 45 days to come into
32 compliance with its electronic filing and/or payment obligations
33 before the department may impose the penalty authorized in this
34 subsection.

35 (6) If the department finds that all or any part of a deficiency
36 resulted from engaging in a disregarded transaction, as described in
37 RCW 82.32.655(3), the department must assess a penalty of 35 percent
38 of the additional tax found to be due as a result of engaging in a
39 transaction disregarded by the department under RCW 82.32.655(2). The
40 penalty provided in this subsection may be assessed together with any

1 other applicable penalties provided in this section on the same tax
2 found to be due, except for the evasion penalty provided in
3 subsection (7) of this section. The department may not assess the
4 penalty under this subsection if, before the department discovers the
5 taxpayer's use of a transaction described under RCW 82.32.655(3), the
6 taxpayer discloses its participation in the transaction to the
7 department.

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

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

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

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

27 (11) If the total estimated tax payments under section 501 of
28 this act for the tax year are substantially underpaid, there is
29 assessed a penalty of five percent of the amount of the underpaid
30 tax. If a pass-through entity makes an election under section 502 of
31 this act, this subsection (11) applies to the estimated tax payments
32 of the pass-through entity in lieu of the individual. As used in this
33 subsection, "substantially underpaid" means that an individual's
34 total annual estimated tax payments under section 501 of this act are
35 less than the tax shown on the return required under section 702(1)
36 of this act unless the estimated tax remitted to the department is
37 either: (a) 90 percent of the tax shown on the return required under
38 section 702(1) of this act; or (b) 100 percent of the tax shown on
39 the most recently filed tax return under section 702(1) of this act.

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

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

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

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

22 (b) Liability of transferees; and

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

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

30 NEW SECTION. **Sec. 710.** RULES. (1) The department may adopt
31 rules under chapter 34.05 RCW for the administration and enforcement
32 of this chapter. The rules, to the extent possible without being
33 inconsistent with this chapter, must follow the internal revenue code
34 and the regulations and rulings of the United States treasury
35 department with respect to the federal income tax. The department may
36 adopt as a part of these rules any portions of the internal revenue

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

3 (2) The department may adopt any rules under chapter 34.05 RCW it
4 considers necessary for the administration of section 711 of this
5 act.

6 NEW SECTION. **Sec. 711.** A new section is added to chapter 74.20A
7 RCW to read as follows:

8 (1) Income tax refunds held by the department of revenue pursuant
9 to chapter 82A.--- RCW (the new chapter created in section 1203 of
10 this act) are subject to collection action by the department under
11 this chapter and all other applicable state statutes.

12 (2) The department shall enter into a data-sharing agreement with
13 the department of revenue to facilitate the exchange of information
14 necessary to implement and administer this section.

15 (3) The department and the department of revenue shall adopt
16 rules as necessary to administer this section pursuant to their
17 relevant rule-making authority.

18 (4) When the department commences collection action under this
19 chapter to collect past due child support from income tax refunds due
20 to a taxpayer pursuant to chapter 82A.--- RCW (the new chapter
21 created in section 1203 of this act), the department of revenue may
22 not allow the taxpayer to apply an income tax refund to future taxes.

23 NEW SECTION. **Sec. 712.** ADVISORY GROUP. (1) For the purposes of
24 implementing sections 101 through 814 of this act, the department of
25 revenue is required to regularly consult with the advisory group
26 created in this section.

27 (2) The advisory group members must include:

28 (a) The director of the department of revenue, or their
29 appointees;

30 (b) The director of the office of financial management, or their
31 appointees;

32 (c) The director of the office of minority and women's business
33 enterprises, or their appointees;

34 (d) Two members of the senate, one from each of the major
35 caucuses and appointed by the president of the senate;

36 (e) Two members of the house of representatives, one from each of
37 the major caucuses and appointed by the speaker of the house of
38 representatives; and

1 (f) Ten members appointed by the governor from a list of
2 recommendations made by the president of the senate and the speaker
3 of the house, to include members representing the following groups:

4 (i) Two certified public accountants;

5 (ii) Two members of the tax section of the Washington state bar
6 association;

7 (iii) One member from the office of the attorney general;

8 (iv) One member from a small business association that has
9 membership throughout the state;

10 (v) One member from a large business association; and

11 (vi) One member of a federally recognized Indian tribe
12 recommended by the governor's office of Indian affairs.

13 (3) Staff support for the advisory group will be provided by the
14 department of revenue.

15 (4) Staff support for the legislative members during the advisory
16 group meetings shall include nonpartisan staff from senate committee
17 services and the house of representatives office of program research
18 as well as partisan staff for the majority and minority caucuses in
19 the senate and the house of representatives.

20 (5) After July 1, 2026, the advisory group must meet regularly to
21 be consulted on the implementation of this act and to make
22 recommendations regarding the implementation and administration of
23 this act, including:

24 (a) The implementation and administration of the pass-through
25 entity election, including the requirements and timing of the
26 election;

27 (b) The development of a state schedule K-1;

28 (c) Filing requirements, including documents required to be
29 included; and

30 (d) Other essential administrative and implementation matters to
31 be determined by the advisory group.

32 (6) The department of revenue is required to provide:

33 (a) An initial report by December 15, 2026, to the fiscal
34 committees of the house of representatives and the senate that are
35 responsible for the state's tax policy. This report must include any
36 recommended changes identified during the first phase of
37 implementation that may require legislation during the 2027 session;
38 and

39 (b) A final report of recommendations related to the
40 administration of the tax by December 15, 2027, to the fiscal

1 committees of the house of representatives and the senate that are
2 responsible for the state's tax policy.

3 **PART VIII**

4 **APPLICATION OF TAX TO PUBLIC PENSIONS**

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

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

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

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

25 (4) Subsection (1) of this section shall not prohibit the
26 department of retirement systems from complying with (a) a wage
27 assignment order for child support issued pursuant to chapter 26.18
28 RCW, (b) a notice of payroll deduction issued under chapter 26.23
29 RCW, (c) an order to withhold and deliver issued pursuant to chapter
30 74.20A RCW, (d) a mandatory benefits assignment order issued pursuant
31 to chapter 41.50 RCW, (e) a court order directing the department of
32 retirement systems to pay benefits directly to an obligee under a
33 dissolution order as defined in RCW 41.50.500(3) which fully complies
34 with RCW 41.50.670 and 41.50.700, or (f) any administrative or court
35 order expressly authorized by federal law.

36 (5) Subsection (1) of this section does not exempt any pension or
37 other benefit received under this chapter from tax under Title 82A
38 RCW (the new title created in section 1203 of this act).

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

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

13 (2) Subsection (1) of this section shall not prohibit the
14 department of retirement systems from complying with (a) a wage
15 assignment order for child support issued pursuant to chapter 26.18
16 RCW, (b) a notice of payroll deduction issued under chapter 26.23
17 RCW, (c) an order to withhold and deliver issued pursuant to chapter
18 74.20A RCW, (d) a mandatory benefits assignment order issued pursuant
19 to chapter 41.50 RCW, (e) a court order directing the department of
20 retirement systems to pay benefits directly to an obligee under a
21 dissolution order as defined in RCW 41.50.500(3) which fully complies
22 with RCW 41.50.670 and 41.50.700, or (f) any administrative or court
23 order expressly authorized by federal law.

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

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

32 (5) Subsection (1) of this section does not exempt any pension or
33 other benefit received under this chapter from tax under Title 82A
34 RCW (the new title created in section 1203 of this act).

35 **Sec. 803.** RCW 2.14.100 and 2007 c 108 s 1 are each amended to
36 read as follows:

37 (1) A member who separates from judicial service for any reason
38 is entitled to receive a lump sum distribution of the member's
39 accumulated contributions. The administrator for the courts may adopt

1 rules establishing other payment options, in addition to lump sum
2 distributions, if the other payment options conform to the
3 requirements of the federal internal revenue code.

4 (2) The right of a person to receive a payment under this chapter
5 and the moneys in the accounts created under this chapter are exempt
6 from any state, county, municipal, or other local tax and are not
7 subject to execution, garnishment, attachment, the operation of
8 bankruptcy or insolvency law, or any other process of law whatsoever
9 and is not assignable, except as is otherwise specifically provided
10 in this section.

11 (3) If a judgment, decree or other order, including a
12 court-approved property settlement agreement, that relates to the
13 provision of child support, spousal maintenance, or the marital
14 property rights of a spouse or former spouse, child, or other
15 dependent of a member is made pursuant to the domestic relations law
16 of the state of Washington or such order issued by a court of
17 competent jurisdiction in another state or country, that has been
18 registered or otherwise made enforceable in this state, then the
19 amount of the member's accumulated contributions shall be paid in the
20 manner and to the person or persons so directed in the domestic
21 relations order. However, this subsection does not permit or require
22 a benefit to be paid or to be provided that is not otherwise
23 available under the terms of this chapter or any rules adopted under
24 this chapter. The administrator for the courts shall establish
25 reasonable procedures for determining the status or any such decree
26 or order and for effectuating distribution pursuant to the domestic
27 relations order.

28 (4) The administrator for the courts may pay from a member's
29 accumulated contributions the amount that the administrator finds is
30 lawfully demanded under a levy issued by the internal revenue service
31 with respect to that member or is sought to be collected by the
32 United States government under a judgment resulting from an unpaid
33 tax assessment against the member.

34 (5) Subsection (2) of this section does not exempt any payment or
35 other benefit received under this chapter from tax under Title 82A
36 RCW (the new title created in section 1203 of this act).

37 **Sec. 804.** RCW 6.15.020 and 2011 c 162 s 3 are each amended to
38 read as follows:

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

7 (2) Unless otherwise provided by federal law, any money received
8 by any citizen of the state of Washington as a pension from the
9 government of the United States, whether the same be in the actual
10 possession of such person or be deposited or loaned, shall be exempt
11 from execution, attachment, garnishment, or seizure by or under any
12 legal process whatever, and when a debtor dies, or absconds, and
13 leaves his or her family any money exempted by this subsection, the
14 same shall be exempt to the family as provided in this subsection.
15 This subsection shall not apply to child support collection actions
16 issued under chapter 26.18, 26.23, or 74.20A RCW, if otherwise
17 permitted by federal law, or to collection actions for taxes imposed
18 under Title 82A RCW (the new title created in section 1203 of this
19 act).

20 (3) The right of a person to a pension, annuity, or retirement
21 allowance or disability allowance, or death benefits, or any optional
22 benefit, or any other right accrued or accruing to any citizen of the
23 state of Washington under any employee benefit plan, and any fund
24 created by such a plan or arrangement, shall be exempt from
25 execution, attachment, garnishment, or seizure by or under any legal
26 process whatever. This subsection shall not apply to child support
27 collection actions issued under chapter 26.18, 26.23, or 74.20A RCW
28 if otherwise permitted by federal law, or to collection actions for
29 taxes imposed under Title 82A RCW (the new title created in section
30 1203 of this act). This subsection shall permit benefits under any
31 such plan or arrangement to be payable to a spouse, former spouse,
32 child, or other dependent of a participant in such plan to the extent
33 expressly provided for in a qualified domestic relations order that
34 meets the requirements for such orders under the plan, or, in the
35 case of benefits payable under a plan described in 26 U.S.C. Sec.
36 403(b) or 408 of the internal revenue code of 1986, as amended, or
37 section 409 of such code as in effect before January 1, 1984, to the
38 extent provided in any order issued by a court of competent
39 jurisdiction that provides for maintenance or support. This
40 subsection does not prohibit actions against an employee benefit

1 plan, or fund for valid obligations incurred by the plan or fund for
2 the benefit of the plan or fund.

3 (4) For the purposes of this section, the term "employee benefit
4 plan" means any plan or arrangement that is described in RCW
5 49.64.020, including any Keogh plan, whether funded by a trust or by
6 an annuity contract, and in 26 U.S.C. Sec. 401(a) or 403(a) of the
7 internal revenue code of 1986, as amended; or that is a tax-sheltered
8 annuity or a custodial account described in section 403(b) of such
9 code or an individual retirement account or an individual retirement
10 annuity described in section 408 of such code; or a Roth individual
11 retirement account described in section 408A of such code; or a
12 medical savings account or a health savings account described in
13 sections 220 and 223, respectively, of such code; or a retirement
14 bond described in section 409 of such code as in effect before
15 January 1, 1984. The term "employee benefit plan" shall not include
16 any employee benefit plan that is established or maintained for its
17 employees by the government of the United States, by the state of
18 Washington under chapter 2.10, 2.12, 41.26, 41.32, 41.34, 41.35,
19 41.37, 41.40, or 43.43 RCW or RCW 41.50.770, or by any agency or
20 instrumentality of the government of the United States.

21 (5) An employee benefit plan shall be deemed to be a spendthrift
22 trust, regardless of the source of funds, the relationship between
23 the trustee or custodian of the plan and the beneficiary, or the
24 ability of the debtor to withdraw or borrow or otherwise become
25 entitled to benefits from the plan before retirement. This subsection
26 shall not apply to child support collection actions issued under
27 chapter 26.18, 26.23, or 74.20A RCW, if otherwise permitted by
28 federal law, or to collection actions for taxes imposed under Title
29 82A RCW (the new title created in section 1203 of this act). This
30 subsection shall permit benefits under any such plan or arrangement
31 to be payable to a spouse, former spouse, child, or other dependent
32 of a participant in such plan to the extent expressly provided for in
33 a qualified domestic relations order that meets the requirements for
34 such orders under the plan, or, in the case of benefits payable under
35 a plan described in 26 U.S.C. Sec. 403(b) or 408 of the internal
36 revenue code of 1986, as amended, or section 409 of such code as in
37 effect before January 1, 1984, to the extent provided in any order
38 issued by a court of competent jurisdiction that provides for
39 maintenance or support.

1 (6) Unless prohibited by federal law, nothing contained in
2 subsection (3), (4), or (5) of this section shall be construed as a
3 termination or limitation of a spouse's community property interest
4 in an employee benefit plan held in the name of or on account of the
5 other spouse, who is the participant or the account holder spouse.
6 Unless prohibited by applicable federal law, at the death of the
7 nonparticipant, nonaccount holder spouse, the nonparticipant,
8 nonaccount holder spouse may transfer or distribute the community
9 property interest of the nonparticipant, nonaccount holder spouse in
10 the participant or account holder spouse's employee benefit plan to
11 the nonparticipant, nonaccount holder spouse's estate, testamentary
12 trust, inter vivos trust, or other successor or successors pursuant
13 to the last will of the nonparticipant, nonaccount holder spouse or
14 the law of intestate succession, and that distributee may, but shall
15 not be required to, obtain an order of a court of competent
16 jurisdiction, including a nonjudicial binding agreement or order
17 entered under chapter 11.96A RCW, to confirm the distribution. For
18 purposes of subsection (3) of this section, the distributee of the
19 nonparticipant, nonaccount holder spouse's community property
20 interest in an employee benefit plan shall be considered a person
21 entitled to the full protection of subsection (3) of this section.
22 The nonparticipant, nonaccount holder spouse's consent to a
23 beneficiary designation by the participant or account holder spouse
24 with respect to an employee benefit plan shall not, absent clear and
25 convincing evidence to the contrary, be deemed a release, gift,
26 relinquishment, termination, limitation, or transfer of the
27 nonparticipant, nonaccount holder spouse's community property
28 interest in an employee benefit plan. For purposes of this
29 subsection, the term "nonparticipant, nonaccount holder spouse" means
30 the spouse of the person who is a participant in an employee benefit
31 plan or in whose name an individual retirement account is maintained.
32 As used in this subsection, an order of a court of competent
33 jurisdiction entered under chapter 11.96A RCW includes an agreement,
34 as that term is used under RCW 11.96A.220.

35 **Sec. 805.** RCW 41.24.240 and 1995 c 11 s 13 are each amended to
36 read as follows:

37 (1) The right of any person to any future payment under the
38 provisions of this chapter shall not be transferable or assignable at
39 law or in equity, and none of the moneys paid or payable or the

1 rights existing under this chapter, shall be subject to execution,
2 levy, attachment, garnishment, or other legal process, or to the
3 operation of any bankruptcy or insolvency law. This section shall not
4 be applicable to any child support collection action taken under
5 chapter 26.18, 26.23, or 74.20A RCW. Benefits under this chapter
6 shall be payable to a spouse or ex-spouse to the extent expressly
7 provided for in any court decree of dissolution or legal separation
8 or in any court order or court-approved property settlement agreement
9 incident to any court decree of dissolution or legal separation.

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

15 (3) Subsection (1) of this section does not exempt any pension or
16 other benefit received under this chapter from tax under Title 82A
17 RCW (the new title created in section 1203 of this act).

18 **Sec. 806.** RCW 41.32.052 and 2012 c 159 s 20 are each amended to
19 read as follows:

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

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

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

37 (b) Under a group health care benefit plan approved pursuant to
38 RCW 28A.400.350 or 41.05.065 from authorizing monthly deductions
39 therefrom, of the amount or amounts of subscription payments,

1 premiums, or contributions to any person, firm, or corporation
2 furnishing or providing medical, surgical, and hospital care or other
3 health care insurance; or

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

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

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

22 (4) Subsection (1) of this section does not exempt any pension or
23 other benefit received under this chapter from tax under Title 82A
24 RCW (the new title created in section 1203 of this act).

25 **Sec. 807.** RCW 41.34.080 and 2012 c 159 s 23 are each amended to
26 read as follows:

27 (1) Subject to subsections (2) (~~and~~), (3), and (4) of this
28 section, the right of a person to a pension, an annuity, a retirement
29 allowance, any optional benefit, any other right accrued or accruing
30 to any person under the provisions of this chapter, and the various
31 funds created by chapter 239, Laws of 1995; chapter 341, Laws of
32 1998; and chapter 247, Laws of 2000 and all moneys and investments
33 and income thereof, is hereby exempt from any state, county,
34 municipal, or other local tax, and shall not be subject to execution,
35 garnishment, attachment, the operation of bankruptcy or insolvency
36 laws, or other process of law whatsoever, whether the same be in
37 actual possession of the person or be deposited or loaned and shall
38 be unassignable.

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

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

26 (4) Subsection (1) of this section does not exempt any pension or
27 other benefit received under this chapter from tax under Title 82A
28 RCW (the new title created in section 1203 of this act).

29 **Sec. 808.** RCW 41.35.100 and 2012 c 159 s 24 are each amended to
30 read as follows:

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

1 actual possession of the person or be deposited or loaned and shall
2 be unassignable.

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

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

28 (4) Subsection (1) of this section does not exempt any pension or
29 other benefit received under this chapter from tax under Title 82A
30 RCW (the new title created in section 1203 of this act).

31 **Sec. 809.** RCW 41.37.090 and 2012 c 159 s 25 are each amended to
32 read as follows:

33 (1) Subject to subsections (2) (~~and (3)~~) through (4) of this
34 section, the right of a person to a pension, an annuity, or
35 retirement allowance, any optional benefit, any other right accrued
36 or accruing to any person under this chapter, the various funds
37 created by this chapter, and all moneys and investments and income
38 thereof, are hereby exempt from any state, county, municipal, or
39 other local tax, and shall not be subject to execution, garnishment,

1 attachment, the operation of bankruptcy or insolvency laws, or other
2 process of law whatsoever, whether the same be in actual possession
3 of the person or be deposited or loaned and shall be unassignable.

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

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

28 (4) Subsection (1) of this section does not exempt any pension or
29 other benefit received under this chapter from tax under Title 82A
30 RCW (the new title created in section 1203 of this act).

31 **Sec. 810.** RCW 41.40.052 and 2012 c 159 s 26 are each amended to
32 read as follows:

33 (1) Subject to subsections (2) ~~((and))~~, (3), and (4) of this
34 section, the right of a person to a pension, an annuity, or
35 retirement allowance, any optional benefit, any other right accrued
36 or accruing to any person under the provisions of this chapter, the
37 various funds created by this chapter, and all moneys and investments
38 and income thereof, are hereby exempt from any state, county,
39 municipal, or other local tax, and shall not be subject to execution,

1 garnishment, attachment, the operation of bankruptcy or insolvency
2 laws, or other process of law whatsoever, whether the same be in
3 actual possession of the person or be deposited or loaned and shall
4 be unassignable.

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

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

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

34 (4) Subsection (1) of this section does not exempt any pension or
35 other benefit received under this chapter from tax under Title 82A
36 RCW (the new title created in section 1203 of this act).

37 **Sec. 811.** RCW 41.44.240 and 2012 c 159 s 27 are each amended to
38 read as follows:

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

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

17 (3) Subsection (1) of this section does not exempt any pension or
18 other benefit received under this chapter from tax under Title 82A
19 RCW (the new title created in section 1203 of this act).

20 **Sec. 812.** RCW 41.26.053 and 2012 c 159 s 21 are each amended to
21 read as follows:

22 (1) Subject to subsections (2) ~~((and)),~~ (3), and (4) of this
23 section, the right of a person to a retirement allowance, disability
24 allowance, or death benefit, to the return of accumulated
25 contributions, the retirement, disability or death allowance itself,
26 any optional benefit, any other right accrued or accruing to any
27 person under the provisions of this chapter, and the moneys in the
28 fund created under this chapter, are hereby exempt from any state,
29 county, municipal, or other local tax and shall not be subject to
30 execution, garnishment, attachment, the operation of bankruptcy or
31 insolvency laws, or any other process of law whatsoever, whether the
32 same be in actual possession of the person or be deposited or loaned
33 and shall be unassignable.

34 (2) On the written request of any person eligible to receive
35 benefits under this section, the department may deduct from such
36 payments the premiums for life, health, or other insurance. The
37 request on behalf of any child or children shall be made by the legal
38 guardian of such child or children. The department may provide for
39 such persons one or more plans of group insurance, through contracts

1 with regularly constituted insurance carriers or health care service
2 contractors.

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

14 (4) Subsection (1) of this section does not exempt any pension or
15 other benefit received under this chapter from tax under Title 82A
16 RCW (the new title created in section 1203 of this act).

17 **Sec. 813.** RCW 41.28.200 and 2012 c 159 s 22 are each amended to
18 read as follows:

19 (1) The right of a person to a pension, an annuity or a
20 retirement allowance, to the return of contributions, the pension,
21 annuity or retirement allowance itself, any optional benefit, any
22 other right accrued or accruing to any person under the provisions of
23 this chapter, and the moneys in the fund created under this chapter
24 shall not be subject to execution, garnishment, attachment, or any
25 other process whatsoever, whether the same be in actual possession of
26 the person or be deposited or loaned and shall be unassignable except
27 as in this chapter specifically provided.

28 (2) Subsection (1) of this section does not exempt any pension or
29 other benefit received under this chapter from tax under Title 82A
30 RCW (the new title created in section 1203 of this act).

31 **Sec. 814.** RCW 43.43.310 and 2012 c 159 s 28 are each amended to
32 read as follows:

33 (1) Except as provided in subsections (2) (~~and~~), (3), and (4)
34 of this section, the right of any person to a retirement allowance or
35 optional retirement allowance under the provisions hereof and all
36 moneys and investments and income thereof are exempt from any state,
37 county, municipal, or other local tax and shall not be subject to
38 execution, garnishment, attachment, the operation of bankruptcy or

1 the insolvency laws, or other processes of law whatsoever, whether
2 the same be in actual possession of the person or be deposited or
3 loaned and shall be unassignable except as herein specifically
4 provided.

5 (2) Subsection (1) of this section shall not prohibit the
6 department of retirement systems from complying with (a) a wage
7 assignment order for child support issued pursuant to chapter 26.18
8 RCW, (b) an order to withhold and deliver issued pursuant to chapter
9 74.20A RCW, (c) ~~((a notice of payroll deduction))~~ an income
10 withholding order issued pursuant to RCW 26.23.060, (d) a mandatory
11 benefits assignment order issued pursuant to chapter 41.50 RCW, (e) a
12 court order directing the department of retirement systems to pay
13 benefits directly to an obligee under a dissolution order as defined
14 in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and
15 41.50.700, or (f) any administrative or court order expressly
16 authorized by federal law.

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

24 (4) Subsection (1) of this section does not exempt any pension or
25 other benefit received under this chapter from tax under Title 82A
26 RCW (the new title created in section 1203 of this act).

27 **PART IX**
28 **TAX RELIEF**

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

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

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

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

1 (A) Is eligible for the credit provided in Title 26 U.S.C. Sec.
2 32 of the internal revenue code;

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

6 (C) Has paid either retail sales tax under this chapter or use
7 tax under chapter 82.12 RCW, or both. There is a rebuttable
8 presumption that a person paid either retail sales tax under this
9 chapter or use tax under chapter 82.12 RCW, or both, if they were a
10 Washington resident during the year for which the credit is claimed.

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

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

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

27 (C) The individual does not meet the income requirement under
28 Title 26 U.S.C. Sec. 32(c)(1)(A)(ii)(II) of the internal revenue
29 code, but whose income was equal to or less than the maximum
30 qualifying income as defined in this section; or

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

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

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

38 (d) "Internal revenue code" means the United States internal
39 revenue code of 1986, as amended, as of June 9, 2022, or such

1 subsequent date as the department may provide by rule consistent with
2 the purpose of this section.

3 (e) "Maximum qualifying income" means the greater of:

4 (i) The maximum federally adjusted gross income under Title 26
5 U.S.C. Sec. 32 of the internal revenue code for the prior federal tax
6 year; or

7 (ii) The individual's monthly need and payment standards for cash
8 assistance, under WAC 388-478-0015, multiplied by 12. For the
9 purposes of this subsection (2)(e)(ii), an individual's assistance
10 unit size is determined by their household size for federal income
11 tax purposes for the prior federal tax year, not to exceed five.

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

16 (g) "Washington resident" means an individual who is physically
17 present and residing in this state for at least 183 days. "Washington
18 resident" also includes an individual who is not physically present
19 and residing in this state for at least 183 days but is the spouse of
20 a Washington resident. For purposes of this subsection, "day" means a
21 calendar day or any portion of a calendar day.

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

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

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

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

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

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

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

38 (ii) For eligible persons with one qualifying child, beginning at
39 \$5,000 of income below the (~~federal phase-out~~) maximum qualifying
40 income for the prior federal tax year, by 12 percent per additional

1 dollar of income until the minimum credit amount as specified in (c)
2 of this subsection is reached.

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

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

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

16 (d) The refund amounts in this section shall be adjusted for
17 inflation every year beginning January 1, 2024, based upon changes in
18 the consumer price index that are published by November 15th of the
19 previous year for the most recent 12-month period. The adjusted
20 refund amounts must be rounded to the nearest \$5.

21 (e) For purposes of this section, "consumer price index" means,
22 for any 12-month period, the average consumer price index for that
23 12-month period for the Seattle, Washington area for urban wage
24 earners and clerical workers, all items, compiled by the bureau of
25 labor statistics, United States department of labor.

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

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

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

34 (i) Application must be made to the department in a form and
35 manner determined by the department. If the application process is
36 initially done electronically, the department must provide a paper
37 application upon request. The application must include any
38 information and documentation as required by the department. The
39 department may use the information provided by the individual to

1 calculate the refund amount. Income reported on the application may
2 be rounded to the nearest dollar.

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

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

11 (iv) (A) Except as provided in (a) (iv) (B) of this subsection (4),
12 application for a refund under this section must be made in the year
13 following the year for which the federal tax return was filed, but in
14 no case may any refund be provided for any period before January 1,
15 2022.

16 (B) (I) A person may apply for any refund for which they were
17 eligible but did not claim under (a) (iv) (A) of this subsection (4)
18 for up to three additional years. A person must complete an
19 application to claim this refund within the three calendar years
20 after the end of the calendar year in which the federal income tax
21 return for that tax year was legally due for federal income tax
22 purposes, without regard to any federal extension.

23 (II) If a person seeks to increase the amount of a refund that
24 has been made under this subsection (4), the person must apply for
25 the amended refund within the nonclaims period established under RCW
26 82.32.060(1).

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

34 (b) The department shall protect the privacy and confidentiality
35 of personal data of refund recipients in accordance with chapter
36 82.32 RCW.

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

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

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

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

11 (7) The department must review the application and determine
12 eligibility for the working families' tax credit based on information
13 provided by the applicant and through audit and other administrative
14 records, including, when it deems it necessary, verification through
15 information from the internal revenue service of the United States,
16 other federal agencies, Washington state agencies, third-party
17 entities, or other persons. The department may accept a signed
18 attestation in a form and manner determined by the department from an
19 individual to presumptively validate that an individual meets all the
20 eligibility requirements as provided in this section. The signed
21 attestation is subject to audit verification by the department to
22 validate an individual's eligibility for the working families' tax
23 credit.

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

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

39 (b) If an amount due under this subsection is not paid in full by
40 the date due, or the department issues a warrant for the collection

1 of amounts due under this subsection, the department may assess the
2 applicable penalties under RCW 82.32.090. Penalties under this
3 subsection (8)(b) may not be made due until six months after the
4 department's issuance of the assessment.

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

12 (9) If, within the period allowed for refunds under RCW
13 82.32.060, the department finds that an individual received a lesser
14 refund than the individual was entitled to, the department must remit
15 the additional amount due under this section to the individual.

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

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

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

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

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

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

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

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

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

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

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

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

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

36 NEW SECTION. **Sec. 905.** A new section is added to chapter 82.08
37 RCW to read as follows:

1 (1) Beginning January 1, 2029, the tax levied by RCW 82.08.020
2 does not apply to the sale of diapers.

3 (2) For the purposes of this section, "diapers" means an
4 absorbent garment worn by humans who are incapable of, or have
5 difficulty, controlling their bladder or bowel movements.

6 NEW SECTION. **Sec. 906.** A new section is added to chapter 82.12
7 RCW to read as follows:

8 (1) Beginning January 1, 2029, the tax levied by this chapter
9 does not apply to the use of diapers.

10 (2) For the purposes of this section, "diapers" has the same
11 meaning as in section 905 of this act.

12 NEW SECTION. **Sec. 907.** A new section is added to chapter 82.08
13 RCW to read as follows:

14 (1) Beginning January 1, 2029, the tax levied by RCW 82.08.020
15 does not apply to the sale of over the counter drugs.

16 (2) For purposes of this section, "over the counter drugs" means
17 a drug that contains a label that identifies the product as a drug as
18 required by 21 C.F.R. Sec. 201.66 (2026) as it existed on the
19 effective date of this section. The over the counter drug label must
20 include a drug facts panel or a statement of the active ingredient or
21 ingredients with those ingredients contained in the compound,
22 substance, or preparation.

23 NEW SECTION. **Sec. 908.** A new section is added to chapter 82.12
24 RCW to read as follows:

25 (1) Beginning January 1, 2029, the tax levied by RCW 82.12.020
26 does not apply to the use of over the counter drugs.

27 (2) For purposes of this section, "over the counter drugs" has
28 the same meaning as in section 907 of this act.

29 **Sec. 909.** RCW 82.04.4451 and 2022 c 295 s 1 are each amended to
30 read as follows:

31 (1) In computing the tax imposed under this chapter, a credit is
32 allowed against the amount of tax otherwise due under this chapter,
33 as provided in this section. Except for taxpayers that report at
34 least 50 percent of their taxable amount under RCW 82.04.255,
35 82.04.290(2)(a), and 82.04.285, the maximum credit for a taxpayer for
36 a reporting period is (~~(\$55)~~) \$125 multiplied by the number of months

1 in the reporting period, as determined under RCW 82.32.045. For a
2 taxpayer that reports at least 50 percent of its taxable amount under
3 RCW 82.04.255, 82.04.290(2)(a), and 82.04.285, the maximum credit for
4 a reporting period is (~~(\$160)~~) \$375 multiplied by the number of
5 months in the reporting period, as determined under RCW 82.32.045.

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

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

13 (4) The department may prepare a tax credit table consisting of
14 tax ranges using increments of no more than five dollars and a
15 corresponding tax credit to be applied to those tax ranges. The table
16 shall be prepared in such a manner that no taxpayer will owe a
17 greater amount of tax by using the table than would be owed by
18 performing the calculation under subsections (1) through (3) of this
19 section. A table prepared by the department under this subsection
20 must be used by all taxpayers in taking the credit provided in this
21 section.

22 **Sec. 910.** RCW 82.32.045 and 2023 c 374 s 12 are each amended to
23 read as follows:

24 (1) Except as otherwise provided in this chapter and subsection
25 (6) of this section, payments of the taxes imposed under chapters
26 82.04, 82.08, 82.12, 82.14, 82.16, and 82.27 RCW, along with reports
27 and returns on forms prescribed by the department, are due monthly
28 within 25 days after the end of the month in which the taxable
29 activities occur.

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

37 (3) For annual filers, tax payments, along with reports and
38 returns on forms prescribed by the department, are due on or before

1 April 15th of the year immediately following the end of the period
2 covered by the return.

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

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

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

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

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

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

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

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

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

28 **Sec. 911.** RCW 82.04.288 and 2025 c 420 s 201 are each amended to
29 read as follows:

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

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

35 (3) (a) Any Washington taxable income subject to the tax in RCW
36 82.04.29004 is exempt from the surcharge imposed in this section.

37 (b) (i) Any Washington taxable income subject to the manufacturing
38 tax rates in RCW 82.04.240, 82.04.2404, 82.04.241, 82.04.260,

1 82.04.2602, 82.04.287, 82.04.2909, or 82.04.294(1) is exempt from the
2 surcharge imposed in this section.

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

7 (iii) Any Washington taxable income attributable to retail sales
8 that are exempt from the imposition of sales tax in RCW 82.08.0293,
9 82.08.0297, and 82.08.0281 is exempt from the surcharge imposed in
10 this section.

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

14 (v) Any Washington taxable income attributable to the wholesale
15 or retail sale of petroleum products by a person who is both located
16 in a state other than Washington and the owner of such materials
17 processed for it in Washington by an affiliated processor for hire
18 subject to the rate in RCW 82.04.280(1)(c), is exempt from the
19 surcharge imposed in this section. For the purposes of this
20 subsection (3)(b)(v), the following definitions apply:

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

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

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

29 (vi) Any Washington taxable income received by a hospital as
30 defined in RCW 70.41.020 is exempt from the surcharge imposed by this
31 section.

32 (vii) Any Washington taxable income attributable to the
33 warehousing and reselling of drugs for human use pursuant to a
34 prescription is exempt from the surcharge imposed by this section.
35 For the purposes of this subsection (3)(b)(vii), the following
36 definitions apply:

37 (A) "Prescription" has the same meaning as in RCW 82.08.0281.

38 (B) "Warehousing and reselling drugs for human use pursuant to a
39 prescription" means the buying of drugs for human use pursuant to a
40 prescription from a manufacturer or another wholesaler and reselling

1 of the drugs to persons selling at retail or to hospitals, clinics,
2 health care providers, or other providers of health care services by
3 a wholesaler or retailer who is registered with the federal drug
4 enforcement administration and licensed by the pharmacy quality
5 assurance commission.

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

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

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

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

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

19 (6) This section expires December 31, 2029.

20 NEW SECTION. **Sec. 912.** Sections 909 through 911 of this act
21 take effect January 1, 2029.

22 **PART X**

23 **CHAPTER 422, LAWS OF 2025**

24 **Sec. 1001.** RCW 82.04.050 and 2025 c 422 s 101 are each amended
25 to read as follows:

26 (1) (a) "Sale at retail" or "retail sale" means every sale of
27 tangible personal property (including articles produced, fabricated,
28 or imprinted) to all persons irrespective of the nature of their
29 business and including, among others, without limiting the scope
30 hereof, persons who install, repair, clean, alter, improve,
31 construct, or decorate real or personal property of or for consumers
32 other than a sale to a person who:

33 (i) Purchases for the purpose of resale as tangible personal
34 property in the regular course of business without intervening use by
35 such person, but a purchase for the purpose of resale by a regional
36 transit authority under RCW 81.112.300 is not a sale for resale; or

1 (ii) Installs, repairs, cleans, alters, imprints, improves,
2 constructs, or decorates real or personal property of or for
3 consumers, if such tangible personal property becomes an ingredient
4 or component of such real or personal property without intervening
5 use by such person; or

6 (iii) Purchases for the purpose of consuming the property
7 purchased in producing for sale as a new article of tangible personal
8 property or substance, of which such property becomes an ingredient
9 or component or is a chemical used in processing, when the primary
10 purpose of such chemical is to create a chemical reaction directly
11 through contact with an ingredient of a new article being produced
12 for sale; or

13 (iv) Purchases for the purpose of consuming the property
14 purchased in producing ferrosilicon which is subsequently used in
15 producing magnesium for sale, if the primary purpose of such property
16 is to create a chemical reaction directly through contact with an
17 ingredient of ferrosilicon; or

18 (v) Purchases for the purpose of providing the property to
19 consumers as part of competitive telephone service, as defined in RCW
20 82.04.065; or

21 (vi) Purchases for the purpose of satisfying the person's
22 obligations under an extended warranty as defined in subsection (7)
23 of this section, if such tangible personal property replaces or
24 becomes an ingredient or component of property covered by the
25 extended warranty without intervening use by such person.

26 (b) The term includes every sale of tangible personal property
27 that is used or consumed or to be used or consumed in the performance
28 of any activity defined as a "sale at retail" or "retail sale" even
29 though such property is resold or used as provided in (a)(i) through
30 (vi) of this subsection following such use.

31 (c) The term also means every sale of tangible personal property
32 to persons engaged in any business that is taxable under RCW
33 82.04.280(1) (a), (b), and (~~(g)~~) (f), 82.04.290, and 82.04.2908.

34 (2) The term "sale at retail" or "retail sale" includes the sale
35 of or charge made for tangible personal property consumed and/or for
36 labor and services rendered in respect to the following:

37 (a) The installing, repairing, cleaning, altering, imprinting, or
38 improving of tangible personal property of or for consumers,
39 including charges made for the mere use of facilities in respect
40 thereto, but excluding charges made for the use of self-service

1 laundry facilities, and also excluding sales of laundry service to
2 nonprofit health care facilities, and excluding services rendered in
3 respect to live animals, birds and insects;

4 (b) The constructing, repairing, decorating, or improving of new
5 or existing buildings or other structures under, upon, or above real
6 property of or for consumers, including the installing or attaching
7 of any article of tangible personal property therein or thereto,
8 whether or not such personal property becomes a part of the realty by
9 virtue of installation, and also includes the sale of services or
10 charges made for the clearing of land and the moving of earth
11 excepting the mere leveling of land used in commercial farming or
12 agriculture;

13 (c) The constructing, repairing, or improving of any structure
14 upon, above, or under any real property owned by an owner who conveys
15 the property by title, possession, or any other means to the person
16 performing such construction, repair, or improvement for the purpose
17 of performing such construction, repair, or improvement and the
18 property is then reconveyed by title, possession, or any other means
19 to the original owner;

20 (d) The cleaning, fumigating, razing, or moving of existing
21 buildings or structures, but does not include the charge made for
22 janitorial services; and for purposes of this section the term
23 "janitorial services" means those cleaning and caretaking services
24 ordinarily performed by commercial janitor service businesses
25 including, but not limited to, wall and window washing, floor
26 cleaning and waxing, and the cleaning in place of rugs, drapes and
27 upholstery. The term "janitorial services" does not include painting,
28 papering, repairing, furnace or septic tank cleaning, snow removal or
29 sandblasting;

30 (e) Automobile towing and similar automotive transportation
31 services, but not in respect to those required to report and pay
32 taxes under chapter 82.16 RCW;

33 (f) The furnishing of lodging and all other services by a hotel,
34 rooming house, tourist court, motel, trailer camp, and the granting
35 of any similar license to use real property, as distinguished from
36 the renting or leasing of real property, and it is presumed that the
37 occupancy of real property for a continuous period of one month or
38 more constitutes a rental or lease of real property and not a mere
39 license to use or enjoy the same. For the purposes of this
40 subsection, it is presumed that the sale of and charge made for the

1 furnishing of lodging for a continuous period of one month or more to
2 a person is a rental or lease of real property and not a mere license
3 to enjoy the same. For the purposes of this section, it is presumed
4 that the sale of and charge made for the furnishing of lodging
5 offered regularly for public occupancy for periods of less than a
6 month constitutes a license to use or enjoy the property subject to
7 sales and use tax and not a rental or lease of property;

8 (g) The installing, repairing, altering, or improving of digital
9 goods for consumers;

10 (h) Persons taxable under (a), (b), (c), (d), (e), (f), and (g)
11 of this subsection when such sales or charges are for property, labor
12 and services which are used or consumed in whole or in part by such
13 persons in the performance of any activity defined as a "sale at
14 retail" or "retail sale" even though such property, labor and
15 services may be resold after such use or consumption. Nothing
16 contained in this subsection may be construed to modify subsection
17 (1) of this section and nothing contained in subsection (1) of this
18 section may be construed to modify this subsection.

19 (3) The term "sale at retail" or "retail sale" includes the sale
20 of or charge made for personal, business, or professional services
21 including amounts designated as interest, rents, fees, admission, and
22 other service emoluments however designated, received by persons
23 engaging in the following business activities:

24 (a) Abstract, title insurance, and escrow services;

25 (b) Credit bureau services;

26 (c) Automobile parking and storage garage services;

27 (d) Landscape maintenance and horticultural services but
28 excluding (i) horticultural services provided to farmers and (ii)
29 pruning, trimming, repairing, removing, and clearing of trees and
30 brush near electric transmission or distribution lines or equipment,
31 if performed by or at the direction of an electric utility;

32 (e) Service charges associated with tickets to professional
33 sporting events;

34 (f) The following personal services: Tanning salon services,
35 tattoo parlor services, steam bath services, turkish bath services,
36 escort services, and dating services;

37 (~~g) ((Information technology training services, technical
38 support, and other services including, but not limited to, assisting
39 with network operations and support, help desk services, in-person~~

1 ~~training related to hardware or software, network system support~~
2 ~~services, data entry services, and data processing services;~~

3 ~~(h) Custom website development services. For the purposes of this~~
4 ~~subsection (3), "website development services" means the design,~~
5 ~~development, and support of a website provided by a website developer~~
6 ~~to a customer;~~

7 ~~(i) Investigation, security services, security monitoring~~
8 ~~services, and armored car services including, but not limited to,~~
9 ~~background checks, security guard and patrol services, personal and~~
10 ~~event security, armored car transportation of cash and valuables, and~~
11 ~~security system services and monitoring. This does not include~~
12 ~~locksmith services;~~

13 ~~(j) Temporary staffing services. For the purposes of this~~
14 ~~subsection (3), "temporary staffing services" means providing workers~~
15 ~~to other businesses, except for hospitals licensed under chapter~~
16 ~~70.41 or 71.12 RCW, for limited periods of time to supplement their~~
17 ~~workforce and fill employment vacancies on a contract or for fee~~
18 ~~basis;~~

19 ~~(k)) Advertising services. (i) For the purposes of this~~
20 ~~subsection (3), "advertising services" means all digital and~~
21 ~~nondigital services related to the creation, preparation, production,~~
22 ~~or dissemination of advertisements including, but not limited to:~~

23 (A) Layout, art direction, graphic design, mechanical
24 preparation, production supervision, placement, referrals,
25 acquisition of advertising space, and rendering advice concerning the
26 best methods of advertising products or services; and

27 (B) Online referrals, search engine marketing((~~r~~)) and lead
28 generation optimization, web campaign planning, the acquisition of
29 advertising space in the internet media, and the monitoring and
30 evaluation of website traffic for purposes of determining the
31 effectiveness of an advertising campaign.

32 (ii) "Advertising services" do not include:

33 (A) Web hosting services and domain name registration;

34 (B) Services rendered in respect to the following:

35 (I) "Newspapers" as defined in RCW 82.04.214;

36 (II) Printing or publishing under RCW 82.04.280; and

37 (III) "Radio and television broadcasting" within this state as
38 defined in RCW 82.04.281; and

39 (C) Services rendered in respect to out-of-home advertising,
40 including: Billboard advertising; street furniture advertising;

1 transit advertising; place-based advertising, such as in-store
2 display advertising or point-of-sale advertising; dynamic or static
3 signage at live events; naming rights; and fixed signage advertising.
4 Out-of-home advertising does not include direct mail(~~(+~~

5 ~~(1) Live presentations including, but not limited to, lectures,~~
6 ~~seminars, workshops, or courses where participants attend either in-~~
7 ~~person or via the internet or telecommunications equipment that~~
8 ~~allows audience members and the presenter or instructor to give,~~
9 ~~receive, and discuss information with each other in real time)); and~~

10 ~~((m))~~ (h)(i) Operating an athletic or fitness facility,
11 including all charges for the use of such a facility or for any
12 associated services and amenities, except as provided in ~~((m))~~ (h)
13 (ii) of this subsection.

14 (ii) Notwithstanding anything to the contrary in ~~((m))~~ (h)(i)
15 of this subsection (3), the term "sale at retail" and "retail sale"
16 under this subsection does not include:

17 (A) Separately stated charges for the use of an athletic or
18 fitness facility where such use is primarily for a purpose other than
19 engaging in or receiving instruction in a physical fitness activity;

20 (B) Separately stated charges for the use of a discrete portion
21 of an athletic or fitness facility, other than a pool, where such
22 discrete portion of the facility does not by itself meet the
23 definition of "athletic or fitness facility" in this subsection;

24 (C) Separately stated charges for services, such as massage,
25 nutritional consulting, and body composition testing, that do not
26 require the customer to engage in physical fitness activities to
27 receive the service. The exclusion in this subsection (3)~~((m))~~ (h)
28 (ii)(C) does not apply to personal training services and instruction
29 in a physical fitness activity;

30 (D) Separately stated charges for physical therapy provided by a
31 physical therapist, as those terms are defined in RCW 18.74.010, or
32 occupational therapy provided by an occupational therapy
33 practitioner, as those terms are defined in RCW 18.59.020, when
34 performed pursuant to a referral from an authorized health care
35 practitioner or in consultation with an authorized health care
36 practitioner. For the purposes of this subsection (3)~~((m))~~ (h)
37 (ii)(D), an authorized health care practitioner means a health care
38 practitioner licensed under chapter 18.83, 18.25, 18.36A, 18.57,
39 18.71, or 18.71A RCW, or, until July 1, 2022, chapter 18.57A RCW;

1 (E) Rent or association fees charged by a landlord or residential
2 association to a tenant or residential owner with access to an
3 athletic or fitness facility maintained by the landlord or
4 residential association, unless the rent or fee varies depending on
5 whether the tenant or owner has access to the facility;

6 (F) Services provided in the regular course of employment by an
7 employee with access to an athletic or fitness facility maintained by
8 the employer for use without charge by its employees or their family
9 members;

10 (G) The provision of access to an athletic or fitness facility by
11 an educational institution to its students and staff. However,
12 charges made by an educational institution to its alumni or other
13 members of the public for the use of any of the educational
14 institution's athletic or fitness facilities are a retail sale under
15 this subsection (3) ~~((m))~~ (h). For purposes of this subsection (3)
16 ~~((m))~~ (h)(ii)(G), "educational institution" has the same meaning as
17 in RCW 82.04.170;

18 (H) Yoga, chi gong, or martial arts classes, training, or events
19 held at a community center, park, school gymnasium, college or
20 university, hospital or other medical facility, private residence, or
21 any other facility that is not operated within and as part of an
22 athletic or fitness facility.

23 (iii) Nothing in ~~((m))~~ (h)(ii) of this subsection (3) may be
24 construed to affect the taxation of sales made by the operator of an
25 athletic or fitness facility, where such sales are defined as a
26 retail sale under any provision of this section other than this
27 subsection (3).

28 (iv) For the purposes of this subsection (3) ~~((m))~~ (h), the
29 following definitions apply:

30 (A) "Athletic or fitness facility" means an indoor or outdoor
31 facility or portion of a facility that is primarily used for:
32 Exercise classes; strength and conditioning programs; personal
33 training services; tennis, racquetball, handball, squash, or
34 pickleball; or other activities requiring the use of exercise or
35 strength training equipment, such as treadmills, elliptical machines,
36 stair climbers, stationary cycles, rowing machines, pilates
37 equipment, balls, climbing ropes, jump ropes, and weightlifting
38 equipment.

39 (B) "Martial arts" means any of the various systems of training
40 for physical combat or self-defense. "Martial arts" includes, but is

1 not limited to, karate, kung fu, tae kwon do, Krav Maga, boxing,
2 kickboxing, jujitsu, shootfighting, wrestling, aikido, judo, hapkido,
3 Kendo, tai chi, and mixed martial arts.

4 (C) "Physical fitness activities" means activities that involve
5 physical exertion for the purpose of improving or maintaining the
6 general fitness, strength, flexibility, conditioning, or health of
7 the participant. "Physical fitness activities" includes participating
8 in yoga, chi gong, or martial arts.

9 For the purposes of (g) (~~through (i) and (k)~~) of this
10 subsection (3), the terms "sale at retail" and "retail sale" do not
11 include a sale between members of an affiliated group as defined in
12 RCW 82.04.299(1)(f).

13 (4)(a) The term also includes the renting or leasing of tangible
14 personal property to consumers.

15 (b) The term does not include the renting or leasing of tangible
16 personal property where the lease or rental is for the purpose of
17 sublease or subrent.

18 (5) The term also includes the providing of "competitive
19 telephone service," "telecommunications service," or "ancillary
20 services," as those terms are defined in RCW 82.04.065, to consumers.

21 (6)(a) The term also includes the sale of prewritten computer
22 software(~~, custom software, and customization of prewritten computer~~
23 ~~software~~) to a consumer, regardless of the method of delivery to the
24 end user. For purposes of this subsection (6)(a), the sale of
25 prewritten computer software includes the sale of or charge made for
26 a key or an enabling or activation code, where the key or code is
27 required to activate prewritten computer software and put the
28 software into use. There is no separate sale of the key or code from
29 the prewritten computer software, regardless of how the sale may be
30 characterized by the vendor or by the purchaser.

31 (b) The term "retail sale" does not include the sale of or charge
32 made for:

33 (i) Custom software; or

34 (ii) The customization of prewritten computer software.

35 (c)(i) The term also includes the charge made to consumers for
36 the right to access and use prewritten computer software(~~, custom~~
37 ~~software, and customization of prewritten computer software~~), where
38 possession of the software is maintained by the seller or a third
39 party, regardless of whether the charge for the service is on a per
40 use, per user, per license, subscription, or some other basis.

1 (ii)(A) The service described in (~~(b)~~) (c)(i) of this
2 subsection (6) includes the right to access and use prewritten
3 computer software (~~(, custom software, and customization of prewritten~~
4 ~~computer software)~~) to perform data processing.

5 (B) For purposes of this subsection (6) (~~(b)~~) (c)(ii), "data
6 processing" means the systematic performance of operations on data to
7 extract the required information in an appropriate form or to convert
8 the data to usable information. Data processing includes check
9 processing, image processing, form processing, survey processing,
10 payroll processing, claim processing, and similar activities.

11 (7) The term also includes the sale of or charge made for an
12 extended warranty to a consumer. For purposes of this subsection,
13 "extended warranty" means an agreement for a specified duration to
14 perform the replacement or repair of tangible personal property at no
15 additional charge or a reduced charge for tangible personal property,
16 labor, or both, or to provide indemnification for the replacement or
17 repair of tangible personal property, based on the occurrence of
18 specified events. The term "extended warranty" does not include an
19 agreement, otherwise meeting the definition of extended warranty in
20 this subsection, if no separate charge is made for the agreement and
21 the value of the agreement is included in the sales price of the
22 tangible personal property covered by the agreement. For purposes of
23 this subsection, "sales price" has the same meaning as in RCW
24 82.08.010.

25 (8)(a) The term also includes the following sales to consumers of
26 digital goods, digital codes, and digital automated services:

27 (i) Sales in which the seller has granted the purchaser the right
28 of permanent use;

29 (ii) Sales in which the seller has granted the purchaser a right
30 of use that is less than permanent;

31 (iii) Sales in which the purchaser is not obligated to make
32 continued payment as a condition of the sale; and

33 (iv) Sales in which the purchaser is obligated to make continued
34 payment as a condition of the sale.

35 (b) A retail sale of digital goods, digital codes, or digital
36 automated services under this subsection (8) includes any services
37 provided by the seller exclusively in connection with the digital
38 goods, digital codes, or digital automated services, whether or not a
39 separate charge is made for such services.

1 (c) A retail sale of digital goods, digital codes, or digital
2 automated services does not include (~~the following services if the~~
3 ~~sale occurs between members of an affiliated group as defined in RCW~~
4 ~~82.04.299(1)(f)~~):

5 ~~(i) Any service that primarily involves the application of human~~
6 ~~effort by the seller, and the human effort originated after the~~
7 ~~customer requested the service;~~

8 ~~(ii) Live presentations, such as lectures, seminars, workshops,~~
9 ~~or courses, where participants are connected to other participants~~
10 ~~via the internet or telecommunications equipment, which allows~~
11 ~~audience members and the presenter or instructor to give, receive,~~
12 ~~and discuss information with each other in real time;~~

13 ~~(iii) Advertising))~~ advertising services if the sale occurs
14 between members of an affiliated group as defined in RCW
15 82.04.299(1)(f). For purposes of this subsection (8)(c), "advertising
16 services" means all services directly related to the creation,
17 preparation, production, or dissemination of advertisements.
18 Advertising services include layout, art direction, graphic design,
19 mechanical preparation, production supervision, placement, and
20 rendering advice to a client concerning the best methods of
21 advertising that client's products or services. Advertising services
22 also include online referrals, search engine marketing and lead
23 generation optimization, web campaign planning, the acquisition of
24 advertising space in the internet media, and the monitoring and
25 evaluation of website traffic for purposes of determining the
26 effectiveness of an advertising campaign. Advertising services do not
27 include web hosting services and domain name registration(~~;~~ and

28 ~~(iv) Data processing services. For purposes of this subsection~~
29 ~~(8)(c), "data processing service" means a primarily automated service~~
30 ~~provided to a business or other organization where the primary object~~
31 ~~of the service is the systematic performance of operations by the~~
32 ~~service provider on data supplied in whole or in part by the customer~~
33 ~~to extract the required information in an appropriate form or to~~
34 ~~convert the data to usable information. Data processing services~~
35 ~~include check processing, image processing, form processing, survey~~
36 ~~processing, payroll processing, claim processing, and similar~~
37 ~~activities. Data processing does not include the service described in~~
38 ~~subsection (6)(b) of this section).~~

39 (d) For purposes of this subsection, "permanent" means perpetual
40 or for an indefinite or unspecified length of time. A right of

1 permanent use is presumed to have been granted unless the agreement
2 between the seller and the purchaser specifies or the circumstances
3 surrounding the transaction suggest or indicate that the right to use
4 terminates on the occurrence of a condition subsequent.

5 (9) The term also includes the charge made for providing tangible
6 personal property along with an operator for a fixed or indeterminate
7 period of time. A consideration of this is that the operator is
8 necessary for the tangible personal property to perform as designed.
9 For the purpose of this subsection (9), an operator must do more than
10 maintain, inspect, or set up the tangible personal property.

11 (10) The term does not include the sale of or charge made for
12 labor and services rendered in respect to the building, repairing, or
13 improving of any street, place, road, highway, easement, right-of-
14 way, mass public transportation terminal or parking facility, bridge,
15 tunnel, or trestle which is owned by a municipal corporation or
16 political subdivision of the state or by the United States and which
17 is used or to be used primarily for foot or vehicular traffic
18 including mass transportation vehicles of any kind.

19 (11) The term also does not include sales of chemical sprays or
20 washes to persons for the purpose of postharvest treatment of fruit
21 for the prevention of scald, fungus, mold, or decay, nor does it
22 include sales of feed, seed, seedlings, fertilizer, agents for
23 enhanced pollination including insects such as bees, and spray
24 materials to: (a) Persons who participate in the federal conservation
25 reserve program, the environmental quality incentives program, the
26 wetlands reserve program, and the wildlife habitat incentives
27 program, or their successors administered by the United States
28 department of agriculture; (b) farmers for the purpose of producing
29 for sale any agricultural product; (c) farmers for the purpose of
30 providing bee pollination services; and (d) farmers acting under
31 cooperative habitat development or access contracts with an
32 organization exempt from federal income tax under 26 U.S.C. Sec.
33 501(c)(3) of the federal internal revenue code or the Washington
34 state department of fish and wildlife to produce or improve wildlife
35 habitat on land that the farmer owns or leases.

36 (12) The term does not include the sale of or charge made for
37 labor and services rendered in respect to the constructing,
38 repairing, decorating, or improving of new or existing buildings or
39 other structures under, upon, or above real property of or for the
40 United States, any instrumentality thereof, or a county or city

1 housing authority created pursuant to chapter 35.82 RCW, including
2 the installing, or attaching of any article of tangible personal
3 property therein or thereto, whether or not such personal property
4 becomes a part of the realty by virtue of installation. Nor does the
5 term include the sale of services or charges made for the clearing of
6 land and the moving of earth of or for the United States, any
7 instrumentality thereof, or a county or city housing authority. Nor
8 does the term include the sale of services or charges made for
9 cleaning up for the United States, or its instrumentalities,
10 radioactive waste and other by-products of weapons production and
11 nuclear research and development.

12 (13) The term does not include the sale of or charge made for
13 labor, services, or tangible personal property pursuant to agreements
14 providing maintenance services for bus, rail, or rail fixed guideway
15 equipment when a regional transit authority is the recipient of the
16 labor, services, or tangible personal property, and a transit agency,
17 as defined in RCW 81.104.015, performs the labor or services.

18 (14) The term does not include the sale for resale of any service
19 described in this section if the sale would otherwise constitute a
20 "sale at retail" and "retail sale" under this section.

21 (15)(a) The term "sale at retail" or "retail sale" includes
22 amounts charged, however labeled, to consumers to engage in any of
23 the activities listed in this subsection (15)(a), including the
24 furnishing of any associated equipment or, except as otherwise
25 provided in this subsection, providing instruction in such
26 activities, where such charges are not otherwise defined as a "sale
27 at retail" or "retail sale" in this section:

28 (i)(A) Golf, including any variant in which either golf balls or
29 golf clubs are used, such as miniature golf, hitting golf balls at a
30 driving range, and golf simulators, and including fees charged by a
31 golf course to a player for using his or her own cart. However,
32 charges for golf instruction are not a retail sale, provided that if
33 the instruction involves the use of a golfing facility that would
34 otherwise require the payment of a fee, such as green fees or driving
35 range fees, such fees, including the applicable retail sales tax,
36 must be separately identified and charged by the golfing facility
37 operator to the instructor or the person receiving the instruction.

38 (B) Notwithstanding (a)(i)(A) of this subsection (15) and except
39 as otherwise provided in this subsection (15)(a)(i)(B), the term
40 "sale at retail" or "retail sale" does not include amounts charged to

1 participate in, or conduct, a golf tournament or other competitive
2 event. However, amounts paid by event participants to the golf
3 facility operator are retail sales under this subsection (15)(a)(i).
4 Likewise, amounts paid by the event organizer to the golf facility
5 are retail sales under this subsection (15)(a)(i), if such amounts
6 vary based on the number of event participants;

7 (ii) Ballooning, hang gliding, indoor or outdoor sky diving,
8 paragliding, parasailing, and similar activities;

9 (iii) Air hockey, billiards, pool, foosball, darts, shuffleboard,
10 ping pong, and similar games;

11 (iv) Access to amusement park, theme park, and water park
12 facilities, including but not limited to charges for admission and
13 locker or cabana rentals. Discrete charges for rides or other
14 attractions or entertainment that are in addition to the charge for
15 admission are not a retail sale under this subsection (15)(a)(iv).
16 For the purposes of this subsection, an amusement park or theme park
17 is a location that provides permanently affixed amusement rides,
18 games, and other entertainment, but does not include parks or zoos
19 for which the primary purpose is the exhibition of wildlife, or
20 fairs, carnivals, and festivals as defined in (b)(i) of this
21 subsection;

22 (v) Batting cage activities;

23 (vi) Bowling, but not including competitive events, except that
24 amounts paid by the event participants to the bowling alley operator
25 are retail sales under this subsection (15)(a)(vi). Likewise, amounts
26 paid by the event organizer to the operator of the bowling alley are
27 retail sales under this subsection (15)(a)(vi), if such amounts vary
28 based on the number of event participants;

29 (vii) Climbing on artificial climbing structures, whether indoors
30 or outdoors;

31 (viii) Day trips for sightseeing purposes;

32 (ix) Bungee jumping, zip lining, and riding inside a ball,
33 whether inflatable or otherwise;

34 (x) Horseback riding offered to the public, where the seller
35 furnishes the horse to the buyer and providing instruction is not the
36 primary focus of the activity, including guided rides, but not
37 including therapeutic horseback riding provided by an instructor
38 certified by a nonprofit organization that offers national or
39 international certification for therapeutic riding instructors;

1 (xi) Fishing, including providing access to private fishing areas
2 and charter or guided fishing, except that fishing contests and
3 license fees imposed by a government entity are not a retail sale
4 under this subsection;

5 (xii) Guided hunting and hunting at game farms and shooting
6 preserves, except that hunting contests and license fees imposed by a
7 government entity are not a retail sale under this subsection;

8 (xiii) Swimming, but only in respect to (A) recreational or
9 fitness swimming that is open to the public, such as open swim, lap
10 swimming, and special events like kids night out and pool parties
11 during open swim time, and (B) pool parties for private events, such
12 as birthdays, family gatherings, and employee outings. Fees for
13 swimming lessons, to participate in swim meets and other
14 competitions, or to join a swim team, club, or aquatic facility are
15 not retail sales under this subsection (15) (a) (xiii);

16 (xiv) Go-karting, bumper cars, and other motorized activities
17 where the seller provides the vehicle and the premises where the
18 buyer will operate the vehicle;

19 (xv) Indoor or outdoor playground activities, such as inflatable
20 bounce structures and other inflatables; mazes; trampolines; slides;
21 ball pits; games of tag, including laser tag and soft-dart tag; and
22 human gyroscope rides, regardless of whether such activities occur at
23 the seller's place of business, but not including playground
24 activities provided for children by a licensed child day care center
25 or licensed family day care provider as those terms are defined in
26 RCW 43.216.010;

27 (xvi) Shooting sports and activities, such as target shooting,
28 skeet, trap, sporting clays, "5" stand, and archery, but only in
29 respect to discrete charges to members of the public to engage in
30 these activities, but not including fees to enter a competitive
31 event, instruction that is entirely or predominately classroom based,
32 or to join or renew a membership at a club, range, or other facility;

33 (xvii) Paintball and airsoft activities;

34 (xviii) Skating, including ice skating, roller skating, and
35 inline skating, but only in respect to discrete charges to members of
36 the public to engage in skating activities, but not including skating
37 lessons, competitive events, team activities, or fees to join or
38 renew a membership at a skating facility, club, or other
39 organization;

1 (xix) Nonmotorized snow sports and activities, such as downhill
2 and cross-country skiing, snowboarding, ski jumping, sledding, snow
3 tubing, snowshoeing, and similar snow sports and activities, whether
4 engaged in outdoors or in an indoor facility with or without snow,
5 but only in respect to discrete charges to the public for the use of
6 land or facilities to engage in nonmotorized snow sports and
7 activities, such as fees, however labeled, for the use of ski lifts
8 and tows and daily or season passes for access to trails or other
9 areas where nonmotorized snow sports and activities are conducted.
10 However, fees for the following are not retail sales under this
11 subsection (15)(a)(xix): (A) Instructional lessons; (B) permits
12 issued by a governmental entity to park a vehicle on or access public
13 lands; and (C) permits or leases granted by an owner of private
14 timberland for recreational access to areas used primarily for
15 growing and harvesting timber; and

16 (xx) Scuba diving; snorkeling; river rafting; surfing;
17 kiteboarding; flyboarding; water slides; inflatables, such as water
18 pillows, water trampolines, and water rollers; and similar water
19 sports and activities.

20 (b) Notwithstanding anything to the contrary in this subsection
21 (15), the term "sale at retail" or "retail sale" does not include
22 charges:

23 (i) Made for admission to, and rides or attractions at, fairs,
24 carnivals, and festivals. For the purposes of this subsection, fairs,
25 carnivals, and festivals are events that do not exceed 21 days and a
26 majority of the amusement rides, if any, are not affixed to real
27 property;

28 (ii) Made by an educational institution to its students and staff
29 for activities defined as retail sales by (a)(i) through (xx) of this
30 subsection. However, charges made by an educational institution to
31 its alumni or other members of the general public for these
32 activities are a retail sale under this subsection (15). For purposes
33 of this subsection (15)(b)(ii), "educational institution" has the
34 same meaning as in RCW 82.04.170;

35 (iii) Made by a vocational school for commercial diver training
36 that is licensed by the workforce training and education coordinating
37 board under chapter 28C.10 RCW; or

38 (iv) Made for day camps offered by a nonprofit organization or
39 state or local governmental entity that provide youth not older than
40 age 18, or that are focused on providing individuals with

1 disabilities or mental illness, the opportunity to participate in a
2 variety of supervised activities.

3 (16)(a) The term "sale at retail" or "retail sale" includes the
4 purchase or acquisition of tangible personal property and specified
5 services by a person who receives either a qualifying grant exempt
6 from tax under RCW 82.04.767 or 82.16.320 or a grant deductible under
7 RCW 82.04.4339, except for transactions excluded from the definition
8 of "sale at retail" or "retail sale" by any other provision of this
9 section. Nothing in this subsection (16) may be construed to limit
10 the application of any other provision of this section to purchases
11 by a recipient of either a qualifying grant exempt from tax under RCW
12 82.04.767 or a grant deductible under RCW 82.04.4339, or by any other
13 person.

14 (b) For purposes of this subsection (16), "specified services"
15 means:

16 (i) The constructing, repairing, decorating, or improving of new
17 or existing buildings or other structures under, upon, or above real
18 property, including the installing or attaching of any article of
19 tangible personal property therein or thereto, whether or not such
20 personal property becomes a part of the realty by virtue of
21 installation;

22 (ii) The clearing of land or the moving of earth, whether or not
23 associated with activities described in (b)(i) of this subsection
24 (16);

25 (iii) The razing or moving of existing buildings or structures;
26 and

27 (iv) Landscape maintenance and horticultural services.

28 **Sec. 1002.** RCW 82.04.192 and 2025 c 422 s 201 are each amended
29 to read as follows:

30 (1) "Digital audio works" means works that result from the
31 fixation of a series of musical, spoken, or other sounds, including
32 ringtones.

33 (2) "Digital audiovisual works" means a series of related images
34 which, when shown in succession, impart an impression of motion,
35 together with accompanying sounds, if any.

36 (3)(a) "Digital automated service," except as provided in (b) of
37 this subsection (3), means any service transferred electronically
38 that uses one or more software applications.

39 (b) "Digital automated service" does not include:

1 (i) Any service that primarily involves the application of human
2 effort by the seller, and the human effort originated after the
3 customer requested the service;

4 (ii) The loaning or transferring of money or the purchase, sale,
5 or transfer of financial instruments. For purposes of this subsection
6 (3)(b)(~~(i)~~) (ii), "financial instruments" include cash, accounts
7 receivable and payable, loans and notes receivable and payable, debt
8 securities, equity securities, as well as derivative contracts such
9 as forward contracts, swap contracts, and options;

10 (~~(ii)~~) (iii) Dispensing cash or other physical items from a
11 machine;

12 (~~(iii)~~) (iv) Payment processing services;

13 (~~(iv)~~) (v) Parimutuel wagering and handicapping contests as
14 authorized by chapter 67.16 RCW;

15 (~~(v)~~) (vi) Telecommunications services and ancillary services
16 as those terms are defined in RCW 82.04.065;

17 (~~(vi)~~) (vii) The internet and internet access as those terms
18 are defined in RCW 82.04.297;

19 (~~(vii)~~) (viii) The service described in RCW 82.04.050(6)(~~(b)~~)
20 (c);

21 (~~(viii)~~) (ix) Online educational programs provided by a:

22 (A) Public or private elementary or secondary school; or

23 (B) An institution of higher education as defined in sections
24 1001 or 1002 of the federal higher education act of 1965 (Title 20
25 U.S.C. Secs. 1001 and 1002), as existing on July 1, 2009. For
26 purposes of this subsection (3)(b)(~~(viii)~~) (ix)(B), an online
27 educational program must be encompassed within the institution's
28 accreditation;

29 (~~(ix)~~) (x) Live presentations, such as lectures, seminars,
30 workshops, or courses, where participants are connected to other
31 participants via the internet or telecommunications equipment, which
32 allows audience members and the presenter or instructor to give,
33 receive, and discuss information with each other in real time;

34 (xi) Travel agent services, including online travel services, and
35 automated systems used by travel agents to book reservations;

36 (~~(x)~~) (xii)(A) A service that allows the person receiving the
37 service to make online sales of products or services, digital or
38 otherwise, using either: (I) The service provider's website; or (II)
39 the service recipient's website, but only when the service provider's
40 technology is used in creating or hosting the service recipient's

1 website or is used in processing orders from customers using the
2 service recipient's website.

3 (B) The service described in this subsection (3)(b)(~~(x)~~) (xii)
4 does not include the underlying sale of the products or services,
5 digital or otherwise, by the person receiving the service;

6 (~~(xi)~~) (xiii) Telehealth as defined in RCW 18.134.010 or
7 telemedicine as defined in RCW 48.43.735;

8 (~~(xii)~~) (xiv) The mere storage of digital products, digital
9 codes, computer software, or master copies of software. This
10 exclusion from the definition of digital automated services includes
11 providing space on a server for web hosting or the backing up of data
12 or other information; (~~and~~

13 ~~(xiii)~~) (xv) Data processing services. For purposes of this
14 subsection (3)(b)(xv), "data processing service" means a primarily
15 automated service provided to a business or other organization where
16 the primary object of the service is the systematic performance of
17 operations by the service provider on data supplied in whole or in
18 part by the customer to extract the required information in an
19 appropriate form or to convert the data to usable information. "Data
20 processing services" include check processing, image processing, form
21 processing, survey processing, payroll processing, claim processing,
22 and similar activities. "Data processing service" does not include
23 the service described in RCW 82.04.050(6)(c); and

24 (xvi) Digital goods.

25 (4) "Digital books" means works that are generally recognized in
26 the ordinary and usual sense as books.

27 (5) "Digital code" means a code that provides a purchaser with
28 the right to obtain one or more digital products, if all of the
29 digital products to be obtained through the use of the code have the
30 same sales and use tax treatment. "Digital code" does not include a
31 code that represents a stored monetary value that is deducted from a
32 total as it is used by the purchaser. "Digital code" also does not
33 include a code that represents a redeemable card, gift card, or gift
34 certificate that entitles the holder to select digital products of an
35 indicated cash value. A digital code may be obtained by any means,
36 including email or by tangible means regardless of its designation as
37 song code, video code, book code, or some other term.

38 (6)(a) "Digital goods," except as provided in (b) of this
39 subsection (6), means sounds, images, data, facts, or information, or
40 any combination thereof, transferred electronically, including, but

1 not limited to, specified digital products and other products
2 transferred electronically not included within the definition of
3 specified digital products.

4 (b) The term "digital goods" does not include:

5 (i) Telecommunications services and ancillary services as those
6 terms are defined in RCW 82.04.065;

7 (ii) Computer software as defined in RCW 82.04.215;

8 (iii) The internet and internet access as those terms are defined
9 in RCW 82.04.297;

10 (iv) (A) Except as provided in (b) (iv) (B) of this subsection (6),
11 the representation of a personal or professional service in
12 electronic form, such as an electronic copy of an engineering report
13 prepared by an engineer, where the service primarily involves the
14 application of human effort by the service provider, and the human
15 effort originated after the customer requested the service.

16 (B) The exclusion in (b) (iv) (A) of this subsection (6) does not
17 apply to photographers in respect to amounts received for the taking
18 of photographs that are transferred electronically to the customer,
19 but only if the customer is an end user, as defined in RCW
20 82.04.190(11), of the photographs. Such amounts are considered to be
21 for the sale of digital goods; and

22 (v) Services and activities excluded from the definition of
23 digital automated services in subsection (3) (b) (i) through ~~((xiii))~~
24 (xv) of this section and not otherwise described in (b) (i) through
25 (iv) of this subsection (6).

26 (7) "Digital products" means digital goods and digital automated
27 services.

28 (8) "Electronically transferred" or "transferred electronically"
29 means obtained by the purchaser by means other than tangible storage
30 media. It is not necessary that a copy of the product be physically
31 transferred to the purchaser. So long as the purchaser may access the
32 product, it will be considered to have been electronically
33 transferred to the purchaser.

34 (9) "Specified digital products" means electronically transferred
35 digital audiovisual works, digital audio works, and digital books.

36 (10) "Subscription radio services" means the sale of audio
37 programming by a radio broadcaster as defined in RCW 82.08.0208,
38 except as otherwise provided in this subsection. "Subscription radio
39 services" does not include audio programming that is sold on a pay-

1 per-program basis or that allows the buyer to access a library of
2 programs at any time for a specific charge for that service.

3 (11) "Subscription television services" means the sale of video
4 programming by a television broadcaster as defined in RCW 82.08.0208,
5 except as otherwise provided in this subsection. "Subscription
6 television services" does not include video programming that is sold
7 on a pay-per-program basis or that allows the buyer to access a
8 library of programs at any time for a specific charge for that
9 service, but only if the seller is not subject to a franchise fee in
10 this state under the authority of Title 47 U.S.C. Sec. 542(a) on the
11 gross revenue derived from the sale.

12 NEW SECTION. **Sec. 1003.** Sections 1001 and 1002 of this act take
13 effect January 1, 2029.

14 **PART XI**

15 **CLARIFYING APPLICABILITY OF RECENT CHANGES TO SALES AND USE TAXES AND**
16 **BUSINESS AND OCCUPATION TAXES**

17 **Sec. 1101.** RCW 82.04.050 and 2025 c 422 s 101 are each amended
18 to read as follows:

19 (1)(a) "Sale at retail" or "retail sale" means every sale of
20 tangible personal property (including articles produced, fabricated,
21 or imprinted) to all persons irrespective of the nature of their
22 business and including, among others, without limiting the scope
23 hereof, persons who install, repair, clean, alter, improve,
24 construct, or decorate real or personal property of or for consumers
25 other than a sale to a person who:

26 (i) Purchases for the purpose of resale as tangible personal
27 property in the regular course of business without intervening use by
28 such person, but a purchase for the purpose of resale by a regional
29 transit authority under RCW 81.112.300 is not a sale for resale; or

30 (ii) Installs, repairs, cleans, alters, imprints, improves,
31 constructs, or decorates real or personal property of or for
32 consumers, if such tangible personal property becomes an ingredient
33 or component of such real or personal property without intervening
34 use by such person; or

35 (iii) Purchases for the purpose of consuming the property
36 purchased in producing for sale as a new article of tangible personal
37 property or substance, of which such property becomes an ingredient

1 or component or is a chemical used in processing, when the primary
2 purpose of such chemical is to create a chemical reaction directly
3 through contact with an ingredient of a new article being produced
4 for sale; or

5 (iv) Purchases for the purpose of consuming the property
6 purchased in producing ferrosilicon which is subsequently used in
7 producing magnesium for sale, if the primary purpose of such property
8 is to create a chemical reaction directly through contact with an
9 ingredient of ferrosilicon; or

10 (v) Purchases for the purpose of providing the property to
11 consumers as part of competitive telephone service, as defined in RCW
12 82.04.065; or

13 (vi) Purchases for the purpose of satisfying the person's
14 obligations under an extended warranty as defined in subsection (7)
15 of this section, if such tangible personal property replaces or
16 becomes an ingredient or component of property covered by the
17 extended warranty without intervening use by such person.

18 (b) The term includes every sale of tangible personal property
19 that is used or consumed or to be used or consumed in the performance
20 of any activity defined as a "sale at retail" or "retail sale" even
21 though such property is resold or used as provided in (a)(i) through
22 (vi) of this subsection following such use.

23 (c) The term also means every sale of tangible personal property
24 to persons engaged in any business that is taxable under RCW
25 82.04.280(1) (a), (b), and (~~(g)~~) (f), 82.04.290, and 82.04.2908.

26 (2) The term "sale at retail" or "retail sale" includes the sale
27 of or charge made for tangible personal property consumed and/or for
28 labor and services rendered in respect to the following:

29 (a) The installing, repairing, cleaning, altering, imprinting, or
30 improving of tangible personal property of or for consumers,
31 including charges made for the mere use of facilities in respect
32 thereto, but excluding charges made for the use of self-service
33 laundry facilities, and also excluding sales of laundry service to
34 nonprofit health care facilities, and excluding services rendered in
35 respect to live animals, birds and insects;

36 (b) The constructing, repairing, decorating, or improving of new
37 or existing buildings or other structures under, upon, or above real
38 property of or for consumers, including the installing or attaching
39 of any article of tangible personal property therein or thereto,
40 whether or not such personal property becomes a part of the realty by

1 virtue of installation, and also includes the sale of services or
2 charges made for the clearing of land and the moving of earth
3 excepting the mere leveling of land used in commercial farming or
4 agriculture;

5 (c) The constructing, repairing, or improving of any structure
6 upon, above, or under any real property owned by an owner who conveys
7 the property by title, possession, or any other means to the person
8 performing such construction, repair, or improvement for the purpose
9 of performing such construction, repair, or improvement and the
10 property is then reconveyed by title, possession, or any other means
11 to the original owner;

12 (d) The cleaning, fumigating, razing, or moving of existing
13 buildings or structures, but does not include the charge made for
14 janitorial services; and for purposes of this section the term
15 "janitorial services" means those cleaning and caretaking services
16 ordinarily performed by commercial janitor service businesses
17 including, but not limited to, wall and window washing, floor
18 cleaning and waxing, and the cleaning in place of rugs, drapes and
19 upholstery. The term "janitorial services" does not include painting,
20 papering, repairing, furnace or septic tank cleaning, snow removal or
21 sandblasting;

22 (e) Automobile towing and similar automotive transportation
23 services, but not in respect to those required to report and pay
24 taxes under chapter 82.16 RCW;

25 (f) The furnishing of lodging and all other services by a hotel,
26 rooming house, tourist court, motel, trailer camp, and the granting
27 of any similar license to use real property, as distinguished from
28 the renting or leasing of real property, and it is presumed that the
29 occupancy of real property for a continuous period of one month or
30 more constitutes a rental or lease of real property and not a mere
31 license to use or enjoy the same. For the purposes of this
32 subsection, it is presumed that the sale of and charge made for the
33 furnishing of lodging for a continuous period of one month or more to
34 a person is a rental or lease of real property and not a mere license
35 to enjoy the same. For the purposes of this section, it is presumed
36 that the sale of and charge made for the furnishing of lodging
37 offered regularly for public occupancy for periods of less than a
38 month constitutes a license to use or enjoy the property subject to
39 sales and use tax and not a rental or lease of property;

1 (g) The installing, repairing, altering, or improving of digital
2 goods for consumers;

3 (h) Persons taxable under (a), (b), (c), (d), (e), (f), and (g)
4 of this subsection when such sales or charges are for property, labor
5 and services which are used or consumed in whole or in part by such
6 persons in the performance of any activity defined as a "sale at
7 retail" or "retail sale" even though such property, labor and
8 services may be resold after such use or consumption. Nothing
9 contained in this subsection may be construed to modify subsection
10 (1) of this section and nothing contained in subsection (1) of this
11 section may be construed to modify this subsection.

12 (3) The term "sale at retail" or "retail sale" includes the sale
13 of or charge made for personal, business, or professional services
14 including amounts designated as interest, rents, fees, admission, and
15 other service emoluments however designated, received by persons
16 engaging in the following business activities:

17 (a) Abstract, title insurance, and escrow services;

18 (b) Credit bureau services;

19 (c) Automobile parking and storage garage services;

20 (d) Landscape maintenance and horticultural services but
21 excluding (i) horticultural services provided to farmers and (ii)
22 pruning, trimming, repairing, removing, and clearing of trees and
23 brush near electric transmission or distribution lines or equipment,
24 if performed by or at the direction of an electric utility;

25 (e) Service charges associated with tickets to professional
26 sporting events;

27 (f) The following personal services: Tanning salon services,
28 tattoo parlor services, steam bath services, turkish bath services,
29 escort services, and dating services;

30 (g) Information technology training services, technical support,
31 and other services including, but not limited to, assisting with
32 network operations and support, help desk services, in-person
33 training related to hardware or software, network system support
34 services, data entry services, and data processing services;

35 (h) Custom website development services. For the purposes of this
36 subsection (3), "website development services" means the design,
37 development, and support of a website provided by a website developer
38 to a customer;

39 (i) Investigation, security services, security monitoring
40 services, and armored car services including, but not limited to,

1 background checks, security guard and patrol services, personal and
2 event security, armored car transportation of cash and valuables, and
3 security system services and monitoring. This does not include
4 locksmith services;

5 (j) Temporary staffing services. For the purposes of this
6 subsection (3), "temporary staffing services" means providing workers
7 to other businesses, except for hospitals licensed under chapter
8 70.41 or 71.12 RCW, for limited periods of time to supplement their
9 workforce and fill employment vacancies on a contract or for fee
10 basis;

11 (k) Advertising services. (i) For the purposes of this subsection
12 (3), "advertising services" means all digital and nondigital services
13 related to the creation, preparation, production, or dissemination of
14 advertisements including, but not limited to:

15 (A) Layout, art direction, graphic design, mechanical
16 preparation, production supervision, placement, referrals,
17 acquisition of advertising space, and rendering advice concerning the
18 best methods of advertising products or services; and

19 (B) Online referrals, search engine marketing(~~(r)~~) and lead
20 generation optimization, web campaign planning, the acquisition of
21 advertising space in the internet media, and the monitoring and
22 evaluation of website traffic for purposes of determining the
23 effectiveness of an advertising campaign.

24 (ii) "Advertising services" do not include:

25 (A) Web hosting services and domain name registration;

26 (B) Services rendered in respect to the following:

27 (I) "Newspapers" as defined in RCW 82.04.214;

28 (II) Printing or publishing under RCW 82.04.280; and

29 (III) "Radio and television broadcasting" within this state as
30 defined in RCW 82.04.281; and

31 (C) Services rendered in respect to out-of-home advertising,
32 including: Billboard advertising; street furniture advertising;
33 transit advertising; place-based advertising, such as in-store
34 display advertising or point-of-sale advertising; dynamic or static
35 signage at live events; naming rights; and fixed signage advertising.
36 Out-of-home advertising does not include direct mail;

37 (l) (i) Live presentations including, but not limited to,
38 lectures, seminars, workshops, or courses where participants attend
39 either in-person or via the internet or telecommunications equipment

1 that allows audience members and the presenter or instructor to give,
2 receive, and discuss information with each other in real time;

3 (ii) "Live presentations" does not include:

4 (A) Before and after school care provided in-person and on-site
5 by elementary schools;

6 (B) Presentations given by a nonprofit organization exempt from
7 federal income tax under Title 26 U.S.C. Sec. 501(c) of the federal
8 internal revenue code;

9 (C) Musical, dramatic, comedic, or similar performances,
10 including any incidental instruction; and

11 (D) One-on-one instructional activities including tutoring,
12 consulting, music lessons, and any ensemble or large group
13 instruction; and

14 (m) (i) Operating an athletic or fitness facility, including all
15 charges for the use of such a facility or for any associated services
16 and amenities, except as provided in (m) (ii) of this subsection.

17 (ii) Notwithstanding anything to the contrary in (m) (i) of this
18 subsection (3), the term "sale at retail" and "retail sale" under
19 this subsection does not include:

20 (A) Separately stated charges for the use of an athletic or
21 fitness facility where such use is primarily for a purpose other than
22 engaging in or receiving instruction in a physical fitness activity;

23 (B) Separately stated charges for the use of a discrete portion
24 of an athletic or fitness facility, other than a pool, where such
25 discrete portion of the facility does not by itself meet the
26 definition of "athletic or fitness facility" in this subsection;

27 (C) Separately stated charges for services, such as massage,
28 nutritional consulting, and body composition testing, that do not
29 require the customer to engage in physical fitness activities to
30 receive the service. The exclusion in this subsection (3) (m) (ii) (C)
31 does not apply to personal training services and instruction in a
32 physical fitness activity;

33 (D) Separately stated charges for physical therapy provided by a
34 physical therapist, as those terms are defined in RCW 18.74.010, or
35 occupational therapy provided by an occupational therapy
36 practitioner, as those terms are defined in RCW 18.59.020, when
37 performed pursuant to a referral from an authorized health care
38 practitioner or in consultation with an authorized health care
39 practitioner. For the purposes of this subsection (3) (m) (ii) (D), an
40 authorized health care practitioner means a health care practitioner

1 licensed under chapter 18.83, 18.25, 18.36A, 18.57, 18.71, or 18.71A
2 RCW, or, until July 1, 2022, chapter 18.57A RCW;

3 (E) Rent or association fees charged by a landlord or residential
4 association to a tenant or residential owner with access to an
5 athletic or fitness facility maintained by the landlord or
6 residential association, unless the rent or fee varies depending on
7 whether the tenant or owner has access to the facility;

8 (F) Services provided in the regular course of employment by an
9 employee with access to an athletic or fitness facility maintained by
10 the employer for use without charge by its employees or their family
11 members;

12 (G) The provision of access to an athletic or fitness facility by
13 an educational institution to its students and staff. However,
14 charges made by an educational institution to its alumni or other
15 members of the public for the use of any of the educational
16 institution's athletic or fitness facilities are a retail sale under
17 this subsection (3)(m). For purposes of this subsection
18 (3)(m)(ii)(G), "educational institution" has the same meaning as in
19 RCW 82.04.170;

20 (H) Yoga, chi gong, or martial arts classes, training, or events
21 held at a community center, park, school gymnasium, college or
22 university, hospital or other medical facility, private residence, or
23 any other facility that is not operated within and as part of an
24 athletic or fitness facility.

25 (iii) Nothing in (m)(ii) of this subsection (3) may be construed
26 to affect the taxation of sales made by the operator of an athletic
27 or fitness facility, where such sales are defined as a retail sale
28 under any provision of this section other than this subsection (3).

29 (iv) For the purposes of this subsection (3)(m), the following
30 definitions apply:

31 (A) "Athletic or fitness facility" means an indoor or outdoor
32 facility or portion of a facility that is primarily used for:
33 Exercise classes; strength and conditioning programs; personal
34 training services; tennis, racquetball, handball, squash, or
35 pickleball; or other activities requiring the use of exercise or
36 strength training equipment, such as treadmills, elliptical machines,
37 stair climbers, stationary cycles, rowing machines, pilates
38 equipment, balls, climbing ropes, jump ropes, and weightlifting
39 equipment.

1 (B) "Martial arts" means any of the various systems of training
2 for physical combat or self-defense. "Martial arts" includes, but is
3 not limited to, karate, kung fu, tae kwon do, Krav Maga, boxing,
4 kickboxing, jujitsu, shootfighting, wrestling, aikido, judo, hapkido,
5 Kendo, tai chi, and mixed martial arts.

6 (C) "Physical fitness activities" means activities that involve
7 physical exertion for the purpose of improving or maintaining the
8 general fitness, strength, flexibility, conditioning, or health of
9 the participant. "Physical fitness activities" includes participating
10 in yoga, chi gong, or martial arts.

11 For the purposes of (g) through (i) and (k) of this subsection
12 (3), the terms "sale at retail" and "retail sale" do not include a
13 sale between members of an affiliated group as defined in RCW
14 82.04.299(1)(f).

15 (4)(a) The term also includes the renting or leasing of tangible
16 personal property to consumers.

17 (b) The term does not include the renting or leasing of tangible
18 personal property where the lease or rental is for the purpose of
19 sublease or subrent.

20 (5) The term also includes the providing of "competitive
21 telephone service," "telecommunications service," or "ancillary
22 services," as those terms are defined in RCW 82.04.065, to consumers.

23 (6)(a) The term also includes the sale of prewritten computer
24 software, custom software, and customization of prewritten computer
25 software to a consumer, regardless of the method of delivery to the
26 end user. For purposes of this subsection (6)(a), the sale of
27 prewritten computer software includes the sale of or charge made for
28 a key or an enabling or activation code, where the key or code is
29 required to activate prewritten computer software and put the
30 software into use. There is no separate sale of the key or code from
31 the prewritten computer software, regardless of how the sale may be
32 characterized by the vendor or by the purchaser.

33 (b)(i) The term also includes the charge made to consumers for
34 the right to access and use prewritten computer software, custom
35 software, and customization of prewritten computer software, where
36 possession of the software is maintained by the seller or a third
37 party, regardless of whether the charge for the service is on a per
38 use, per user, per license, subscription, or some other basis.

39 (ii)(A) The service described in (b)(i) of this subsection (6)
40 includes the right to access and use prewritten computer software,

1 custom software, and customization of prewritten computer software to
2 perform data processing.

3 (B) For purposes of this subsection (6)(b)(ii), "data processing"
4 means the systematic performance of operations on data to extract the
5 required information in an appropriate form or to convert the data to
6 usable information. Data processing includes check processing, image
7 processing, form processing, survey processing, payroll processing,
8 claim processing, and similar activities.

9 (7) The term also includes the sale of or charge made for an
10 extended warranty to a consumer. For purposes of this subsection,
11 "extended warranty" means an agreement for a specified duration to
12 perform the replacement or repair of tangible personal property at no
13 additional charge or a reduced charge for tangible personal property,
14 labor, or both, or to provide indemnification for the replacement or
15 repair of tangible personal property, based on the occurrence of
16 specified events. The term "extended warranty" does not include an
17 agreement, otherwise meeting the definition of extended warranty in
18 this subsection, if no separate charge is made for the agreement and
19 the value of the agreement is included in the sales price of the
20 tangible personal property covered by the agreement. For purposes of
21 this subsection, "sales price" has the same meaning as in RCW
22 82.08.010.

23 (8)(a) The term also includes the following sales to consumers of
24 digital goods, digital codes, and digital automated services:

25 (i) Sales in which the seller has granted the purchaser the right
26 of permanent use;

27 (ii) Sales in which the seller has granted the purchaser a right
28 of use that is less than permanent;

29 (iii) Sales in which the purchaser is not obligated to make
30 continued payment as a condition of the sale; and

31 (iv) Sales in which the purchaser is obligated to make continued
32 payment as a condition of the sale.

33 (b) A retail sale of digital goods, digital codes, or digital
34 automated services under this subsection (8) includes any services
35 provided by the seller exclusively in connection with the digital
36 goods, digital codes, or digital automated services, whether or not a
37 separate charge is made for such services.

38 (c) A retail sale of digital goods, digital codes, or digital
39 automated services does not include the following services if the

1 sale occurs between members of an affiliated group as defined in RCW
2 82.04.299(1) (f):

3 (i) Any service that primarily involves the application of human
4 effort by the seller, and the human effort originated after the
5 customer requested the service;

6 (ii) Live presentations, such as lectures, seminars, workshops,
7 or courses, where participants are connected to other participants
8 via the internet or telecommunications equipment, which allows
9 audience members and the presenter or instructor to give, receive,
10 and discuss information with each other in real time;

11 (iii) Advertising services. For purposes of this subsection
12 (8)(c), "advertising services" means all services directly related to
13 the creation, preparation, production, or dissemination of
14 advertisements. Advertising services include layout, art direction,
15 graphic design, mechanical preparation, production supervision,
16 placement, and rendering advice to a client concerning the best
17 methods of advertising that client's products or services.
18 Advertising services also include online referrals, search engine
19 marketing and lead generation optimization, web campaign planning,
20 the acquisition of advertising space in the internet media, and the
21 monitoring and evaluation of website traffic for purposes of
22 determining the effectiveness of an advertising campaign. Advertising
23 services do not include web hosting services and domain name
24 registration; and

25 (iv) Data processing services. For purposes of this subsection
26 (8)(c), "data processing service" means a primarily automated service
27 provided to a business or other organization where the primary object
28 of the service is the systematic performance of operations by the
29 service provider on data supplied in whole or in part by the customer
30 to extract the required information in an appropriate form or to
31 convert the data to usable information. Data processing services
32 include check processing, image processing, form processing, survey
33 processing, payroll processing, claim processing, and similar
34 activities. Data processing does not include the service described in
35 subsection (6)(b) of this section.

36 (d) For purposes of this subsection, "permanent" means perpetual
37 or for an indefinite or unspecified length of time. A right of
38 permanent use is presumed to have been granted unless the agreement
39 between the seller and the purchaser specifies or the circumstances

1 surrounding the transaction suggest or indicate that the right to use
2 terminates on the occurrence of a condition subsequent.

3 (9) The term also includes the charge made for providing tangible
4 personal property along with an operator for a fixed or indeterminate
5 period of time. A consideration of this is that the operator is
6 necessary for the tangible personal property to perform as designed.
7 For the purpose of this subsection (9), an operator must do more than
8 maintain, inspect, or set up the tangible personal property.

9 (10) The term does not include the sale of or charge made for
10 labor and services rendered in respect to the building, repairing, or
11 improving of any street, place, road, highway, easement, right-of-
12 way, mass public transportation terminal or parking facility, bridge,
13 tunnel, or trestle which is owned by a municipal corporation or
14 political subdivision of the state or by the United States and which
15 is used or to be used primarily for foot or vehicular traffic
16 including mass transportation vehicles of any kind.

17 (11) The term also does not include sales of chemical sprays or
18 washes to persons for the purpose of postharvest treatment of fruit
19 for the prevention of scald, fungus, mold, or decay, nor does it
20 include sales of feed, seed, seedlings, fertilizer, agents for
21 enhanced pollination including insects such as bees, and spray
22 materials to: (a) Persons who participate in the federal conservation
23 reserve program, the environmental quality incentives program, the
24 wetlands reserve program, and the wildlife habitat incentives
25 program, or their successors administered by the United States
26 department of agriculture; (b) farmers for the purpose of producing
27 for sale any agricultural product; (c) farmers for the purpose of
28 providing bee pollination services; and (d) farmers acting under
29 cooperative habitat development or access contracts with an
30 organization exempt from federal income tax under 26 U.S.C. Sec.
31 501(c)(3) of the federal internal revenue code or the Washington
32 state department of fish and wildlife to produce or improve wildlife
33 habitat on land that the farmer owns or leases.

34 (12) The term does not include the sale of or charge made for
35 labor and services rendered in respect to the constructing,
36 repairing, decorating, or improving of new or existing buildings or
37 other structures under, upon, or above real property of or for the
38 United States, any instrumentality thereof, or a county or city
39 housing authority created pursuant to chapter 35.82 RCW, including
40 the installing, or attaching of any article of tangible personal

1 property therein or thereto, whether or not such personal property
2 becomes a part of the realty by virtue of installation. Nor does the
3 term include the sale of services or charges made for the clearing of
4 land and the moving of earth of or for the United States, any
5 instrumentality thereof, or a county or city housing authority. Nor
6 does the term include the sale of services or charges made for
7 cleaning up for the United States, or its instrumentalities,
8 radioactive waste and other by-products of weapons production and
9 nuclear research and development.

10 (13) The term does not include the sale of or charge made for
11 labor, services, or tangible personal property pursuant to agreements
12 providing maintenance services for bus, rail, or rail fixed guideway
13 equipment when a regional transit authority is the recipient of the
14 labor, services, or tangible personal property, and a transit agency,
15 as defined in RCW 81.104.015, performs the labor or services.

16 (14) The term does not include the sale for resale of any service
17 described in this section if the sale would otherwise constitute a
18 "sale at retail" and "retail sale" under this section.

19 (15)(a) The term "sale at retail" or "retail sale" includes
20 amounts charged, however labeled, to consumers to engage in any of
21 the activities listed in this subsection (15)(a), including the
22 furnishing of any associated equipment or, except as otherwise
23 provided in this subsection, providing instruction in such
24 activities, where such charges are not otherwise defined as a "sale
25 at retail" or "retail sale" in this section:

26 (i)(A) Golf, including any variant in which either golf balls or
27 golf clubs are used, such as miniature golf, hitting golf balls at a
28 driving range, and golf simulators, and including fees charged by a
29 golf course to a player for using his or her own cart. However,
30 charges for golf instruction are not a retail sale, provided that if
31 the instruction involves the use of a golfing facility that would
32 otherwise require the payment of a fee, such as green fees or driving
33 range fees, such fees, including the applicable retail sales tax,
34 must be separately identified and charged by the golfing facility
35 operator to the instructor or the person receiving the instruction.

36 (B) Notwithstanding (a)(i)(A) of this subsection (15) and except
37 as otherwise provided in this subsection (15)(a)(i)(B), the term
38 "sale at retail" or "retail sale" does not include amounts charged to
39 participate in, or conduct, a golf tournament or other competitive
40 event. However, amounts paid by event participants to the golf

1 facility operator are retail sales under this subsection (15)(a)(i).
2 Likewise, amounts paid by the event organizer to the golf facility
3 are retail sales under this subsection (15)(a)(i), if such amounts
4 vary based on the number of event participants;

5 (ii) Ballooning, hang gliding, indoor or outdoor sky diving,
6 paragliding, parasailing, and similar activities;

7 (iii) Air hockey, billiards, pool, foosball, darts, shuffleboard,
8 ping pong, and similar games;

9 (iv) Access to amusement park, theme park, and water park
10 facilities, including but not limited to charges for admission and
11 locker or cabana rentals. Discrete charges for rides or other
12 attractions or entertainment that are in addition to the charge for
13 admission are not a retail sale under this subsection (15)(a)(iv).
14 For the purposes of this subsection, an amusement park or theme park
15 is a location that provides permanently affixed amusement rides,
16 games, and other entertainment, but does not include parks or zoos
17 for which the primary purpose is the exhibition of wildlife, or
18 fairs, carnivals, and festivals as defined in (b)(i) of this
19 subsection;

20 (v) Batting cage activities;

21 (vi) Bowling, but not including competitive events, except that
22 amounts paid by the event participants to the bowling alley operator
23 are retail sales under this subsection (15)(a)(vi). Likewise, amounts
24 paid by the event organizer to the operator of the bowling alley are
25 retail sales under this subsection (15)(a)(vi), if such amounts vary
26 based on the number of event participants;

27 (vii) Climbing on artificial climbing structures, whether indoors
28 or outdoors;

29 (viii) Day trips for sightseeing purposes;

30 (ix) Bungee jumping, zip lining, and riding inside a ball,
31 whether inflatable or otherwise;

32 (x) Horseback riding offered to the public, where the seller
33 furnishes the horse to the buyer and providing instruction is not the
34 primary focus of the activity, including guided rides, but not
35 including therapeutic horseback riding provided by an instructor
36 certified by a nonprofit organization that offers national or
37 international certification for therapeutic riding instructors;

38 (xi) Fishing, including providing access to private fishing areas
39 and charter or guided fishing, except that fishing contests and

1 license fees imposed by a government entity are not a retail sale
2 under this subsection;

3 (xii) Guided hunting and hunting at game farms and shooting
4 preserves, except that hunting contests and license fees imposed by a
5 government entity are not a retail sale under this subsection;

6 (xiii) Swimming, but only in respect to (A) recreational or
7 fitness swimming that is open to the public, such as open swim, lap
8 swimming, and special events like kids night out and pool parties
9 during open swim time, and (B) pool parties for private events, such
10 as birthdays, family gatherings, and employee outings. Fees for
11 swimming lessons, to participate in swim meets and other
12 competitions, or to join a swim team, club, or aquatic facility are
13 not retail sales under this subsection (15)(a)(xiii);

14 (xiv) Go-karting, bumper cars, and other motorized activities
15 where the seller provides the vehicle and the premises where the
16 buyer will operate the vehicle;

17 (xv) Indoor or outdoor playground activities, such as inflatable
18 bounce structures and other inflatables; mazes; trampolines; slides;
19 ball pits; games of tag, including laser tag and soft-dart tag; and
20 human gyroscope rides, regardless of whether such activities occur at
21 the seller's place of business, but not including playground
22 activities provided for children by a licensed child day care center
23 or licensed family day care provider as those terms are defined in
24 RCW 43.216.010;

25 (xvi) Shooting sports and activities, such as target shooting,
26 skeet, trap, sporting clays, "5" stand, and archery, but only in
27 respect to discrete charges to members of the public to engage in
28 these activities, but not including fees to enter a competitive
29 event, instruction that is entirely or predominately classroom based,
30 or to join or renew a membership at a club, range, or other facility;

31 (xvii) Paintball and airsoft activities;

32 (xviii) Skating, including ice skating, roller skating, and
33 inline skating, but only in respect to discrete charges to members of
34 the public to engage in skating activities, but not including skating
35 lessons, competitive events, team activities, or fees to join or
36 renew a membership at a skating facility, club, or other
37 organization;

38 (xix) Nonmotorized snow sports and activities, such as downhill
39 and cross-country skiing, snowboarding, ski jumping, sledding, snow
40 tubing, snowshoeing, and similar snow sports and activities, whether

1 engaged in outdoors or in an indoor facility with or without snow,
2 but only in respect to discrete charges to the public for the use of
3 land or facilities to engage in nonmotorized snow sports and
4 activities, such as fees, however labeled, for the use of ski lifts
5 and tows and daily or season passes for access to trails or other
6 areas where nonmotorized snow sports and activities are conducted.
7 However, fees for the following are not retail sales under this
8 subsection (15)(a)(xix): (A) Instructional lessons; (B) permits
9 issued by a governmental entity to park a vehicle on or access public
10 lands; and (C) permits or leases granted by an owner of private
11 timberland for recreational access to areas used primarily for
12 growing and harvesting timber; and

13 (xx) Scuba diving; snorkeling; river rafting; surfing;
14 kiteboarding; flyboarding; water slides; inflatables, such as water
15 pillows, water trampolines, and water rollers; and similar water
16 sports and activities.

17 (b) Notwithstanding anything to the contrary in this subsection
18 (15), the term "sale at retail" or "retail sale" does not include
19 charges:

20 (i) Made for admission to, and rides or attractions at, fairs,
21 carnivals, and festivals. For the purposes of this subsection, fairs,
22 carnivals, and festivals are events that do not exceed 21 days and a
23 majority of the amusement rides, if any, are not affixed to real
24 property;

25 (ii) Made by an educational institution to its students and staff
26 for activities defined as retail sales by (a)(i) through (xx) of this
27 subsection. However, charges made by an educational institution to
28 its alumni or other members of the general public for these
29 activities are a retail sale under this subsection (15). For purposes
30 of this subsection (15)(b)(ii), "educational institution" has the
31 same meaning as in RCW 82.04.170;

32 (iii) Made by a vocational school for commercial diver training
33 that is licensed by the workforce training and education coordinating
34 board under chapter 28C.10 RCW; or

35 (iv) Made for day camps offered by a nonprofit organization or
36 state or local governmental entity that provide youth not older than
37 age 18, or that are focused on providing individuals with
38 disabilities or mental illness, the opportunity to participate in a
39 variety of supervised activities.

1 (16) (a) The term "sale at retail" or "retail sale" includes the
2 purchase or acquisition of tangible personal property and specified
3 services by a person who receives either a qualifying grant exempt
4 from tax under RCW 82.04.767 or 82.16.320 or a grant deductible under
5 RCW 82.04.4339, except for transactions excluded from the definition
6 of "sale at retail" or "retail sale" by any other provision of this
7 section. Nothing in this subsection (16) may be construed to limit
8 the application of any other provision of this section to purchases
9 by a recipient of either a qualifying grant exempt from tax under RCW
10 82.04.767 or a grant deductible under RCW 82.04.4339, or by any other
11 person.

12 (b) For purposes of this subsection (16), "specified services"
13 means:

14 (i) The constructing, repairing, decorating, or improving of new
15 or existing buildings or other structures under, upon, or above real
16 property, including the installing or attaching of any article of
17 tangible personal property therein or thereto, whether or not such
18 personal property becomes a part of the realty by virtue of
19 installation;

20 (ii) The clearing of land or the moving of earth, whether or not
21 associated with activities described in (b)(i) of this subsection
22 (16);

23 (iii) The razing or moving of existing buildings or structures;
24 and

25 (iv) Landscape maintenance and horticultural services.

26 NEW SECTION. **Sec. 1102.** A new section is added to chapter 82.08
27 RCW to read as follows:

28 (1) The tax levied by RCW 82.08.020 does not apply to sales of
29 the following services subject to the tax imposed in RCW 82.04.050 to
30 K-12 schools, school districts, and educational service districts:

31 (a) Information technology services;

32 (b) Custom website development;

33 (c) Live presentations;

34 (d) Investigation, security, and armored car services;

35 (e) Temporary staffing; and

36 (f) Custom software and customization of prewritten software.

37 (2) Sellers making tax-exempt sales under this section must
38 obtain an exemption certificate from the purchaser in a form and

1 manner prescribed by the department. The seller must retain a copy of
2 the exemption certificate for the seller's files.

3 NEW SECTION. **Sec. 1103.** A new section is added to chapter 82.12
4 RCW to read as follows:

5 (1) This chapter does not apply in respect to the use of the
6 following services subject to the tax imposed in RCW 82.12.020 by
7 K-12 schools, school districts, and educational service districts:

8 (a) Information technology services;

9 (b) Custom website development;

10 (c) Investigation, security, and armored car services;

11 (d) Temporary staffing; and

12 (e) Custom software and customization of prewritten software.

13 (2) Sellers making tax-exempt sales under this section must
14 obtain an exemption certificate from the purchaser in a form and
15 manner prescribed by the department. The seller must retain a copy of
16 the exemption certificate for the seller's files.

17 **Sec. 1104.** RCW 82.04.288 and 2025 c 420 s 201 are each amended
18 to read as follows:

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

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

24 (3)(a) Any Washington taxable income subject to the tax in RCW
25 82.04.29004 is exempt from the surcharge imposed in this section.

26 (b)(i) Any Washington taxable income subject to the manufacturing
27 tax rates in RCW 82.04.240, 82.04.2404, 82.04.241, 82.04.260,
28 82.04.2602, 82.04.287, 82.04.2909, or 82.04.294(1) is exempt from the
29 surcharge imposed in this section.

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

34 (iii) Any Washington taxable income attributable to retail sales
35 that are exempt from the imposition of sales tax in RCW 82.08.0293,
36 82.08.0297, and 82.08.0281 is exempt from the surcharge imposed in
37 this section.

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

4 (v) Any Washington taxable income attributable to wholesale sales
5 of food and food ingredients, as defined in RCW 82.08.0293, is exempt
6 from the surcharge imposed in this section provided that it is sold
7 by a wholesaler that is not affiliated with either the retailer or
8 manufacturer, or both, of such food and food ingredients. The
9 exemption in this subsection (3)(b)(v) does not apply to Washington
10 taxable income attributable to the wholesale sale of soft drinks,
11 bottled water, or dietary supplements, as they are defined in RCW
12 82.08.0293.

13 (vi) Any Washington taxable income attributable to the wholesale
14 or retail sale of petroleum products by a person who is both located
15 in a state other than Washington and the owner of such materials
16 processed for it in Washington by an affiliated processor for hire
17 subject to the rate in RCW 82.04.280(1)(c), is exempt from the
18 surcharge imposed in this section. For the purposes of this
19 subsection (3)(b) ~~((+v))~~ (vi), ~~((the following definitions apply:~~

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

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

27 ~~(C) "Petroleum")~~ "petroleum product" has the same meaning as in
28 RCW 82.21.020.

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

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

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

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

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

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

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

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

13 (7) This section expires December 31, 2029.

14 NEW SECTION. Sec. 1105. RCW 82.32.805 and 82.32.808 do not
15 apply to sections 1101 through 1104 of this act.

16 NEW SECTION. Sec. 1106. Sections 1101 through 1104 of this act
17 take effect July 1, 2026.

18 NEW SECTION. Sec. 1107. If any provisions of sections 1 through
19 911 of this act or their application to any person or circumstances
20 is held invalid, sections 1101 through 1106 of this act or the
21 application of their provisions to other persons or circumstances is
22 not affected.

23 **PART XII**
24 **MISCELLANEOUS**

25 **Sec. 1201.** RCW 1.90.100 and 2024 c 5 s 1 (Initiative Measure No.
26 2111) are each amended to read as follows:

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

31 (2) Subsection (1) of this section does not apply to the tax
32 authorized in chapter 82A.--- RCW (the new chapter created in section
33 1203 of this act).

EFFECT: • Makes changes to the intent section.

- Removes "disregarded entities" from the definition of a "pass-through entity."
- Directs the revenues from the tax to the State General Fund with five percent being transferred to the Fair Start for Kids Account.
- Provides a deduction from Washington base income for 90 percent of Washington allocated gambling losses incurred in the current taxable year; however, the gambling loss deduction cannot exceed the amount of gambling income included in the Washington base income.
- Provides a deduction for expenditures related to licensed commercial cannabis activities.
- Clarifies that income related to sales and exchanges of long-term capital assets exempt from Washington capital gains tax are also exempt from income tax under this act.
- Provides a carryforward deduction for 80 percent of net operating losses from previous tax years.
- Provides an exclusion for income earned by a nonresident participating as a keynote speaker, panelist, or moderator at a convention or trade show so long as the nonresident meets the requirements of RCW 82.32.531.
- Provides a safe-harbor of five days for nonresidents receiving wages and other compensation for services performed in Washington.
- Updates the inflation calculation for the standard deduction to Consumer Price Index for Urban Wage Earners and Clerical Workers.
- Clarifies that the charitable deduction is for donations made to nonprofits principally directed and managed within Washington.
- Adds provisions to comply with federal child support enforcement requirements.
- Removes the revenue distribution to the Local Government Public Defense Funding Stabilization Account (Account) and eliminates the account.
- Creates an advisory group to assist the Department of Revenue in the implementation of the act.
- Adds first-class city pension proceeds to types of pension income subject to this act.
- Adds a retail sales and use tax exemption for diapers and over-the-counter drugs beginning January 1, 2029.
- Removes the early expiration of the business and occupation surcharge on high-grossing businesses.
- Adds exemptions for hospitals and for warehousing and reselling of prescription drugs beginning January 1, 2029.
- Changes the repeal date of the changes to certain retail sales on services, excluding advertising services, enacted in chapter 422, Laws of 2025 (Engrossed Substitute Senate Bill No. 5814) from January 1, 2030, to January 1, 2029.
- Revises changes made in 2024 to certain sales and use taxes and business and occupation taxes. These changes are subject to a severability clause. The changes include:
 - Changes the sales tax on services on "live presentations" to exclude: Before and after school care provided in-person and on-site by elementary schools; presentations given by nonprofits; musical, dramatic, comedic, or similar performances; and one-on-one instructional activities.
- Creates a retail sales and use tax exemption for all new service taxes created in chapter 422, Laws of 2025 (ESSB 5814) for K-12 schools, school districts, and educational service districts.

- Exempts any Washington taxable income attributable to wholesale sales of food and food ingredients sold by wholesalers to retailers not under common ownership from the business and occupation tax 0.5 percent surcharge implemented in chapter 420, Laws of 2025 (ESHB 2081).

- Increases the income threshold for the Working Families' Tax Credit to the needs standard.

--- END ---