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## Finance Committee

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### HB 2487

**Brief Description:** Concerning taxes imposed on insurers operating within the state.

**Sponsors:** Representative Macri; by request of Department of Revenue.

**Brief Summary of Bill**

- Limits the insurance premium exemption to the business and occupation tax to only apply to gross premiums received by an insurer upon which the same insurer paid insurance premium taxes, or if the insurer is exempt from premium taxes.

**Hearing Date:** 1/30/26

**Staff:** John Burzynski (786-7133).

**Background:**

Washington imposes a tax on insurers equal to two percent of all premiums the insurer collects or receives, subject to certain exceptions. This premium tax is imposed in lieu of all other taxes, except as otherwise provided. Accordingly, Washington provides an exemption from its business and occupation (B&O) tax for any person, in respect to insurance business, upon which a tax based on gross premiums is paid to the state, subject to various exceptions.

In 1962, *Armstrong v. State*, the Washington Supreme Court recognized the in-lieu-of nature of the state's insurance premium tax and noted it reflected a legislative decision to consider the gross premium tax as the exclusive tax on insurance company operations while exempting such entities from the state B&O tax.

In 2024, *Envolve Pharmacy Solutions, Inc. v. Dept of Revenue*, the Washington Supreme Court

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held the insurance premium exemption from the B&O tax applied to a pharmacy benefit manager and potentially other business entities that do not directly earn premium income or pay a premium tax. The court reasoned the exemption's statutory text did not require the insurance business doing the work at issue to directly pay a premium tax on that business to qualify for the exemption. Instead, the court reasoned, the legislature used the passive voice to say that a premium tax must have been paid on the business, without describing by whom, for the tax exemption to apply.

**Summary of Bill:**

The insurance premium exemption to the B&O tax is modified by expressly limiting its scope to: (1) gross premiums received by an insurer upon which the same insurer paid insurance premium taxes pursuant to state law; and (2) gross premiums received by an insurer that is exempt from premium taxes pursuant to state law.

The insurance premium exemptions to the B&O tax for qualifying insurers and health maintenance organizations are consolidated into a single section in the revised code.

This change to the insurance premium exemption to the B&O tax applies both prospectively and retroactively to October 2, 2019. The act does not affect any final judgment that is no longer subject to appeal and entered by a court of competent jurisdiction before the act's effective date.

Defined Terms

"Insurance business" means activity performed by an insurer, as defined by state law, upon which it earns or receives premiums.

"Insurer" means a person that lawfully transacts insurance business in this state, including an insurance broker who pays premium taxes pursuant to state law on behalf of insurance businesses.

"Premium" means all sums charged, received, or deposited as consideration for an insurance contract or the continuance thereof.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.