

HOUSE BILL REPORT

HB 2487

As Reported by House Committee On:
Finance

Title: An act relating to taxes imposed on insurers operating within the state.

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

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

Brief History:

Committee Activity:

Finance: 1/30/26, 2/9/26 [DP].

Brief Summary of Bill

- Limits the insurance premium exemption to the business and occupation tax to only apply to: (1) gross premiums received by an insurer upon which the same insurer paid insurance premium taxes; and (2) gross premiums received by an insurer that is exempt from premium taxes.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 8 members: Representatives Berg, Chair; Street, Vice Chair; Mena, Ramel, Santos, Scott, Wylie and Zahn.

Minority Report: Do not pass. Signed by 5 members: Representatives Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell, Chase and Penner.

Minority Report: Without recommendation. Signed by 1 member: Representative Springer.

Staff: John Burzynski (786-7133).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Background:

Washington imposes a tax on insurers equal to 2 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 *Armstrong v. State* (1962), 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 *Envolve Pharmacy Solutions, Inc. v. Dept of Revenue* (2024), the Washington Supreme Court 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.

Staff Summary of Public Testimony:

(In support) The Legislature made a deliberate choice to create an insurance premium tax and create an exemption to the B&O tax to prevent double taxation. The exemption statute is old and written in the passive voice. When the law was written, the drafters did not envision the complexity of modern arrangements in the insurance field. Over the past 15 years, there has been significant consolidation in the health insurance industry.

The Washington Supreme Court interpreted the exemption to apply to any downstream business of an insurance company. This bill is designed to update and clarify statutory language without changing intent, and ensure the state is not double-dipping on taxes, exempting downstream businesses, or favoring one industry. Downstream businesses can be completely distinct from or a subsidiary serving one or more insurance companies.

If the Legislature does not take any action, the effect will be that businesses downstream of insurance companies could be exempt from the B&O tax. The implications of this are broad. This is a practical challenge of both fairness and real dollars. If the Legislature does not respond to the Washington Supreme Court's decision, it will open a hole in the state's tax base and the state will need to issue tax refunds of the full amount listed in the fiscal note.

The bill has retroactive application back to 2019 because that was when the Department of Revenue (DOR) issued guidance on the exemption.

This is agency request legislation from the DOR. The bill is about tax equity and ensuring there is a level playing field. The bill changes nothing for insurers who pay the premium tax. This legislation tightens the exemption for other businesses to ensure they cannot take the B&O exemption. The bill is a reasonable policy response to restore the original intent of the law.

Insurers report billions in surplus and profits while Washingtonians are struggling.

(Opposed) Making the bill retroactive to 2019 will result in a 1 to 2 percent increase in premiums. This is a retroactive tax. This bill will impose unfair double taxation and retroactivity. The bill's retroactivity provisions should be removed.

Third party services are subject to the B&O tax. Insurers do not own pharmacy benefit managers, but as worded the bill will tax internal support services like actuarial and legal services. These services exist solely to support the insurance company. Such services are not subject to the B&O tax.

Insurers paid tens of millions to the State General Fund in 2025. Those costs must be passed on to consumers. Insurers are taxed on gross receipts, not profits. Those taxes are borne by customers who are experiencing an affordability crisis. The bill may place upward pressure on premiums over time.

By narrowing the B&O tax exemption, this bill will increase the tax burden on noninsurance entities.

Insurance premiums are not set arbitrarily; they are based on costs and taxes. This legislation will not make costs disappear but will result in them being passed on through higher premiums.

This bill overrides settled law and raises due process concerns. The bill's language is ambiguous and conflicts with the premium tax law. It is unclear if the B&O tax applies to dental expenses and other products.

The DOR may change its interpretations of the scope of the B&O tax exemption at a future date. Insurance activities could be deemed not covered by the insurance premium tax.

Persons Testifying: (In support) Representative Nicole Macri, prime sponsor; Sam Hatzenbeler, Economic Opportunity Institute; Steve Ewing, Dept. of Revenue; and Jim Freeburg, Patient Coalition of Washington.

(Opposed) Anthony Mixer, Citizen Volunteer Lobbyist; Carrie Tellefson, Regence Blue Shield; Christine Brewer, Premera Blue Cross; Max Martin, Association of Washington Business; David Foster, Assoc of WA Healthcare Plans; Bill Stauffacher, Coordinated Care of WA; Kenton Brine, NW Insurance Council; and Kris Tefft, The American Council of Life Insurers (ACLI).

Persons Signed In To Testify But Not Testifying: None.