
HOUSE BILL 2724

State of Washington

69th Legislature

2026 Regular Session

By Representatives Fitzgibbon, Berg, Mena, Pollet, Bergquist, Ortiz-Self, Ramel, Street, Berry, Duerr, Parshley, Lekanoff, Doglio, Gregerson, Macri, Ryu, Ormsby, Reed, Santos, Zahn, Thai, Stearns, Peterson, Wylie, Fosse, Cortes, Thomas, Scott, Farivar, Fey, Callan, Obras, Taylor, Kloba, Tharinger, Bernbaum, and Stonier

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1 AN ACT Relating to investing in Washington families and
2 businesses to fund K-12 education, health care, higher education,
3 other essential governmental services, and the working families' tax
4 credit, and to reduce certain sales and use taxes and certain
5 business and occupation taxes by establishing a tax on millionaires;
6 amending RCW 82.32.050, 82.32.060, 82.32.090, 2.10.180, 2.12.090,
7 6.15.020, 41.24.240, 41.32.052, 41.34.080, 41.35.100, 41.40.052,
8 41.44.240, 41.26.053, 43.43.310, 82.08.0206, 82.04.4451, 82.32.045,
9 82.04.288, and 1.90.100; amending 2023 c 456 s 3 (uncodified); adding
10 a new section to chapter 82.08 RCW; adding a new section to chapter
11 82.12 RCW; adding a new Title to the Revised Code of Washington to be
12 codified as Title 82A RCW; creating new sections; prescribing
13 penalties; providing an effective date; and providing an expiration
14 date.

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

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

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

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

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

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

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

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

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

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

6 (9) Thus, the legislature intends to limit the tax established by
7 this act to only individuals with annual adjusted gross income of
8 \$1,000,000 or more. Washingtonians with an annual adjusted gross
9 income of less than \$1,000,000 will not owe this tax. As a result,
10 the millionaires' tax is estimated to affect only the wealthiest one-
11 half of one percent of the households in this state, taking a
12 significant step toward reducing the disproportionate reliance on
13 working people to fund K-12 education, health care, higher education,
14 human services, the working families' tax credit, and other essential
15 governmental services to benefit Washingtonians.

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

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

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

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

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

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

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

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

7 **PART I**
8 **DEFINITIONS**

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

12 (1) "Capital asset" has the same meaning as provided in chapter
13 82.87 RCW.

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

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

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

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

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 disregarded entity for federal
27 tax purposes, such as a partnership, limited liability company, or S
28 corporation.

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

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

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

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

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

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

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

11 (11) "Washington base income" means federal adjusted gross income
12 as modified under sections 302 through 306 and 401 through 406 of
13 this act.

14 (12) "Washington taxable income" means Washington base income as
15 further modified by sections 307 through 309 of this act.

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

21 **PART II**
22 **DETERMINATION OF TAX**

23 NEW SECTION. **Sec. 201.** TAX IMPOSED—RATES. (1) Beginning January
24 1, 2028, a tax is imposed on the receipt of Washington taxable
25 income. Only individuals are subject to payment of the tax, which
26 equals 9.90 percent multiplied by an individual's Washington taxable
27 income.

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

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

3 (a) Five percent to the county public defense funding
4 stabilization account created in section 711 of this act; and

5 (b) The remainder to the state general fund to fund the sales and
6 use tax relief in sections 903 and 904 of this act, the working
7 families' tax credit program, including its expansion in section 901
8 of this act, and the business and occupation tax relief in sections
9 905 and 906 of this act.

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

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

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

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

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

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

31 (2) If, instead of a credit similar to the credit allowed under
32 subsection (1) of this section, the laws of the other taxing
33 jurisdiction contain a provision exempting a resident of this state
34 from liability for the payment of income taxes on income earned for
35 personal services performed in such jurisdiction, then the department
36 may enter into a reciprocal agreement with such jurisdiction
37 providing a similar tax exemption on income earned for personal
38 services performed in this state.

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

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

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

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

34 NEW SECTION. **Sec. 207.** CARRYFORWARDS AND CARRYBACKS. The amount
35 of tax credits received by any taxpayer under sections 203 through
36 206 of this act may not exceed the total amount of tax due for that

1 reporting period, and no carryback or carryforward of any unused
2 excess credits is allowed.

3 **PART III**

4 **ADJUSTED GROSS INCOME MODIFICATIONS**

5 NEW SECTION. **Sec. 301.** INTRODUCTORY. In computing Washington
6 base income for a taxable year, modifications must be made to the
7 taxpayer's federal adjusted gross income as required under sections
8 302 through 306 and 401 through 406 of this act, unless the
9 modification has the effect of duplicating an item of income or
10 deduction.

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

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

20 (3) After making the modifications required under subsections (1)
21 and (2) of this section, in computing a taxpayer's Washington base
22 income, a taxpayer must add to the taxpayer's federal adjusted gross
23 income the amount of Washington capital gains subject to tax under
24 chapter 82.87 RCW for the same taxable year, plus the amounts
25 deducted under RCW 82.87.060 (1) and (4). This subsection (3) applies
26 only to taxpayers owing tax under chapter 82.87 RCW for that taxable
27 year. "Washington capital gains" has the same meaning as provided in
28 RCW 82.87.020.

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

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

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

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

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

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

26 NEW SECTION. **Sec. 307.** CHARITABLE CONTRIBUTIONS. In determining
27 a taxpayer's Washington taxable income, the taxpayer may deduct from
28 their Washington base income the amount of charitable contributions
29 they claimed for the taxable year under section 170 of the internal
30 revenue code, up to a maximum deduction of \$50,000 per individual, or
31 in the case of spouses or domestic partners, their combined
32 charitable deduction is limited to \$50,000, regardless of whether
33 they file joint or separate returns.

34 NEW SECTION. **Sec. 308.** PASS-THROUGH ENTITY TAX PAYMENTS. In
35 computing a taxpayer's Washington taxable income, the taxpayer must
36 add to the taxpayer's Washington base income the taxpayer's

1 distributive share of the tax expense incurred by a pass-through
2 entity under section 502 of this act to the extent the expense has
3 been deducted in calculating the taxpayer's federal adjusted gross
4 income.

5 NEW SECTION. **Sec. 309.** ONE MILLION DOLLAR STANDARD DEDUCTION.
6 In computing a taxpayer's Washington taxable income, a taxpayer may
7 deduct from the taxpayer's Washington base income a standard
8 deduction of \$1,000,000 per individual, or in the case of spouses or
9 domestic partners, their combined standard deduction is limited to
10 \$1,000,000, regardless of whether they file joint or separate
11 returns. The amount of the standard deduction must be annually
12 adjusted pursuant to section 311 of this act. The standard deduction
13 must be adjusted for nonresidents as provided in section 310 of this
14 act.

15 NEW SECTION. **Sec. 310.** ADJUSTMENT OF DEDUCTIONS FOR
16 NONRESIDENTS. The deduction from Washington base income allowed under
17 section 309 of this act for individual taxpayers who are not
18 residents of this state for the entire taxable year must be reduced
19 by multiplying the amount of the deduction by a fraction. The
20 numerator of the fraction is the individual's Washington base income.
21 The denominator of the fraction is the individual's federal adjusted
22 gross income from all sources. The fraction may never be greater than
23 one.

24 NEW SECTION. **Sec. 311.** INDEX FOR INFLATION. (1) Beginning
25 October 2029 and each October thereafter, the department must adjust
26 the standard deduction under section 309 of this act by multiplying
27 the current standard deduction amount by one plus the percentage by
28 which the most current consumer price index available on October 1st
29 of the current year exceeds the consumer price index for the prior
30 12-month period, and rounding the result to the nearest \$1,000. If an
31 adjustment under this subsection (1) would reduce the standard
32 deduction amount, the department must not adjust the amounts for use
33 in the following year. The department must publish the adjusted
34 standard deduction amount on its public website by October 31st of
35 each year. The adjusted standard deduction amount calculated under
36 this subsection (1) takes effect for taxes due in the following
37 calendar year.

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

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

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

8 **PART IV**
9 **DIVISION OF INCOME**

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

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

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

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

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

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

23 (d) Amounts attributable to any business, trade, profession, or
24 occupation carried on within this state to the extent determined
25 under section 405 of this act;

26 (e) The individual's distributive share of income from a pass-
27 through entity operating within this state as provided in section 402
28 of this act;

29 (f) Rents, gains, and other amounts attributable to the ownership
30 or disposition of any interest in real or tangible personal property
31 in this state; and

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

37 (3) Deductible expenses, capital losses, and net operating losses
38 of a nonresident are based solely on income, gains, losses, and

1 deductible expenses derived from or connected with sources in this
2 state but are otherwise determined in the same manner as the
3 corresponding federal deductions except as provided in this chapter.

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

8 NEW SECTION. **Sec. 402.** PASS-THROUGH ENTITIES—DISTRIBUTIVE

9 SHARE. (1) Income derived from sources within this state include an
10 apportioned share of the individual's distributive share of income,
11 gains, losses, and deductions from pass-through entities that operate
12 in the state, as provided in subsection (2) of this section.

13 (2) The tax due under this chapter for partners, members, or
14 shareholders of a pass-through entity are computed by including a pro
15 rata share of the Washington base income and the credits allowed
16 under sections 203 through 205 of this act, if the modification or
17 credit relates to the income of the pass-through entity. Each
18 member's, partner's, or shareholder's pro rata share of a
19 modification or credit is the amount of modification or credit
20 multiplied by a fraction. The numerator of the fraction is the
21 member's, partner's, or shareholder's distributive share of pass-
22 through income. The denominator of the fraction is the total income
23 of the pass-through entity. The fraction may never be greater than
24 one.

25 (3) The following definitions apply throughout this section.

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

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

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

36 (2) Compensation for services performed by a nonresident as part
37 of their employment must be allocated to this state to the extent
38 such services are rendered within the state. If services are

1 performed both within and outside the state, the compensation must be
2 apportioned based on the ratio of days worked in the state to total
3 days worked, or by another reasonable method approved by the
4 department.

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

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

9 (b) "Employer" means any individual or type of organization,
10 including any partnership, association, trust, estate, joint stock
11 company, insurance company, limited liability company, or
12 corporation, whether domestic or foreign, or the receiver, trustee in
13 bankruptcy, trustee, or the legal representative of a deceased
14 person, having any person in employment or, having become an
15 employer, has not ceased to be an employer as provided in this
16 chapter.

17 (c) "Employment" means personal service, of whatever nature, as
18 known to the common law or any other legal relationship performed for
19 an employer by an individual for compensation or under any contract
20 calling for the performance of personal services, written or oral,
21 express or implied, where the employer is subject to tax under RCW
22 50.24.010 on any portion of compensation paid by the employer to the
23 individual for the performance of the personal services.

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

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

35 (b) Notwithstanding the description of the portion of
36 compensation subject to apportionment to the state of Washington
37 under this subsection, the department may provide by rule alternative
38 methodologies for determining the portion of compensation subject to

1 apportionment to the state of Washington that the department
2 determines to be fair and equitable.

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

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

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

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

17 (A) A taxpayer identification number;

18 (B) Compensation paid to the member; and

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

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

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

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

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

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

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

1 NEW SECTION. **Sec. 405.** GENERAL RULE FOR APPORTIONING AND

2 ALLOCATING NONRESIDENT INCOME FROM BUSINESS ACTIVITY CONDUCTED IN THE
3 STATE. (1) The portion of federal adjusted gross income of a
4 nonresident derived from or connected with a business, trade, or
5 profession carried on in this state, including any distributive share
6 of a pass-through entity of a business, trade, or profession carried
7 on in this state, must be apportioned and allocated as provided in
8 this section. This section does not apply to compensation received as
9 an employee allocated under section 403 of this act.

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

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

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

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

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

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

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

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

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

39 (D) In the case of intangible property:

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

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

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

12 (2) Receipts from intangible property sales that are contingent
13 on the productivity, use, or disposition of the intangible property
14 must be treated as receipts from the rental, lease, or licensing of
15 such intangible property under subsection (4)(a)(i) of this section;
16 and

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

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

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

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

32 (i) Separate accounting;

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

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

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

38 (b) If the allocation and apportionment provisions of this
39 section do not fairly represent the extent of business activity in
40 this state for taxpayers engaged in a particular industry or in a

1 particular transaction or activity, the department may, in addition
2 to the authority provided in (a) of this subsection (4), adopt rules
3 for determining alternative allocation and apportionment methods for
4 such taxpayers. Rules adopted pursuant to this subsection (4)(b) must
5 be applied uniformly, except that with respect to any taxpayer to
6 whom such rule applies, the taxpayer may petition for, or the
7 department may require, adjustment under (a) of this subsection (4).

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

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

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

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

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

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

38 (5) Rents and royalties from real or tangible personal property,
39 capital gains, interest, dividends, or patent or copyright royalties,

1 to the extent that they constitute nonapportionable income, must be
2 allocated as provided in subsections (6) through (9) of this section.

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

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

11 (c) The extent of utilization of tangible personal property in a
12 state is determined by multiplying the rents and royalties by a
13 fraction the numerator of which is the number of days of physical
14 location of the property in the state during the rental or royalty
15 period in the taxable year and the denominator of which is the number
16 of days of physical location of the property everywhere during all
17 rental or royalty periods in the taxable year. If the physical
18 location of the property during the rental or royalty period is
19 unknown or unascertainable by the taxpayer, tangible personal
20 property is utilized in the state in which the property was located
21 at the time the rental or royalty payer obtained possession.

22 (7) (a) Capital gains and losses from sales of real property
23 located in this state are allocable to this state.

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

29 (c) Capital gains and losses from sales of intangible personal
30 property are allocable to this state if the taxpayer's commercial
31 domicile is in this state.

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

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

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

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

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

16 (a) "Apportionable income" means:

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

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

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

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

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

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

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

39 (e) "State" means any state of the United States, the District of
40 Columbia, the Commonwealth of Puerto Rico, any territory or

1 possession of the United States, and any foreign country or political
2 subdivision thereof.

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

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

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

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

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

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

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

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

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

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

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

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

15 (c) "Publicity services" includes, but is not limited to, the
16 following activities: Appearing in photoshoots; filming commercials;
17 recording audio endorsements; posting sponsored content on social
18 media platforms; attending promotional events; either wearing or
19 using, or both, branded products; and granting rights by the student
20 athlete to use the student athlete's name, image, or likeness in
21 either advertisements or online campaigns, or both.

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

25 PART V

26 ESTIMATED TAX PAYMENTS AND PASS-THROUGH ENTITY TAX ELECTION

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

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

37 (3) The amount of the estimated tax is the annualized tax divided
38 by the number of months in the reporting period. No estimated tax is

1 due if the annualized tax is less than \$5,000. RCW 82.32.050 and
2 82.32.090 apply to underpayments of estimated tax unless the
3 estimated tax remitted to the department is either at least 90
4 percent of the tax shown on the return required under section 702(1)
5 of this act or 100 percent of the tax shown on the previous year's
6 tax return.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 (5)(a) Each owner of an electing entity is allowed a credit
17 against the tax imposed under this section equal to the owner's
18 proportionate share of the tax paid by the electing entity under this
19 section as provided in section 206 of this act.

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

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

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

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

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

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

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

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

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

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

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

15 **PART VI**
16 **CRIMES**

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

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

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

27 **PART VII**
28 **ADMINISTRATIVE PROVISIONS**

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

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

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

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

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

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

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

24 (ii) Any information, returns, and federal tax documents received
25 by the taxpayer that directly relate to the taxpayer's federal
26 adjusted gross income including, but not limited to, form W-2, form
27 1099-INT, form 1099-DIV, form 1099-NEC, form 1099-MISC, form 1099-B,
28 schedule K-1 (form 1065), and schedule K-1 (form 1120-S).

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

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

35 (3) Each taxpayer required to file a return under this section
36 must, without assessment, notice, or demand, pay any tax due thereon
37 to the department on or before the date fixed for the filing of the
38 return, regardless of any filing extension. The tax must be paid by
39 electronic funds transfer as defined in RCW 82.32.085 or by other

1 forms of electronic payment as may be authorized by the department.
2 The department may waive the electronic payment requirement for good
3 cause as provided in RCW 82.32.080. If any tax due under this chapter
4 is not paid by the due date, interest and penalties as provided in
5 chapter 82.32 RCW apply to the deficiency.

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

15 (5) (a) If any return due under subsection (1) of this section,
16 along with a copy of the federal income tax return, is not filed with
17 the department by the due date or any extension granted by the
18 department, the department must assess a penalty in the amount of
19 five percent of the tax due for the taxable year covered by the
20 return for each month or portion of a month that the return remains
21 unfiled. The total penalty assessed under this subsection may not
22 exceed 25 percent of the tax due for the taxable year covered by the
23 delinquent return. The penalty under this subsection is in addition
24 to any penalties assessed for the late payment of any tax due on the
25 return.

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

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

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

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

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

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

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

8 (7)(a) In the event a taxpayer's federal income tax return is
9 changed in a manner that is final after their return required under
10 subsection (1) of this section is filed with the department and the
11 taxpayer's federal income tax return is changed in a manner that
12 impacts either the calculation of their Washington adjusted gross
13 income or their tax liability under this chapter, or both, the
14 taxpayer must amend the taxpayer's return due under subsection (1) of
15 this section for the same tax year in which their federal income tax
16 return is changed. For the purposes of this subsection (7), a federal
17 income tax return is changed in a manner that is final when such
18 change is not subject to either administrative review by the United
19 States internal revenue service or judicial review in a court of
20 competent jurisdiction, or both. A change is also final in the case
21 of an audit finding in the following circumstances:

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

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

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

39 (8)(a) No assessment or correction of an assessment for
40 additional taxes, penalties, or interest due may be made by the

1 department more than four years after the year in which a return is
2 filed under subsection (1) of this section except:

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

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

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

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

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

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

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

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

38 (4)(a) Unless the context clearly indicates otherwise,
39 individuals who are spouses or state registered domestic partners are

1 not considered separate taxpayers for the purposes of this chapter
2 regardless of whether they file a joint or separate return for the
3 tax imposed under this chapter. The activities and assets of each
4 spouse or state registered domestic partner are combined as if they
5 were one individual for the purposes of determining the applicability
6 of any threshold amounts, caps, deductions, credits, or any other
7 amounts related to the activities or assets of an individual
8 throughout this chapter.

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

17 (ii) If both spouses or state registered domestic partners cannot
18 agree on an allocation of assets and activity as authorized under
19 (b) (i) of this subsection (4), each spouse is limited to one-half of
20 the total assets and activities of their marital community or
21 domestic partnership.

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

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

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

1 (a) For tax liabilities arising before January 1, 1992, interest
2 shall be computed at the rate of nine percent per annum from the last
3 day of the year in which the deficiency is incurred until the earlier
4 of December 31, 1998, or the date of payment. After December 31,
5 1998, the rate of interest shall be variable and computed as provided
6 in subsection (2) of this section. The rate so computed shall be
7 adjusted on the first day of January of each year for use in
8 computing interest for that calendar year.

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

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

21 (ii) For interest associated with annual tax reporting periods
22 having a due date as prescribed in RCW 82.32.045(3) (~~and~~),
23 82.87.110, and section 702 of this act, interest must be computed
24 from the last day of April immediately following each such annual
25 reporting period included in the notice, until the due date of the
26 notice.

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

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

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

37 (iv) If payment in full is not made by the due date of the
38 notice, additional interest shall be computed under this subsection
39 (1)(c) until the date of payment. The rate of interest shall be
40 variable and computed as provided in subsection (2) of this section.

1 The rate so computed shall be adjusted on the first day of January of
2 each year for use in computing interest for that calendar year.

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

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

17 (4) No assessment or correction of an assessment for additional
18 taxes, penalties, or interest due may be made by the department more
19 than four years after the close of the tax year, except (a) against a
20 taxpayer who has not registered as required by this chapter, (b) upon
21 a showing of fraud or of misrepresentation of a material fact by the
22 taxpayer, or (c) where a taxpayer has executed a written waiver of
23 such limitation. The execution of a written waiver shall also extend
24 the period for making a refund or credit as provided in RCW
25 82.32.060(2).

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

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

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

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

38 (1) If, upon receipt of an application by a taxpayer for a refund
39 or for an audit of the taxpayer's records, or upon an examination of

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

12 (2) (a) The execution of a written waiver under RCW 82.32.050 or
13 82.32.100 will extend the time for making a refund or credit of any
14 taxes paid during, or attributable to, the years covered by the
15 waiver if, prior to the expiration of the waiver period, an
16 application for refund of such taxes is made by the taxpayer or the
17 department discovers a refund or credit is due.

18 (b) A refund or credit must be allowed for an excess payment
19 resulting from the failure to claim a bad debt deduction, credit, or
20 refund under RCW 82.04.4284, 82.08.037, 82.12.037, 82.14B.150, or
21 82.16.050(5) for debts that became bad debts under 26 U.S.C. Sec.
22 166, as amended or renumbered as of January 1, 2003, less than four
23 years prior to the beginning of the calendar year in which the refund
24 application is made or examination of records is completed.

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

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

38 (a) Interest at the rate of three percent per annum must be
39 allowed by the department and by any court on the amount of any
40 refund, credit, or other recovery allowed to a taxpayer for taxes,

1 penalties, or interest paid by the taxpayer before January 1, 1992.
2 This rate of interest applies for all interest allowed through
3 December 31, 1998. Interest allowed after December 31, 1998, must be
4 computed at the rate as computed under RCW 82.32.050(2). The rate so
5 computed must be adjusted on the first day of January of each year
6 for use in computing interest for that calendar year.

7 (b) For refunds or credits of amounts paid or other recovery
8 allowed to a taxpayer after December 31, 1991, the rate of interest
9 must be the rate as computed for assessments under RCW 82.32.050(2)
10 less one percent. This rate of interest applies for all interest
11 allowed through December 31, 1998. Interest allowed after December
12 31, 1998, must be computed at the rate as computed under RCW
13 82.32.050(2). The rate so computed must be adjusted on the first day
14 of January of each year for use in computing interest for that
15 calendar year.

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

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

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

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

27 (iii) For interest associated with annual tax reporting periods
28 having a due date as prescribed in RCW 82.32.045(3) (~~and~~),
29 82.87.110, and section 702 of this act, interest must be computed
30 from the last day of April following each such annual reporting
31 period included in a notice or refund.

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

1 made if the final month included in a notice or refund is not the end
2 of a calendar year.

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

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

11 (1) If payment of any tax due on a return to be filed by a
12 taxpayer is not received by the department of revenue by the due
13 date, there is assessed a penalty of nine percent of the amount of
14 the tax; and if the tax is not received on or before the last day of
15 the month following the due date, there is assessed a total penalty
16 of 19 percent of the amount of the tax under this subsection; and if
17 the tax is not received on or before the last day of the second month
18 following the due date, there is assessed a total penalty of 29
19 percent of the amount of the tax under this subsection. No penalty so
20 added may be less than \$5.

21 (2) If the department of revenue determines that any tax has been
22 substantially underpaid, there is assessed a penalty of five percent
23 of the amount of the tax determined by the department to be due. If
24 payment of any tax determined by the department to be due is not
25 received by the department by the due date specified in the notice,
26 or any extension thereof, there is assessed a total penalty of 15
27 percent of the amount of the tax under this subsection; and if
28 payment of any tax determined by the department to be due is not
29 received on or before the 30th day following the due date specified
30 in the notice of tax due, or any extension thereof, there is assessed
31 a total penalty of 25 percent of the amount of the tax under this
32 subsection. No penalty so added may be less than \$5. As used in this
33 (~~section~~) subsection, "substantially underpaid" means that the
34 taxpayer has paid less than 80 percent of the amount of tax
35 determined by the department to be due for all of the types of taxes
36 included in, and for the entire period of time covered by, the
37 department's examination, and the amount of underpayment is at least
38 \$1,000.

1 (3) If a warrant is issued by the department of revenue for the
2 collection of taxes, increases, and penalties, there is added thereto
3 a penalty of 10 percent of the amount of the tax, but not less than
4 \$10.

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

17 (5) If the department finds that a taxpayer has disregarded
18 specific written instructions as to reporting or tax liabilities, or
19 willfully disregarded the requirement to file returns or remit
20 payment electronically, as provided by RCW 82.32.080, the department
21 must add a penalty of 10 percent of the amount of the tax that should
22 have been reported and/or paid electronically or the additional tax
23 found due if there is a deficiency because of the failure to follow
24 the instructions. A taxpayer disregards specific written instructions
25 when the department has informed the taxpayer in writing of the
26 taxpayer's tax obligations and the taxpayer fails to act in
27 accordance with those instructions unless, in the case of a
28 deficiency, the department has not issued final instructions because
29 the matter is under appeal pursuant to this chapter or departmental
30 regulations. The department may not assess the penalty under this
31 section upon any taxpayer who has made a good faith effort to comply
32 with the specific written instructions provided by the department to
33 that taxpayer. A taxpayer will be considered to have made a good
34 faith effort to comply with specific written instructions to file
35 returns and/or remit taxes electronically only if the taxpayer can
36 show good cause, as defined in RCW 82.32.080, for the failure to
37 comply with such instructions. A taxpayer will be considered to have
38 willfully disregarded the requirement to file returns or remit
39 payment electronically if the department has mailed or otherwise
40 delivered the specific written instructions to the taxpayer on at

1 least two occasions. Specific written instructions may be given as a
2 part of a tax assessment, audit, determination, closing agreement, or
3 other written communication, provided that such specific written
4 instructions apply only to the taxpayer addressed or referenced on
5 such communication. Any specific written instructions by the
6 department must be clearly identified as such and must inform the
7 taxpayer that failure to follow the instructions may subject the
8 taxpayer to the penalties imposed by this subsection. If the
9 department determines that it is necessary to provide specific
10 written instructions to a taxpayer that does not comply with the
11 requirement to file returns or remit payment electronically as
12 provided in RCW 82.32.080, the specific written instructions must
13 provide the taxpayer with a minimum of 45 days to come into
14 compliance with its electronic filing and/or payment obligations
15 before the department may impose the penalty authorized in this
16 subsection.

17 (6) If the department finds that all or any part of a deficiency
18 resulted from engaging in a disregarded transaction, as described in
19 RCW 82.32.655(3), the department must assess a penalty of 35 percent
20 of the additional tax found to be due as a result of engaging in a
21 transaction disregarded by the department under RCW 82.32.655(2). The
22 penalty provided in this subsection may be assessed together with any
23 other applicable penalties provided in this section on the same tax
24 found to be due, except for the evasion penalty provided in
25 subsection (7) of this section. The department may not assess the
26 penalty under this subsection if, before the department discovers the
27 taxpayer's use of a transaction described under RCW 82.32.655(3), the
28 taxpayer discloses its participation in the transaction to the
29 department.

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

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

38 (9) The department may not impose the evasion penalty in
39 combination with the penalty for disregarding specific written

1 instructions or the penalty provided in subsection (6) of this
2 section on the same tax found to be due.

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

10 (11) If the total estimated tax payments under section 501 of
11 this act for the tax year are substantially underpaid, there is
12 assessed a penalty of five percent of the amount of the underpaid
13 tax. If a pass-through entity makes an election under section 502 of
14 this act, this subsection (11) applies to the estimated tax payments
15 of the pass-through entity in lieu of the individual. As used in this
16 subsection, "substantially underpaid" means that an individual's
17 total annual estimated tax payments under section 501 of this act
18 were less than 80 percent of the actual annual tax due, and at least
19 \$5,000.

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

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

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

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

3 (b) Liability of transferees; and

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

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

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

20 NEW SECTION. **Sec. 711.** COUNTY PUBLIC DEFENSE FUNDING
21 STABILIZATION ACCOUNT. (1) The county public defense funding
22 stabilization account is hereby created in the state treasury. All
23 receipts specified under section 202(1)(a) of this act must be
24 deposited in the account. Moneys in the account may be spent only
25 after appropriation. Expenditures from the account may be used only
26 for distributions to counties for public defense services consistent
27 with chapter 10.101 RCW.

28 (2) On a quarterly basis, the state treasurer shall distribute
29 moneys deposited in the county public defense funding stabilization
30 account to each county based on the county's personal income ratio as
31 determined under subsection (3) of this section.

32 (3) The office of financial management shall calculate each
33 county's personal income ratio by December 31, 2028, and December
34 31st of each year thereafter, using the most recent annual county
35 personal income data published by the federal bureau of economic
36 analysis for the state of Washington and notify the state treasurer.
37 The updated county personal income ratio applies to county
38 distributions in the following calendar year.

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

5 **PART VIII**

6 **APPLICATION OF TAX TO PUBLIC PENSIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 (3) The right of a person to a pension, annuity, or retirement
23 allowance or disability allowance, or death benefits, or any optional
24 benefit, or any other right accrued or accruing to any citizen of the
25 state of Washington under any employee benefit plan, and any fund
26 created by such a plan or arrangement, shall be exempt from
27 execution, attachment, garnishment, or seizure by or under any legal
28 process whatever. This subsection shall not apply to child support
29 collection actions issued under chapter 26.18, 26.23, or 74.20A RCW
30 if otherwise permitted by federal law, or to collection actions for
31 taxes imposed under Title 82A RCW (the new title created in section
32 1003 of this act). This subsection shall permit benefits under any
33 such plan or arrangement to be payable to a spouse, former spouse,
34 child, or other dependent of a participant in such plan to the extent
35 expressly provided for in a qualified domestic relations order that
36 meets the requirements for such orders under the plan, or, in the
37 case of benefits payable under a plan described in 26 U.S.C. Sec.
38 403(b) or 408 of the internal revenue code of 1986, as amended, or
39 section 409 of such code as in effect before January 1, 1984, to the
40 extent provided in any order issued by a court of competent

1 jurisdiction that provides for maintenance or support. This
2 subsection does not prohibit actions against an employee benefit
3 plan, or fund for valid obligations incurred by the plan or fund for
4 the benefit of the plan or fund.

5 (4) For the purposes of this section, the term "employee benefit
6 plan" means any plan or arrangement that is described in RCW
7 49.64.020, including any Keogh plan, whether funded by a trust or by
8 an annuity contract, and in 26 U.S.C. Sec. 401(a) or 403(a) of the
9 internal revenue code of 1986, as amended; or that is a tax-sheltered
10 annuity or a custodial account described in section 403(b) of such
11 code or an individual retirement account or an individual retirement
12 annuity described in section 408 of such code; or a Roth individual
13 retirement account described in section 408A of such code; or a
14 medical savings account or a health savings account described in
15 sections 220 and 223, respectively, of such code; or a retirement
16 bond described in section 409 of such code as in effect before
17 January 1, 1984. The term "employee benefit plan" shall not include
18 any employee benefit plan that is established or maintained for its
19 employees by the government of the United States, by the state of
20 Washington under chapter 2.10, 2.12, 41.26, 41.32, 41.34, 41.35,
21 41.37, 41.40, or 43.43 RCW or RCW 41.50.770, or by any agency or
22 instrumentality of the government of the United States.

23 (5) An employee benefit plan shall be deemed to be a spendthrift
24 trust, regardless of the source of funds, the relationship between
25 the trustee or custodian of the plan and the beneficiary, or the
26 ability of the debtor to withdraw or borrow or otherwise become
27 entitled to benefits from the plan before retirement. This subsection
28 shall not apply to child support collection actions issued under
29 chapter 26.18, 26.23, or 74.20A RCW, if otherwise permitted by
30 federal law, or to collection actions for taxes imposed under Title
31 82A RCW (the new title created in section 1003 of this act). This
32 subsection shall permit benefits under any such plan or arrangement
33 to be payable to a spouse, former spouse, child, or other dependent
34 of a participant in such plan to the extent expressly provided for in
35 a qualified domestic relations order that meets the requirements for
36 such orders under the plan, or, in the case of benefits payable under
37 a plan described in 26 U.S.C. Sec. 403(b) or 408 of the internal
38 revenue code of 1986, as amended, or section 409 of such code as in
39 effect before January 1, 1984, to the extent provided in any order

1 issued by a court of competent jurisdiction that provides for
2 maintenance or support.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

30 (1) Subject to subsections (2) (~~and~~), (3), and (4) of this
31 section, the right of a person to a pension, an annuity, a retirement
32 allowance, any optional benefit, any other right accrued or accruing
33 to any person under the provisions of this chapter, and the various
34 funds created by chapter 239, Laws of 1995; chapter 341, Laws of
35 1998; and chapter 247, Laws of 2000 and all moneys and investments
36 and income thereof, is 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 shall not be deemed to prohibit a beneficiary of
4 a retirement allowance from authorizing deductions therefrom for
5 payment of premiums due on any group insurance policy or plan issued
6 for the benefit of a group comprised of public employees of the state
7 of Washington or its political subdivisions and that has been
8 approved for deduction in accordance with rules that may be adopted
9 by the state health care authority and/or the department. This
10 section shall not be deemed to prohibit a beneficiary of a retirement
11 allowance from authorizing deductions therefrom for payment of dues
12 and other membership fees to any retirement association or
13 organization the membership of which is composed of retired public
14 employees, if a total of three hundred or more of such retired
15 employees have authorized such deduction for payment to the same
16 retirement association or organization.

17 (3) Subsection (1) of this section shall 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~~) 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 to pay benefits directly to an obligee under a dissolution order as
25 defined in RCW 41.50.500(3) which fully complies with RCW 41.50.670
26 and 41.50.700, or (f) any administrative or court order expressly
27 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 1003 of this act).

31 **Sec. 807.** RCW 41.35.100 and 2012 c 159 s 24 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) This section does not prohibit a beneficiary of a retirement
6 allowance from authorizing deductions therefrom for payment of
7 premiums due on any group insurance policy or plan issued for the
8 benefit of a group comprised of public employees of the state of
9 Washington or its political subdivisions and which has been approved
10 for deduction in accordance with rules that may be adopted by the
11 state health care authority and/or the department. This section also
12 does not prohibit a beneficiary of a retirement allowance from
13 authorizing deductions therefrom for payment of dues and other
14 membership fees to any retirement association or organization the
15 membership of which is composed of retired public employees, if a
16 total of three hundred or more of such retired employees have
17 authorized such deduction for payment to the same retirement
18 association or organization.

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

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

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

35 (1) Subject to subsections (2) (~~and~~), (3), and (4) of this
36 section, the right of a person to a pension, an annuity, or
37 retirement allowance, any optional benefit, any other right accrued
38 or accruing to any person under the provisions of this chapter, the
39 various funds created by this chapter, and all moneys and investments

1 and income thereof, are hereby exempt from any state, county,
2 municipal, or other local tax, and shall not be subject to execution,
3 garnishment, attachment, the operation of bankruptcy or insolvency
4 laws, or other process of law whatsoever, whether the same be in
5 actual possession of the person or be deposited or loaned and shall
6 be unassignable.

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

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

25 (3) Subsection (1) of this section shall not prohibit the
26 department from complying with (a) a wage assignment order for child
27 support issued pursuant to chapter 26.18 RCW, (b) an order to
28 withhold and deliver issued pursuant to chapter 74.20A RCW, (c) (~~a~~
29 ~~notice of payroll deduction~~) an income withholding order issued
30 pursuant to RCW 26.23.060, (d) a mandatory benefits assignment order
31 issued by the department, (e) a court order directing the department
32 of 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 (4) 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 1003 of this act).

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

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

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

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

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

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

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

1 guardian of such child or children. The department may provide for
2 such persons one or more plans of group insurance, through contracts
3 with regularly constituted insurance carriers or health care service
4 contractors.

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

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

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

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

31 (2) Subsection (1) of this section shall not prohibit the
32 department of retirement systems from complying with (a) a wage
33 assignment order for child support issued pursuant to chapter 26.18
34 RCW, (b) an order to withhold and deliver issued pursuant to chapter
35 74.20A RCW, (c) (~~a notice of payroll deduction~~) an income
36 withholding order issued pursuant to RCW 26.23.060, (d) a mandatory
37 benefits assignment order issued pursuant to chapter 41.50 RCW, (e) a
38 court order directing the department of retirement systems to pay
39 benefits directly to an obligee under a dissolution order as defined

1 in RCW 41.50.500(3) which fully complies with RCW 41.50.670 and
2 41.50.700, or (f) any administrative or court order expressly
3 authorized by federal law.

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

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

14 **PART IX**
15 **TAX RELIEF**

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

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

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

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

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

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

30 (C) Has paid either retail sales tax under this chapter or use
31 tax under chapter 82.12 RCW, or both. There is a rebuttable
32 presumption that a person paid either retail sales tax under this
33 chapter or use tax under chapter 82.12 RCW, or both, if they were a
34 Washington resident during the year for which the credit is claimed.

35 (ii) "Eligible low-income person" also means an individual who
36 meets the requirements provided in (a)(i)(B) of this subsection and
37 would otherwise qualify for the credit provided in Title 26 U.S.C.

1 Sec. 32 of the internal revenue code except that one or any
2 combination of the following conditions apply:

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

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

14 (C) The individual does not meet the age requirement under Title
15 26 U.S.C. Sec. 32(c)(1)(A)(ii)(II) of the internal revenue code, but
16 is at least age 18 by the end of the prior federal tax year.

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

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

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

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

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

31 (g) "Washington resident" means an individual who is physically
32 present and residing in this state for at least 183 days. "Washington
33 resident" also includes an individual who is not physically present
34 and residing in this state for at least 183 days but is the spouse of
35 a Washington resident. For purposes of this subsection, "day" means a
36 calendar day or any portion of a calendar day.

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

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

1 (ii) \$600 for eligible persons with one qualifying child;
2 (iii) \$900 for eligible persons with two qualifying children; or
3 (iv) \$1,200 for eligible persons with three or more qualifying
4 children.

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

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

13 (ii) For eligible persons with one qualifying child, beginning at
14 \$5,000 of income below the federal phase-out income for the prior
15 federal tax year, by 12 percent per additional dollar of income until
16 the minimum credit amount as specified in (c) of this subsection is
17 reached.

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

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

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

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

36 (e) For purposes of this section, "consumer price index" means,
37 for any 12-month period, the average consumer price index for that
38 12-month period for the Seattle, Washington area for urban wage
39 earners and clerical workers, all items, compiled by the bureau of
40 labor statistics, United States department of labor.

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

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

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

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

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

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

25 (iv) (A) Except as provided in (a)(iv)(B) of this subsection (4),
26 application for a refund under this section must be made in the year
27 following the year for which the federal tax return was filed, but in
28 no case may any refund be provided for any period before January 1,
29 2022.

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

37 (II) If a person seeks to increase the amount of a refund that
38 has been made under this subsection (4), the person must apply for
39 the amended refund within the nonclaims period established under RCW
40 82.32.060(1).

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

8 (b) The department shall protect the privacy and confidentiality
9 of personal data of refund recipients in accordance with chapter
10 82.32 RCW.

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

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

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

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

25 (7) The department must review the application and determine
26 eligibility for the working families' tax credit based on information
27 provided by the applicant and through audit and other administrative
28 records, including, when it deems it necessary, verification through
29 information from the internal revenue service of the United States,
30 other federal agencies, Washington state agencies, third-party
31 entities, or other persons. The department may accept a signed
32 attestation in a form and manner determined by the department from an
33 individual to presumptively validate that an individual meets all the
34 eligibility requirements as provided in this section. The signed
35 attestation is subject to audit verification by the department to
36 validate an individual's eligibility for the working families' tax
37 credit.

38 (8) If, upon review of internal revenue service data or other
39 information obtained by the department, it appears that an individual
40 received a refund that the individual was not entitled to, or

1 received a larger refund than the individual was entitled to, the
2 department may assess against the individual the overpaid amount. The
3 department may also assess such overpaid amount against the
4 individual's spouse if the refund in question was based on both
5 spouses filing a joint federal income tax return for the year for
6 which the refund was claimed.

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

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

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

26 (9) If, within the period allowed for refunds under RCW
27 82.32.060, the department finds that an individual received a lesser
28 refund than the individual was entitled to, the department must remit
29 the additional amount due under this section to the individual.

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

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

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

36 (1) This section is the tax preference performance statement for
37 the tax preference contained in section 2, chapter 195, Laws of 2021
38 (~~and~~), section 1, chapter 456, Laws of 2023, and section 901,
39 chapter . . . , Laws of 2026 (section 901 of this act). This

1 performance statement is only intended to be used for subsequent
2 evaluation of the tax preference. It is not intended to create a
3 private right of action by any party or be used to determine
4 eligibility for the preferential tax treatment.

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

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

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

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

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

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

6 NEW SECTION. **Sec. 904.** 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 RCW 82.12.020
9 does not apply to the use of grooming and hygiene products.

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

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

15 (1) In computing the tax imposed under this chapter, a credit is
16 allowed against the amount of tax otherwise due under this chapter,
17 as provided in this section. Except for taxpayers that report at
18 least 50 percent of their taxable amount under RCW 82.04.255,
19 82.04.290(2)(a), and 82.04.285, the maximum credit for a taxpayer for
20 a reporting period is (~~(\$55)~~) \$110 multiplied by the number of months
21 in the reporting period, as determined under RCW 82.32.045. For a
22 taxpayer that reports at least 50 percent of its taxable amount under
23 RCW 82.04.255, 82.04.290(2)(a), and 82.04.285, the maximum credit for
24 a reporting period is (~~(\$160)~~) \$320 multiplied by the number of
25 months in the reporting period, as determined under RCW 82.32.045.

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

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

33 (4) The department may prepare a tax credit table consisting of
34 tax ranges using increments of no more than five dollars and a
35 corresponding tax credit to be applied to those tax ranges. The table
36 shall be prepared in such a manner that no taxpayer will owe a
37 greater amount of tax by using the table than would be owed by
38 performing the calculation under subsections (1) through (3) of this

1 section. A table prepared by the department under this subsection
2 must be used by all taxpayers in taking the credit provided in this
3 section.

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

6 (1) Except as otherwise provided in this chapter and subsection
7 (6) of this section, payments of the taxes imposed under chapters
8 82.04, 82.08, 82.12, 82.14, 82.16, and 82.27 RCW, along with reports
9 and returns on forms prescribed by the department, are due monthly
10 within 25 days after the end of the month in which the taxable
11 activities occur.

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

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

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

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

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

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

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

37 (6) (a) Taxes imposed under chapter 82.08 or 82.12 RCW on taxable
38 events that occur beginning January 1, 2019, through June 30, 2019,

1 and payable by a consumer directly to the department are due, on
2 returns prescribed by the department, by July 25, 2019.

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

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

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

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

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

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

17 (3)(a) Any Washington taxable income subject to the tax in RCW
18 82.04.29004 is exempt from the surcharge imposed in this section.

19 (b)(i) Any Washington taxable income subject to the manufacturing
20 tax rates in RCW 82.04.240, 82.04.2404, 82.04.241, 82.04.260,
21 82.04.2602, 82.04.287, 82.04.2909, or 82.04.294(1) is exempt from the
22 surcharge imposed in this section.

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

27 (iii) Any Washington taxable income attributable to retail sales
28 that are exempt from the imposition of sales tax in RCW 82.08.0293,
29 82.08.0297, and 82.08.0281 is exempt from the surcharge imposed in
30 this section.

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

34 (v) Any Washington taxable income attributable to the wholesale
35 or retail sale of petroleum products by a person who is both located
36 in a state other than Washington and the owner of such materials
37 processed for it in Washington by an affiliated processor for hire
38 subject to the rate in RCW 82.04.280(1)(c), is exempt from the

1 surcharge imposed in this section. For the purposes of this
2 subsection (3)(b)(v), the following definitions apply:

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

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

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

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

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

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

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

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

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

25 NEW SECTION. **Sec. 908.** Section 905 of this act applies to taxes
26 initially due and payable on or after January 1, 2029.

27 **PART X**
28 **MISCELLANEOUS**

29 **Sec. 1001.** RCW 1.90.100 and 2024 c 5 s 1 (Initiative Measure No.
30 2111) are each amended to read as follows:

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

35 (2) Subsection (1) of this section does not apply to the tax
36 authorized in chapter 82A.--- RCW (the new chapter created in section
37 1003 of this act).

