



Breaking down the income tax for small business

Washington is considering a new personal income tax starting January 1, 2028. Referred to as the “millionaires’ tax,” the current structure of the proposal will hit small business owners harder than the large corporations that are supposed to be the target of this tax. If you operate as an LLC, partnership, S-corporation, or sole proprietor, you need to pay attention to SB 6346/HB 2724. The tax rate of 9.9% would be applied to individuals with Washington taxable income (based on gross revenue and adjustments to income) over \$1 million.

PASS THROUGH INCOME IS TAXABLE

The bill includes details for how pass-through income, credits, and adjustments will be treated under the new tax.

TAXES RISK WITHOUT CREDIT OFFSETS OR AVERAGING

Construction is cyclical; A strong year, a one-time distribution, a partial sale, refinancing, or a catch-up payment can push an owner over the \$1M line, turning business success into a personal tax liability.

PENALIZES BUSINESS EXPANSION

Owners subject to the tax would need to pay estimated payments, potentially causing a cash-flow and budgeting issue. This could also penalize businesses that surpass their expectations for growth.

PENALIZES DUAL INCOME HOUSEHOLDS

Married/domestic partners are treated as a single taxpayer for purposes of the income tax: one combined \$1,000,000 deduction total. There is no loophole for filing separately.

MULTI-STATE BUSINESSES FACE ADDED COMPLEXITY

If your company has out-of-state owners, works across state lines, or earns income both inside and outside Washington, the bill’s sourcing and apportionment rules determine what portion gets taxed. For many businesses, that’s where surprises and disputes can arise.

PENALTIES ADD UP FAST

Miss the filing requirements and the penalties are steep: 5% per month and up to 25%. There’s very little margin for error.

PASS THROUGH ENTITY TAX ELECTION

If a business opts to pay the tax at the entity level instead of the individual level, elections are annual and irrevocable. This could improve tax liability, but it completely depends on your ownership structure and overall tax situation.

REVENUE GOES TO THE GENERAL FUND

No protections for usage of tax revenue collections for 95% of the revenue collected.

CHARITABLE DEDUCTIONS CAPPED AT \$50K PER HOUSEHOLD

Destroys the nonprofit sector in our state but limiting maximum charitable deduction to \$50,000



Income Tax Overview

[SB 6346 - 2025-26](#)

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Section 1 – Intent.

The bill attempts to justify the new income tax for the following reasons:

- To invest in K-12 education, health care, higher education, other essential government services, and working families' tax credit through the general fund.
- Part of reforming the WA tax code to be common sense, balanced, and sustainable.
- Federal tax breaks for WA highest-income households are higher than lowest-income households.
- Rebalance the tax system by reducing taxes on consumers and businesses.

Part 1 – Definitions.

Section 101 – Definitions.

This section provides definition for the bill.

- **Capital asset:** Same meaning as in WA's capital gains tax law (RCW 82.87).
- **Department:** Washington State Department of Revenue.
- **Federal adjusted gross income (FAGI):** Your federal adjusted gross income under IRC section 62.
- **Individual:** A natural person.
- **Internal Revenue Code (IRC):** The federal tax code (as it exists on January 1, 2026, unless the Department updates the date by rule).
- **Long-term capital asset/gain/loss:** Same meaning as in chapter 82.87 RCW.
- **Pass-through entity:** A federal "disregarded"/flow-through type entity like a partnership, LLC, or S corporation.
- **Resident (either test qualifies):**
 - Domicile test: You're domiciled in WA unless you (A) had no permanent home in WA all year, (B) had a permanent home outside WA all year, and (C) spent 30 days or less in WA that year; or
 - 183-day test: You're not domiciled in WA, but you kept a place to live here and were physically in WA for more than 183 days that year.
 - Day means a calendar day or any portion of.
 - If a taxpayer meets the resident test for only part of the year, they are a resident only for that portion.
- **Taxable year:** Your tax year as defined in the federal tax code.
- **Taxpayer:** An individual who receives income that's taxed under this chapter.



- **Washington base income:** FAGI plus/minus the specific adjustments in sections 302–306 and 401–406.
- **Washington taxable income:** Washington base income after additional adjustments/deductions in sections 307–309.

Section 102 – Undefined Terms

Unless a term is defined in this chapter or clearly has a different meaning, then any term shall have the same meaning as the internal revenue code when used in a comparable context.

Part 2 – Determination of Tax.

Section 201 – Tax Imposed—Rates.

Creates a tax on an individual's WA taxable income.

- Rate: 9.9%.
- Effective: January 1, 2028.

If a taxpayer's WA taxable income for a year is below the minimum threshold, then:

- They don't owe this tax for that year, and...
- They can't "bank" the unused amount (no carryover) to reduce their WA taxable income in future years.

But if they have a loss carryforward that is already part of their FAGI, and that loss is tied to WA sources, then:

- That loss carryforward counts in the WA taxable income calculation.

Section 202 – Distribution of Revenues.

Income tax revenues distribution:

- 5% to the (new) county public defense funding stabilization account.
- 95% to the general fund for the following:
 - Sales & use tax relief (sec. 903 and 904).
 - Working families tax credit programs (including expansion in sec. 901).
 - Business & occupation (B&O) tax relief (sec. 905 and 906).
- All interest and penalties go to the general fund.



Section 203 – Credit for Income Taxes Due Another Jurisdiction.

If a WA resident pays income tax to another state (or a city/county there) on income that WA also taxes, they can get credit against their WA tax.

- They only get the credit for income earned in that other place that is also included in their WA taxable income.
- The credit is limited. It can't be more than the lesser of:
 - The tax they actually paid to the other place on that income, or...
 - The WA tax on that same slice of income (calculated using a proportion: income taxed by the other place ÷ their total WA taxable income; capped at 100%).

If another state has a rule that exempts WA residents from paying that state's income tax on wages earned there, DOR can make a reciprocal agreement to give that state's residents the same kind of exemption for wages earned in WA.

Section 204 – Credit for B&O and Public Utility Taxes (PUT).

Non-refundable tax credit against income tax due.

- Credit equals amount paid for B&O and PUT (RCW 82.04 or 82.16) on income that is included in those taxes and the new income tax.
- Effective starting in the 2028 tax year (taxes paid in 2029).
- Credit is for same period the income is reported for federal income tax.
- Cannot reduce your income tax below zero (non-refundable).
- Unused credit cannot be carried forward/backward.

Section 205 – Credit for WA Capital Gains Taxes.

Non-refundable tax credit against income tax due.

- Credit equals amount paid for capital gains taxes.
- Effective starting in 2028 tax year (taxes paid in 2029).
- Credit is for the same tax year (capital gain taxes in 2028 go toward income tax for 2028).

Section 206 – Credit for Pass-Through Entity Tax Payments.

Beginning in tax year 2028 with taxes due in 2029, an owner can claim a credit against their tax for their share of the pass-through entity's tax expense paid under the pass-through entity election (sec. 502).



Section 207 – Carryforwards and Carrybacks.

A taxpayer can't claim more credits under Sections 203–206 than what they owe in tax for that period. If any credits are left over, they can't be saved for a future period or applied to a past period.

Part 3 – Adjusted Gross Income Modifications.

Section 301 – Introductory.

FAGI is the base for WA taxable income. Modifications are then made to FAGI in sec. 302-306 and 401-406.

Modifications cannot count the same income or deduction twice.

Section 302 – Long-Term Capital Gains and Losses.

A taxpayer must:

- Subtract long-term capital gains from a their FAGI when calculating their “WA base income.”
- Add back long-term capital losses to their FAGI when calculating their “WA base income.”
- Then add back the amount of “WA capital gains” that are actually taxed under RCW 82.87, plus the amounts deducted under RCW 82.87.060(1) and (4).

In other words: WA base income starts with FAGI, strips out all long-term capital gains/losses, and then (for taxpayers who owe the WA capital gains tax) adds back only the WA taxable capital gains amount (plus a couple related add-backs).

Section 303 – State & Local Obligations.

When calculating a taxpayer's WA taxable income, they must add back any tax-exempt interest that was excluded from FAGI under IRS Section 103 – except interest from WA state or local government bonds, which stays excluded.

Section 304 – State & Local Income Taxes – B&O and PUT.

Taxpayers must add back certain taxes to their FAGI:

- Net-income taxes that were deducted when figuring FAGI.



- Taxes deducted on the federal return if the taxpayer also gets a WA B&O tax credit and/or PUT credit for those same taxes.

Section 305 – Carryovers.

Taxpayers must add back any deductions they took on their FAGI if those deductions are carryovers from tax years that ended before this section takes effect.

Section 306 – Federal Obligations.

Taxpayers must subtract any income from U.S. government obligations that federal law says WA can't tax.

But a taxpayer can't subtract the part of that income that was offset by expenses (like bond premium amortization) if those expenses were already deducted on the federal return.

Section 307 – Charitable Contributions.

Taxpayers can subtract the charitable donations they claimed on their federal return (IRC Section 170), but only up to \$50,000.

- \$50,000 max per individual, or
- \$50,000 total for a married couple/domestic partners combined, even if they file separately.

Section 308 – Pass-through Entity Tax Payments.

Taxpayers must add back their share of any pass-through entity tax paid under the pass-through entity election (sec. 502) if that tax was deducted on their federal return.

Section 309 – One Million Dollar Standard Deduction.

Standard deduction from taxpayer's WA base income.

- \$1,000,000 per individual.
- Spouses or domestic partners, get one combined \$1,000,000 deduction total – even if they file separately.
- \$1,000,000 standard deduction is adjusted each year for inflation (sec. 311).
- For nonresidents, the standard deduction is reduced/adjusted under sec. 310.

Section 310 – Adjustment of Deductions for Nonresidents.

Taxpayers who are nonresidents don't get the full \$1,000,000 standard deduction under sec. 309.



Nonresident standard deduction equals the standard deduction multiplied by a fraction (the WA base income divided by total FAGI from everywhere). The fraction cannot be greater than one so the nonresident deduction cannot be greater than standard deduction.

Section 311 – Index for Inflation.

DOR must annually raise the standard deduction for inflation.

- Uses Seattle-area consumer price index for all urban consumers (CPI-U).
- Rounded to the nearest \$1,000.
- First adjustment by Oct. 2029 and every subsequent Oct.

Part 4 – Division of Income.

Section 401- Allocation and Apportionment of Income.

- WA residents must treat **all** income as WA income.
- If the taxpayer is a nonresident, WA-sources of income include:
 - **Wages from employment** in WA.
 - **Business/self-employment income** to the extent the work/activity happens in WA.
 - **Individual's share of income from a pass-through business** operating in WA.
 - **Rent and gains from selling/owning real estate or tangible property** located in WA.
 - **Income from annuities, dividends, interest, and gains** from the disposition if the intangible is used in a business carried within WA.

Nonresident deductions/losses: Only deduct expenses and losses that relate to WA-source income.

Section 402. Pass-through Entities—Distributive Share.

If a taxpayer earns income from a pass-through business (LLC, partnership, or S-corp) operating in WA, the state taxes that taxpayer's **share of the business's WA-sourced income** based on its apportioned amount.

WA then includes the taxpayer's pro-rata (K-1) share of the pass-through's Washington base income when calculating their tax. If their business qualifies for credits or adjustments, the



taxpayer receives their **proportional share**—but **only for items related to the pass-through's income**.

How a taxpayer's share is calculated:

- Taxpayer's share = (K-1 share of pass-through income ÷ total pass-through income) × the credit or adjustment.
- This fraction cannot exceed 1.

Pass-through income: the business's federal taxable income, whether distributed or not.

Pro-rata share: The taxpayer's share as shown on their Schedule K-1.

Section 403 – General Rule for Allocating Nonresident Income Derived from Compensation to WA.

Nonresidents owe WA income tax on wages for work done in WA, regardless of their employer's HQ.

- If all the work is performed in WA, all that pay is allocated to WA.
- If the work is performed both inside and outside WA, the pay is split – usually based on days worked in WA ÷ total days worked, unless DOR approves another reasonable method.

Section 404 – Apportioning Income for Nonresident Members of a Professional Athletic Team.

Nonresident professional athletic team members earning over \$1,000,000 owe Washington income tax on pay allocated by Washington duty days.

People or businesses who pay income to a member of a professional athletic team must submit annual reports to DOR indicating any members who are likely to owe WA income tax.

Section 405 – General Rule for Apportioning and Allocating Nonresident Income from Business Activity Conducted in the State.

This applies to nonresidents who earn business income connected to WA, including their share of pass-through entity income. It does not apply to wages as an employee.



Step 1: Classify business income.

- Either apportionable income, or...
- Nonapportionable income.

Step 2: Apportion apportionable income using a receipts factor.

- a. $\text{WA share} = \text{apportionable income} \times (\text{WA receipts} \div \text{total receipts everywhere})$.
- b. What counts as Washington Receipts?
 - a. Tangible Goods.
 - i. Delivered to a buyer in WA.
 - ii. Shipped from WA to the U.S. government.
 - iii. Shipped from WA to a state where the taxpayer is not taxable.
 - b. Real property, rental property, leases, or licenses of tangible personal property.
 - i. Sourced to WA to the extent the property is located in WA.
 - c. Services.
 - i. Sourced to WA to the extent the service is delivered to a WA location.
 - d. Intangibles.
 - i. Rented, leased, or licensed.
 1. Sourced to WA to the extent used in WA.
 - ii. Sold:
 1. Sourced to WA to the extent used in WA, with special rules for geographic rights and contingent payments.
 - iii. Most other intangible sale receipts are excluded from the receipts factor.

If the state of assignment can't be determined, it may be reasonably approximated.

If a receipt is assigned to a state where the taxpayer is not taxable—or can't be determined or approximated—it is excluded from the denominator of the receipts factor.

How certain nonapportionable income is directly allocated to Washington:

- **Income from WA real property** (rent, royalties, capital gains) → goes to WA.
- **Income from tangible property used in WA** → goes to WA (with limited fallback rules).
- **Capital gains from selling WA property** → go to WA.
- **Interest and dividends** → go to the taxpayer's commercial domicile.



- **Patent and copyright royalties** → go to the state where the IP is **used** (WA if used in WA).

Section 406 – Proration of Part-Year Income.

If the taxpayer is a part-year Washington resident:

- **While the individual lived in WA** → all their income counts.
- **While the individual didn't live in WA** → only income sourced to WA counts.

Special rule for pass-through income (LLCs, partnerships, S-corps):

Pass-through items are split by days of residency:

- The portion tied to the days the taxpayer was a WA resident is included in full.
- The portion tied to the days the taxpayer was a nonresident is included only if it's WA-sourced.

Section 407 – Allocation and Apportionment of Nonresident Student Athlete Income.

A nonresident student athlete's NIL income is WA income if most promotional work occurs in WA; that income is apportioned to WA by duty days.

Part 5 – Estimated Tax Payments and Pass-through Entity Tax Election.

Section 501 – Estimated Tax Imposed-Due Date of Estimated Taxes-Amount of Estimated Tax-Underpayment Penalty.

If a taxpayer is required to pay federal estimated taxes, they must also make estimated payments to DOR for this tax. Estimated tax payments are generally not required if the individual's projected annual liability is under \$5,000. **Penalties may apply for underpayment** unless the individual has paid at least 90% of the current year's tax liability or 100% of the previous year's tax. This requirement would not take effect before July 1, 2029, and DOR will issue rules for handling payments through wage or salary withholding.



Section 502 Pass-through Entity Tax Election.

A pass-through entity (LLC, partnership, or S-corp) can elect each year to pay a 9.9% WA tax at the entity level, and the entity – not the owners – pays it. The election is due by DOR's deadline (no later than April 15) and can't be changed once filed for that year.

If it elects in, the tax applies to all income attributable to WA-resident owners and to WA-source income attributable to nonresident owners, using the same WA add-backs/subtractions that would apply to individual taxpayers. The entity makes estimated payments (not required before July 1, 2029) and files an annual return.

A pass-through entity tax (PTET) election acts as a workaround the federal cap for state and local taxes (SALT). Owners of PTEs may only deduct \$40K of SALT on their federal returns due to the federal SALT deduction cap. However, if owners of PTEs elect to have the PTE pay the tax at the entity level, the PTE may deduct the full tax of the state income tax as a business expense.

Example:

Without a PTET Election:

- Bob pays WA tax of \$396,000. $(\$5,000,000 - \$1,000,000 \text{ exemption}) \times 9.9\%$.
- Due to the federal SALT cap, Bob may only deduct \$40,000 of state tax on her federal return.
- Assuming a top federal rate of 37%, the value of this deduction is \$14,800 $(\$40,000 \times 37\%)$.
- The net cost to Bob of the WA tax, after accounting for the federal deduction benefit, is \$381,200 $(\$396,000 - \$14,800)$.

With a PTET Election:

- The S Corporation pays the WA tax of \$396,000 at the entity level.
- The S Corporation deducts the \$396,000 as a business expense, reducing the pass-through income.
- Bob's pass-through income from the S Corporation is reduced to \$4,604,000 $(\$5,000,000 - \$396,000)$.
- Assuming a top federal rate of 37%, the value of the deduction taken at the entity level is \$146,520 $(\$396,000 \times 37\%)$.



- The net cost to Bob of the WA tax, after the PTET election, is \$249,480 (\$396,000 – \$146,520).

Part 6 – Crimes.

Section 601 – Crimes.

Knowingly trying to evade this tax or being required to collect it and knowingly inaccurately reporting it or not remitting the tax is a Class C felony. Knowingly, not paying the tax or estimated tax, not filing required returns, or not providing required information is a gross misdemeanor.

Part 7 – Administrative Provisions.

Section 701 – Methods of Accounting.

A taxpayer must use the same accounting method for this tax as they use on their federal tax return. If the taxpayer does not have a regular federal accounting method, or if their method does not clearly show income, this tax will be calculated using the cash method. If the individual changes their accounting method for federal taxes, they must make the same change for this tax as well.

Section 702 – Filing Tax Returns.

Taxpayers who owe this tax must file a Washington return by the same date their federal return is due and include a copy of their federal return and all related documents, tax must be paid by the filing deadline, even if an extension to file is granted. Late filing and late amending can trigger 5% per month penalties (up to 25%), and if the taxpayer's federal return changes, they must amend WA within 90 days.

Section 703 – Requirement for Separate or Joint Returns.

If a taxpayer and their spouse file a joint federal return, they must also file a joint WA return for this tax. If they file separate federal returns, they generally must file separate WA returns, although state-registered domestic partners may choose to file a joint state return even if they filed separately federally.

Each spouse or domestic partner is jointly and severally liable for any tax due.



For purposes of thresholds, caps, deductions, and credits, spouses and domestic partners are treated as a single taxpayer, with their assets and activities combined. If they do not file jointly, they must allocate their share of marital or partnership assets and activity on their returns as prescribed by the department. If they cannot agree on the allocation, each individual is limited to claiming one-half of the total assets and activity.

Section 704 – Administration of Chapter Consistent with Chapter 82.32 RCW.

Except as otherwise provided by law and to the extent not inconsistent with the provisions of this chapter, chapter 82.32 RCW applies to the administration of taxes imposed under this chapter.

Section 705 – Amending RCW 82.32.050 and 2025 c 409 s 12.

Adds “and section 702 of this act” to section (1)(c)(ii).

Section 706 – Amending RCW 82.32.060 and 2025 c 409 s 13.

Adds “and section 702 of this act” to section (5)(a)(iii).

Section 707 – Amending RCW 82.32.090 and 2025 c 409 s 14.

Adds subsection 11: If an individual’s total estimated tax payments under section 501 are substantially underpaid, a penalty of 5% of the underpaid amount is assessed.

“Substantially underpaid” means the individual paid less than 80% of the actual annual tax due, and the underpayment is at least \$5,000. If a pass-through entity has made an election under section 502, this rule applies to the entity’s estimated tax payments instead of the individuals.

Section 708 – Estimation Agreements.

DOR may reasonably estimate the items of business or nonbusiness income of a taxpayer having an office within the state and one or more other states or foreign countries which may be apportioned or allocated to the state and may enter into estimation agreements with such taxpayers for the determination of their liability for the tax imposed by this chapter.

Section 709– Provisions of the Internal Revenue Code Control.

This tax uses federal IRS “procedure and administration” rules (from Subtitle F of the Internal Revenue Code) as the default, if they don’t conflict with this state chapter. This includes rules for estimated/prepaid tax timing and amounts, who is liable if the tax gets



transferred (transferee liability), and how/when returns are filed (including extensions and when a return counts as filed). DOR may adjust those federal rules by regulation if needed to collect the tax quickly, efficiently, and fairly.

Section 710 – Rules.

DOR can write rules to run and enforce this tax law, and those rules should follow federal income tax rules (the IRS code and Treasury regulations/rulings) as closely as possible, unless they conflict with this state law.

Section 711 – County Public Defense Funding Stabilization Account.

Creates a state account to collect certain revenues and – once appropriated – use them only to help counties pay for public defense services. The treasurer sends counties money quarterly, split based on each county’s share of statewide personal income (updated each year by OFM using U.S. Bureau of Economic data).



Part 8 – Application of Tax to Public Pensions.

Section 801 – Amending RCW 2.10.180 and 2012 c 159 s 17.

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

Section 802 – Amending RCW 2.12.090 and 2012 c 159 s 18.

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

Section 803 – Amending RCW 6.15.020 and 2011 c 162 s 3.

Adds “or to collection actions for taxes imposed under Title 82A RCW (the new title created in section 1003 of this act)” to subsections 2, 3, and 5.

Section 804 – Amending RCW 41.24.240 and 1995 c 11 s 13.

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



Section 805 – Amending RCW 41.32.052 and 2012 c 159 s 20.

Strikes “a notice of payroll deduction” and replaces it with “an income withholding order” in subsection 3.

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

Section 806 – Amending RCW 41.34.080 and 2012 c 159 s 23.

Strikes “a notice of payroll deduction” and replaces it with “an income withholding order” in subsection 3.

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

Section 807 – Amending RCW 41.35.100 and 2012 c 159 s 24.

Strikes “a notice of payroll deduction” and replaces it with “an income withholding order” in subsection 3.

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

Section 808 – Amending RCW 41.40.052 and 2012 c 159 s 26.

Strikes “a notice of payroll deduction” and replaces it with “an income withholding order” in subsection 3.

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

Section 809 – Amending RCW 41.44.240 and 2012 c 159 s 27.

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



Section 810 – Amending RCW 41.26.053 and 2012 c 159 s 21.

Strikes “a notice of payroll deduction” and replaces it with “an income withholding order” in subsection 3.

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

Section 811 – Amending RCW 43.43.310 and 2012 c 159 s 28.

Strikes “a notice of payroll deduction” and replaces it with “an income withholding order” in subsection 3.

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

Part 9 – Tax Relief.

Section 901 – Expanding Working Families’ Tax Credit.

Let’s people who don’t meet the federal EITC age rule (the 25–64 rule for filers without a qualifying child) still qualify if they were at least 18 by the end of the prior tax year.

Section 902 – Amending 2023 c 456 s 3 (uncodified).

Adds “and section 901, chapter..., Laws of 2026 (section 901 of this act)” to subsection 1.

Section 903 – Sales tax exemption for grooming and hygiene products.

That includes things like soap/cleaners, shampoo, toothpaste, mouthwash, deodorant/antiperspirant, and sunscreen/tanning lotions – even if the item doesn’t qualify as an “over-the-counter drug.”

Section 904 – Use tax exemption for grooming and hygiene products.

Grooming and hygiene products are exempted from use taxes (out-of-state or online sales tax).



Section 905 – Small business B&O tax credit expansion.

For most taxpayers, the cap increases from \$55 to \$110 per month in the reporting period.

For taxpayers reporting at least 50% of taxable amounts under RCW 82.04.255, 82.04.290(2)(a), and 82.04.285, the cap increases from \$160 to \$320 per month.

Applies to taxes initially due and payable on or after January 1, 2029.

Section 906 – B&O “no return required” threshold increased.

Doubles the B&O “no return required” threshold from \$125,000 to \$250,000 in annual taxable gross income. That means more small businesses can be relieved from having to file B&O returns.

Section 907 – B&O Surcharge on WA Taxable Income over \$250M.

Expiration changed to 12/31/28 from 12/31/29.

Part 10 – Miscellaneous.

Section 1001 – Amending RCW 1.90.100 and 2024 c 5 s 1.

Adds “Subsection (1) of this section does not apply to the tax authorized in chapter 82A.--- RCW (the new chapter created in section 1003 of this act).”

Section 1002 – Null and Void.

If a court of final jurisdiction invalidates section 201 of this act, this act is null and void in its entirety.

Section 1003 – Codification.

Sections 101 through 704 and 708 through 711 of this act constitute a new chapter in a new title in the Revised Code of Washington, to be codified as Title 82A RCW.

Section 1004 – Conforming Amendments.

If any amendments in this act, or any sections enacted or affected by chapter . . ., Laws of 2026 (this act), are enacted in a 2026 legislative session that do not take cognizance of chapter . . ., Laws of 2026 (this act), the code reviser must prepare a bill for introduction in the 2027 or 2028 legislative session that incorporates any such amendments into the



reorganization adopted by chapter . . . , Laws of 2026 (this act) and corrects any incorrect cross-references.

Section 1005 – Section 901 of this act takes effect January 1, 2029, and refunds may not be provided under section 901 of this act for any period before January 1, 2028.

Section 1006 – Except as provided in section 902 of this act, RCW 82.32.805 and 82.32.808 do not apply to this act.

Section 1007 – The tax imposed in this act is necessary for the support of the state government and its existing public institutions.