Chapter 82A.04 RCW
INCOME TAX

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RCW 82A.04.010 Definitions. The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

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

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

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

(4) "Individual" means a natural person.

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

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

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

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

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

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

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

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

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

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

(11) "Washington base income" means federal adjusted gross income as modified under RCW 82A.04.210 through 82A.04.270 and 82A.04.410 through 82A.04.460.

(12) "Washington taxable income" means Washington base income as further modified by RCW 82A.04.310 through 82A.04.360. [2026 c 238 s 101.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.015 Undefined terms—Conformity with federal Internal Revenue Code. Any term used in this chapter has the same meaning as when used in a comparable context in the internal revenue code, unless a different meaning is clearly required or the term is specifically defined in this chapter. [2026 c 238 s 102.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.030 Tax imposed—Rates. (1) Beginning January 1, 2028, a tax is imposed on the receipt of Washington taxable income. Only individuals are subject to payment of the tax, which equals 9.90 percent multiplied by an individual's Washington taxable income.

(2) If an individual's Washington taxable income is less than zero for a taxable year, no tax is due under this section. [2026 c 238 s 201.]

Findings—Intent—2026 c 238: "(1) The legislature finds that the state, through the state's general fund, invests in K-12 education, health care, higher education, other essential governmental services, and the working families' tax credit, all of which help Washingtonians succeed and thrive.

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

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

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

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

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

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

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

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

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

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

(12) The legislature finds that local government revenue sources are limited and unable to keep up with rising costs. The legislature further finds that many of the tax reductions that help Washingtonians

have an impact on local government revenues. To offset some of those impacts, the legislature intends to create a city and county fiscal health account for future transfers from the general fund to mitigate a portion of the revenue loss to local government. Such transfers will be unrestricted and available for general use.

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

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

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

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

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

(e) Increase state funding for K-12 education in order to improve outcomes for Washington's students by strengthening high quality instruction and expanding student supports." [2026 c 238 s 1.]

Effect of invalidation of 2026 c 238 s 201—2026 c 238: "If a court of final jurisdiction invalidates section 201 of this act, sections 1 through 1003 and 1201 through 1209 of this act are null and void in its entirety." [2026 c 238 s 1202.]

Automatic expiration date and tax preference performance statement exemption—2026 c 238: "Except as provided in section 902 of this act, RCW 82.32.805 and 82.32.808 do not apply to this act." [2026 c 238 s 1206.]

Necessity of act—2026 c 238: "The tax imposed in this act is necessary for the support of the state government and its existing public institutions." [2026 c 238 s 1208.]

Intent—Implementation by department of revenue—2026 c 238: "It is the intent of the legislature for the department of revenue to spend appropriated amounts to implement this act regardless of litigation." [2026 c 238 s 1209.]

RCW 82A.04.050 Distribution of tax revenues. (1) Taxes collected under this chapter must be deposited in the state general fund to fund the sales and use tax relief in sections 903 through 908, chapter 238, Laws of 2026, the working families' tax credit program, including its expansion in section 901, chapter 238, Laws of 2026, and

the business and occupation tax relief in sections 909 through 911, chapter 238, Laws of 2026, and to make public investments in K-12 education, health care, human services, and higher education.

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

(3) All interest and penalties collected under this chapter must be deposited in the state general fund. [2026 c 238 s 202.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.110 Credit—Income taxes due to another jurisdiction. (1) A resident individual is allowed a credit against the tax imposed under this chapter for the amount of any income tax paid to another state, or political subdivision of the state, on income taxed under this chapter, subject to the following conditions, which must be imposed separately with respect to each taxing jurisdiction:

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

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

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

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

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

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

(4) For purposes of this section, "state" means a state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, a federally recognized tribe, or any territory or possession of the United States. [2026 c 238 s 203.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.120 Credit—Business and occupation and public utility taxes. (1) Beginning in tax year 2028 with taxes due in 2029, to avoid taxing the same Washington taxable income under the business and occupation tax or public utility tax and the tax imposed under this chapter, a nonrefundable credit is allowed against taxes due under this chapter on income that is also subject to the tax imposed under chapter 82.04 or 82.16 RCW. The credit is equal to the amount of tax paid under chapter 82.04 or 82.16 RCW for income included in both the calculation of the tax paid under chapter 82.04 or 82.16 RCW and the tax imposed under this chapter.

(2) The credit under this section is earned in regard to income reportable for federal income tax purposes and may be claimed against taxes due under this chapter, for the taxable year in which the income is reportable for federal income tax purposes. The credit claimed for a taxable year may not exceed the tax otherwise due under this chapter for that taxable year. Unused credit may not be carried forward or backward to another tax reporting period. No refunds may be granted for unused credit under this section. [2026 c 238 s 204.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.130 Credit—Washington capital gains taxes. (1) Beginning in tax year 2028 with taxes due in 2029, a nonrefundable credit is allowed against taxes due under this chapter for the amount of tax imposed on Washington capital gains for the same tax year. "Washington capital gains" has the same meaning as provided in RCW 82.87.020.

(2) The credit claimed under this section for a taxable year may not exceed the tax otherwise due under this chapter for that taxable year. Unused credit may not be carried forward or backward to another taxable year. No refunds may be granted for unused credit under this section. [2026 c 238 s 205.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.140 Credit—Pass-through entity tax payments. (1) Beginning in tax year 2028 for taxes due in 2029, a nonrefundable credit is allowed against taxes due under this chapter for the amount of the tax expense incurred by a pass-through entity under RCW 82A.04.520 attributable to the owner as provided in RCW 82A.04.520(3). For a resident, the credit under this section must be reduced by the amount of any credit claimed under RCW 82A.04.110 based on the same Washington taxable income.

(2) The credit claimed under this section for a taxable year may not exceed the tax otherwise due under this chapter for that taxable year. Unused credit may not be carried forward or backward to another taxable year. No refunds may be granted for unused credit under this section. [2026 c 238 s 206.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.200 Base income—Generally. In computing Washington base income for a taxable year, modifications must be made to the taxpayer's federal adjusted gross income as required under RCW 82A.04.210 through 82A.04.270 and 82A.04.410 through 82A.04.460, unless the modification has the effect of duplicating an item of income or deduction. If an item of income is excluded from federal adjusted gross income, it is excluded from the tax under this chapter unless specifically included as provided in RCW 82A.04.210 through 82A.04.310. [2026 c 238 s 301.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.210 Base income—Long-term capital gains and losses. (1) In computing a taxpayer's Washington base income, the taxpayer must deduct from the taxpayer's federal adjusted gross income any long-term capital gains that have been included in computing federal adjusted gross income.

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

(3) After making the modifications required under subsections (1) and (2) of this section, in computing a taxpayer's Washington base income, a taxpayer must add to the taxpayer's federal adjusted gross income the amount of Washington capital gains subject to tax under chapter 82.87 RCW for the same taxable year, plus the amount deducted under RCW 82.87.060(1). Under this subsection (3), a taxpayer must not include long-term capital gains or long-term capital losses, from the sales or exchanges exempt under RCW 82.87.050, in the computation of their Washington base income. This subsection (3) applies only to taxpayers owing tax under chapter 82.87 RCW for that taxable year. "Washington capital gains" has the same meaning as provided in RCW 82.87.020. [2026 c 238 s 302.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.220 Base income—State and local obligations. In computing a taxpayer's Washington base income, the taxpayer must add to the taxpayer's federal adjusted gross income any income that has been excluded under section 103 of the internal revenue code in computing federal adjusted gross income, except interest on

obligations of the state of Washington or political subdivisions of the state of Washington. [2026 c 238 s 303.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.230 Base income—State and local taxes. In computing a taxpayer's Washington base income, the taxpayer must add to the taxpayer's federal adjusted gross income:

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

(2) The amount of taxes paid or accrued which have been deducted for federal purposes, but for which either a business and occupation tax credit or public utility tax credit, or both, is allowed. [2026 c 238 s 304.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.240 Base income—Carryovers. In computing a taxpayer's Washington base income, the taxpayer must:

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

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

(b) Deduct 80 percent of the amount of net operating loss carryover that has been deducted in computing federal adjusted gross income, to the extent that the loss carryover meets all of the following criteria:

(i) The loss carryover is from losses apportioned to Washington under RCW 82A.04.410 through 82A.04.460;

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

(iii) The loss carryover is from a previous tax year so long as that previous tax year is after January 1, 2028. [2026 c 238 s 305.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.250 Base income—Federal obligations. In computing a taxpayer's Washington base income, the taxpayer must deduct, to the extent included, from the taxpayer's federal adjusted gross income,

any income derived from obligations of the United States that this state is prohibited by federal law from subjecting to a net income tax. However, the amount deducted under this section must be reduced by any expense, including amortizable bond premiums, incurred in the production of such income to the extent the expense has been deducted in calculating federal adjusted gross income. [2026 c 238 s 306.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.260 Base income—Incomplete nongrantor trusts. In computing a resident taxpayer's Washington base income, the taxpayer must add to the taxpayer's federal adjusted gross income, all income from a trust treated as a nongrantor trust for federal income tax purposes but funded with an incomplete gift for purposes of section 2511 of the internal revenue code and its accompanying regulations, to the extent the trust income is not otherwise included in the calculation of Washington base income. [2026 c 238 s 307.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.270 Base income—Tribal income. (1) The following is exempt from the tax imposed by this chapter:

(a) Income derived from the exercise of rights by any member of a federally recognized tribe secured by treaty, executive order, or act of congress;

(b) Income received by any member of a federally recognized tribe, when the individual worked or received income within their own tribe's Indian country;

(c) Income received by any member of a federally recognized tribe that is derived directly from lands or funds held in trust by the secretary of the United States department of interior allotted and restricted Indian lands;

(d) Income derived from a federally recognized tribe, including its subdivisions and entities, when such income is received by a member of a federally recognized tribe or by a beneficiary of an Indian health program pursuant to 42 C.F.R. Sec. 136.12 (2026); and

(e) Any income, payments, benefits, or services, the taxation of which is otherwise exempted or preempted by federal or state law including, but not limited to, sections 139D and 139E of the internal revenue code.

(2) This chapter is not intended to apply to, or impose obligations on, federally recognized tribes or their subdivisions or entities with tribal government headquarters located in the state of Washington. [2026 c 238 s 308.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement

exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.310 Taxable income—Charitable contributions. (1) In computing a taxpayer's Washington taxable income, the taxpayer may deduct from their Washington base income the amount of charitable contributions they claimed for the taxable year under section 170 of the internal revenue code to a qualified organization, up to a maximum deduction of $100,000 per individual, or in the case of spouses or domestic partners, their combined charitable deduction is limited to $100,000, regardless of whether they file joint or separate returns.

(2) For the purposes of this section, "qualified organization" has the same meaning as in RCW 82.87.080. [2026 c 238 s 309.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.320 Taxable income—Pass-through entity tax payments. In computing a taxpayer's Washington taxable income, the taxpayer must add to the taxpayer's Washington base income the taxpayer's distributive share of the tax expense incurred by a pass-through entity under RCW 82A.04.520 to the extent the expense has been deducted in calculating the taxpayer's federal adjusted gross income. [2026 c 238 s 310.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.330 Taxable income—Capital construction fund for vessel improvements or acquisition. In computing a taxpayer's Washington taxable income, the taxpayer may deduct from the taxpayer's Washington base income the amount deposited in a capital construction fund under section 7518 of the internal revenue code if the amount has reduced the taxpayer's federal taxable income for the taxable year. [2026 c 238 s 311.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.340 Taxable income—Wagering losses. In computing a taxpayer's Washington taxable income, the taxpayer must deduct an amount equal to 90 percent of any Washington allocated wagering losses for the tax year. The amount of the losses deducted cannot be more than the Washington allocated wagering income included in the taxpayer's Washington base income. Wagering losses may not be carried

forward or backward. The wagering loss deduction must be adjusted for nonresidents as provided in RCW 82A.04.410. [2026 c 238 s 312.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.350 Taxable income—Commercial cannabis activities. In computing a taxpayer's Washington taxable income, the taxpayer may deduct from the taxpayer's Washington base income the amount of expenditures disallowed pursuant to section 280E of the internal revenue code so long as the expenditures are related to the commercial cannabis activities by a person licensed pursuant to RCW 69.50.325. [2026 c 238 s 313.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.360 Taxable income—Standard deduction. In computing a taxpayer's Washington taxable income, a taxpayer may deduct from the taxpayer's Washington base income a standard deduction of $1,000,000 per individual, or in the case of spouses or state registered domestic partners, their combined standard deduction is $1,000,000, regardless of whether they file joint or separate returns. The amount of the standard deduction must be annually adjusted pursuant to RCW 82A.04.367. The standard deduction must be adjusted for nonresidents as provided in RCW 82A.04.363. [2026 c 238 s 314.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.363 Taxable income—Standard deduction—Adjustment for nonresidents. The deduction from Washington base income allowed under RCW 82A.04.360 for individual taxpayers who are not residents of this state for the entire taxable year must be reduced by multiplying the amount of the deduction by a fraction. The numerator of the fraction is the individual's Washington base income. The denominator of the fraction is the individual's federal adjusted gross income from all sources. The fraction may never be greater than one. [2026 c 238 s 315.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.367 Taxable income—Standard deduction—Index for inflation. (1) Beginning October 2029 and each October of an odd-numbered year thereafter, the department must adjust the standard deduction under RCW 82A.04.360 by multiplying the current standard deduction amount by one plus the percentage by which the most current consumer price index available on October 1st of the current year exceeds the consumer price index for the prior 12-month period, and rounding the result to the nearest $1,000. If an adjustment under this subsection (1) would reduce the standard deduction amount, the department must not adjust the amounts for use in the following year. The department must publish the adjusted standard deduction amount on its public website by October 31st of each year. The adjusted standard deduction amount calculated under this subsection (1) takes effect for taxes due in the following calendar year.

(2) For purposes of this section, "consumer price index" means the consumer price index for all urban wage earners and clerical workers as calculated by the United States bureau of labor statistics or its successor agency. [2026 c 238 s 316.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.410 Allocation and apportionment—Generally. (1) For resident individuals, all income must be allocated to this state.

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

(a) Wages and other compensation from employment within this state as provided in RCW 82A.04.430;

(b) Compensation attributable to professional athletics as provided in RCW 82A.04.435;

(c) Income of a nonresident student athlete derived from the commercial use of the student athlete's name, image, or likeness as provided in RCW 82A.04.460;

(d) Amounts attributable to any business, trade, profession, or occupation carried on within this state, including an individual's distributive share of income from a pass-through entity operating within this state as provided in RCW 82A.04.420, to the extent determined under RCW 82A.04.440;

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

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

(g) Income received from wagering transactions.

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

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

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

(6) Income earned by a nonresident participating as a keynote speaker, panelist, presenter, moderator, or similar role at a convention trade show or business event held in this state may be excluded if the individual meets the requirements of RCW 82.32.531. [2026 c 238 s 401.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.420 Allocation and apportionment—Pass-through entities—Pro rata share. (1) Income derived from sources within this state include an apportioned share of the individual's distributive share of income, gains, losses, and deductions from pass-through entities that operate in the state, as provided in subsection (2) of this section.

(2) The allowable modifications and credits under this chapter for partners, members, or shareholders of a pass-through entity are computed by including a pro rata share of the Washington base income and the credits allowed under RCW 82A.04.110 through 82A.04.130, if the modification or credit relates to the income of the pass-through entity. Each member's, partner's, or shareholder's pro rata share of a modification or credit is the amount of modification or credit based on the pro rata share of net income or loss on a member's, partner's, or shareholder's federal schedule K-1 form.

(3) For purposes of this section, "pro rata share" means pro rata share as reflected on the member's, partner's, or shareholder's federal schedule K-1 form. [2026 c 238 s 402.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.430 Allocation and apportionment—Nonresident compensation. (1) Unless provided otherwise in this chapter, a nonresident individual is subject to tax on the portion of federal adjusted gross income derived from employment within the state of Washington, regardless of the location of the commercial domicile of the employer.

(2) Compensation for services performed by a nonresident as part of their employment must be allocated to this state to the extent such services are rendered within the state. If services are performed both within and outside the state, the compensation must be apportioned

based on the ratio of days worked in the state to total days worked, or by another reasonable method approved by the department.

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

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

(b) "Employment" means personal service, of whatever nature, as known to the common law or any other legal relationship performed for an employer by an individual for compensation or under any contract calling for the performance of personal services, written or oral, express or implied, where the employer is subject to tax under RCW 50.24.010 on any portion of compensation paid by the employer to the individual for the performance of the personal services. [2026 c 238 s 403.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.435 Allocation and apportionment—Nonresident compensation—Members of professional athletic team. (1) For nonresident members of a professional athletic team, the portion of compensation attributable to athletic performances in the state must be apportioned to Washington as provided under this section.

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

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

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

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

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

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

(A) A taxpayer identification number;

(B) Compensation paid to the member; and

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

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

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

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

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

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

(c) "Member of a professional athletic team" means a nonresident athlete or other individual rendering service to a professional athletic team if the total compensation of the athlete or other individual exceeds $1,000,000 in a tax year. [2026 c 238 s 404.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.440 Allocation and apportionment—Nonresident business activity. (1) The portion of federal adjusted gross income of a nonresident derived from or connected with a business, trade, or profession carried on in this state, including a sole proprietorship and any distributive share of a pass-through entity of a business, trade, or profession carried on in this state, must be apportioned and allocated as provided in this section. This section does not apply to compensation received as an employee allocated under RCW 82A.04.430.

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

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

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

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

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

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

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

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

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

(D) In the case of intangible property:

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

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

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

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

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

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

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

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

(i) Separate accounting;

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

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

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

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

(c)(i) The party petitioning for, or the department requiring, the use of any method to effectuate an equitable allocation and

apportionment of the taxpayer's income pursuant to (a) of this subsection (4) must prove by clear and convincing evidence:

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

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

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

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

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

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

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

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

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

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

(b) Short-term capital gains and losses from sales of tangible personal property are allocable to this state if: (i) The property had a situs in this state at the time of the sale; or (ii) the taxpayer's

commercial domicile is in this state and the taxpayer is not taxable in the state in which the property had a situs.

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

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

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

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

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

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

(a) "Apportionable income" means:

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

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

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

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

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

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

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

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

(f) "Taxpayer" means a pass-through entity or individual conducting business activity in the state of Washington. [2026 c 238 s 405.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.450 Allocation and apportionment—Part-year income. (1) Except as provided in subsection (2) of this section, the adjusted gross income of a part-year resident is the sum of the following:

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

(b) For the portion of the year in which the taxpayer was a nonresident, the taxpayer's adjusted gross income derived from sources within this state, as provided in RCW 82A.04.430 through 82A.04.440 and 82A.04.460.

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

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

(b) The total amount of the item that is taken into account in federal adjusted gross income and that is derived from or connected with sources within this state, as determined under RCW 82A.04.430 through 82A.04.440 and 82A.04.460, multiplied by the ratio of the number of days the taxpayer was a nonresident of Washington during the tax year of the entity over the total number of days in the tax year of the entity. [2026 c 238 s 406.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.460 Allocation and apportionment—Nonresident student athlete income. (1) The portion of adjusted gross income of a nonresident student athlete derived from the commercial use of the student athlete's name, image, or likeness is allocated to this state if the publicity services provided by the student athlete related to such commercial use of the student athlete's name, image, or likeness primarily occur in Washington.

(2) The portion of adjusted gross income of a nonresident student athlete derived from payments by an institution of higher education representing a percentage of institutional athletic revenues shall be apportioned to Washington in a form and manner consistent with a duty-day methodology. By January 1, 2028, the department shall submit

proposed legislation to the legislature that would implement an apportionment methodology as specified under this subsection (2).

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

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

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

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

(d) "Student athlete" means an individual who is enrolled at an institution of higher education and eligible to engage in any varsity intercollegiate athletics program at the institution. [2026 c 238 s 407.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.510 Estimated tax payments. (1) Each individual with an estimated tax under this chapter in excess of $5,000 that is required by the internal revenue code to make payment of estimated taxes must pay to the department on forms prescribed by the department the estimated taxes due under this chapter.

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

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

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

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

(6) Estimated payments are not required under this section before July 1, 2029. [2026 c 238 s 501.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.520 Pass-through entity tax election. (1)(a) Beginning January 1, 2028, a tax is imposed at a rate of 9.90 percent of the taxable income of an electing entity for each taxable year in which an election under this section is in effect.

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

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

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

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

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

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

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

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

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

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

(4)(a) An electing entity shall make estimated tax payments in the same manner and at the same times as required for individual estimated tax payments under RCW 82A.04.510.

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

(c) Estimated tax payments paid by the electing entity under this section are in lieu of the estimated tax payments imposed on owners under RCW 82A.04.510 with respect to the income included in the electing entity's taxable income.

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

(5)(a) Each participating owner of an electing entity is allowed a credit against the tax imposed under this section equal to the owner's proportionate share of the tax paid by the electing entity under this chapter as provided in RCW 82A.04.140.

(b) Participating resident owners shall include in their Washington base income their full distributive share of the electing entity's income, gains, losses, and deductions and shall claim the credit allowed under RCW 82A.04.140.

(c) Participating nonresident owners shall include in their Washington base income their distributive share of the electing entity's income, gains, losses, and deductions as allocated and apportioned under RCW 82A.04.440 and shall claim the credit allowed under RCW 82A.04.140.

(d) Participating part-year resident owners shall include in their Washington base income their distributive share of the electing

entity's income, gains, losses, and deductions, and claim the credit allowed under RCW 82A.04.140, in the manner required under (a) and (b) of this subsection for the portion of the year in which the participating owner was a resident and nonresident, respectively.

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

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

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

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

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

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

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

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

(f) "State source income" means income, gain, or loss derived from sources within this state, determined under the allocation and apportionment provisions of RCW 82A.04.440. [2026 c 238 s 502.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.530 Method of accounting. (1) A taxpayer's method of accounting for purposes of the tax imposed under this chapter is the same as the taxpayer's method of accounting for federal income tax purposes. If no method of accounting has been regularly used by a taxpayer for federal income tax purposes or if the method used does not clearly reflect income, tax due under this chapter is computed by the cash method of accounting.

(2) If a person's method of accounting is changed for federal income tax purposes, it must be similarly changed for purposes of this chapter. [2026 c 238 s 701.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.540 Estimation agreements. The department 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. [2026 c 238 s 708.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.550 Tax returns—Filing. (1)(a) Except as otherwise provided in this section or RCW 82.32.080, taxpayers owing tax under this chapter must file, on forms prescribed by the department, a return with the department on or before the date the taxpayer's federal income tax return for the taxable year is required to be filed. Individuals not owing tax under this chapter are not required to file a return under this section.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(9) If the federal government extends the due date for filing a tax return, paying tax, or both, by reason of natural disaster or other occurrence, the corresponding deadlines under this section shall be adjusted in the same manner. [2026 c 238 s 702.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.560 Tax returns—Separate and joint returns. (1) If the federal income tax liabilities of both spouses are determined on a joint federal return for the taxable year, they must file a joint return under this chapter.

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

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

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

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

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

(b) When an individual does not file a joint return for the tax imposed under this chapter, both spouses or state registered domestic partners must allocate between themselves their respective share of the marital community's or domestic partnership's income, gains, losses, deductions, and credits in a manner consistent with the community property laws of this state and the applicable provisions of the internal revenue code, and its accompanying regulations, addressing taxpayers domiciled in community property jurisdictions. [2026 c 238 s 703.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.600 Crimes—Tax evasion—Failure to pay, file. (1) Any person who knowingly attempts to evade the tax imposed under this chapter or payment thereof is guilty of a class C felony as provided in chapter 9A.20 RCW.

(2) Any person who knowingly fails to pay tax, make returns, or supply information, as required under this chapter, is guilty of a gross misdemeanor as provided in chapter 9A.20 RCW. [2026 c 238 s 601.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.610 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. [2026 c 238 s 704.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.620 Application of federal Internal Revenue Code. (1) To the extent possible without being inconsistent with this chapter, all of the provisions of subtitle F (procedure and administration) of the internal revenue code relating to the following subjects apply to the taxes imposed under this chapter:

(a) Timing and amount of tax prepayments under RCW 82A.04.510;

(b) Liability of transferees; and

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

(2) The department by rule may provide modifications and exceptions to the provisions listed in subsection (1) of this section, if reasonably necessary to facilitate the prompt, efficient, and equitable collection of tax under this chapter. [2026 c 238 s 709.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.650 Rule making. (1) The department may adopt rules under chapter 34.05 RCW for the administration and enforcement of this chapter. The rules, to the extent possible without being inconsistent with this chapter, must follow the internal revenue code and the regulations and rulings of the United States treasury department with respect to the federal income tax. The department may adopt as a part of these rules any portions of the internal revenue code and United States treasury department regulations and rulings, in whole or in part.

(2) The department may adopt any rules under chapter 34.05 RCW it considers necessary for the administration of RCW 74.20A.273. [2026 c 238 s 710.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.660 Annual reports—2026 c 238. Beginning on January 1, 2028, the department of revenue must report to the legislature annually on the total cost of administration of chapter 238, Laws of 2026, the number of full time employees required to administer chapter 238, Laws of 2026, and the ratio of cost of implementation compared to revenue raised from the tax imposed in chapter 238, Laws of 2026. [2026 c 238 s 1210.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.

RCW 82A.04.800 Advisory group. (1) For the purposes of implementing sections 101 through 814, chapter 238, Laws of 2026, the department of revenue is required to regularly consult with the advisory group created in this section.

(2) The advisory group members must include:

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

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

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

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

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

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

(i) Two certified public accountants;

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

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

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

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

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

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

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

(5) After July 1, 2026, the advisory group must meet regularly to be consulted on the implementation of chapter 238, Laws of 2026 and to make recommendations regarding the implementation and administration of chapter 238, Laws of 2026, including:

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

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

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

(d) The administration and implementation of the opt-in safe harbor provision;

(e) The implementation and administration of extending sales tax to services; and

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

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

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

(b) A final report of recommendations related to the administration of the tax by December 15, 2027, to the fiscal committees of the house of representatives and the senate that are responsible for the state's tax policy. [2026 c 238 s 712.]

Findings—Intent—Effect of invalidation of 2026 c 238 s 201—Automatic expiration date and tax preference performance statement exemption—Necessity of act—Intent—Implementation by department of revenue—2026 c 238: See notes following RCW 82A.04.030.