
BILL REQUEST - CODE REVISER'S OFFICE

BILL REQ. #: H-1966.3/25 3rd draft

ATTY/TYPIST: CL:eab

BRIEF DESCRIPTION: Investing in Washington families by restructuring the business and occupation tax on high grossing businesses and financial institutions.

1 AN ACT Relating to investing in Washington families by
2 restructuring the business and occupation tax on high grossing
3 businesses and financial institutions; amending RCW 82.04.29004;
4 adding a new section to chapter 82.04 RCW; creating new sections;
5 providing effective dates; and declaring an emergency.

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

7 NEW SECTION. **Sec. 1.** The legislature finds that funding
8 education, public safety, health care, and basic human needs helps
9 Washington succeed and thrive. The state's paramount duty is to
10 provide every child with an education, thereby creating the
11 opportunity for each child to succeed in school and achieve success
12 in life. To promote and improve public safety, the state funds the
13 basic law enforcement academy to train and certify every peace
14 officer in the state. The state invests in health care programs that
15 deliver critical, life-saving services, and protect the well-being of
16 the public. The state also supports vital basic needs assistance to
17 the state's lowest-income households, educates the youngest learners,
18 and strengthens food security for seniors.

19 Therefore, the legislature intends to levy an incremental
20 surcharge on the gross revenue of the state's highest earning
21 businesses and amend the surcharge on the gross revenue of large

1 financial institutions to meet the state's obligation to provide
2 adequate funding for K-12 education, public safety, health care, and
3 other human service investments. The legislature finds the levying of
4 this tax is necessary for the immediate preservation of the public
5 peace, health, or safety, or support of the state government and
6 its existing public institutions.

7 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.04
8 RCW to read as follows:

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

12 (2) The rate of the tax is one percent of the amount of
13 Washington taxable income over \$250,000,000.

14 (3)(a) Any Washington taxable income subject to the tax in RCW
15 82.04.29004 is exempt from the surcharge imposed in this section.

16 (b)(i) Any Washington taxable income subject to the manufacturing
17 tax rates in RCW 82.04.240, 82.04.2404, 82.04.241, 82.04.260,
18 82.04.2602, 82.04.287, 82.04.2909, or 82.04.294(1) is exempt from the
19 surcharge imposed in this section.

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

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

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

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

32 **Sec. 3.** RCW 82.04.29004 and 2019 c 420 s 2 are each amended to
33 read as follows:

34 (1) (~~Beginning~~) (a) From January 1, 2020, through June 30,
35 2025, in addition to any other taxes imposed under this chapter, an
36 additional tax is imposed on specified financial institutions. The
37 additional tax is equal to the gross income of the business taxable
38 under RCW 82.04.290(2) multiplied by the rate of 1.2 percent.

1 **(b) Beginning July 1, 2025, in addition to any other taxes**
2 **imposed under this chapter, an additional tax is imposed on specified**
3 **financial institutions. The additional tax is equal to the gross**
4 **income of the business taxable under RCW 82.04.290(2) multiplied by**
5 **the rate of 1.9 percent.**

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

8 (a) "Affiliated" means a person that directly or indirectly,
9 through one or more intermediaries, controls, is controlled by, or is
10 under common control with another person. For purposes of this
11 subsection (2)(a), "control" means the possession, directly or
12 indirectly, of more than ~~((fifty))~~ 50 percent of the power to direct
13 or cause the direction of the management and policies of a person,
14 whether through the ownership of voting shares, by contract, or
15 otherwise.

16 (b) "Consolidated financial institution group" means all
17 financial institutions that are affiliated with each other.

18 (c) "Consolidated financial statement" means a consolidated
19 financial institution group's consolidated reports of condition and
20 income filed with the federal financial institutions examination
21 council, or successor agency.

22 (d) "Financial institution" means:

23 (i) Any corporation or other business entity chartered under
24 Titles 30A, 30B, 31, 32, and 33 RCW, or registered under the federal
25 bank holding company act of 1956, as amended, or registered as a
26 savings and loan holding company under the federal national housing
27 act, as amended;

28 (ii) A national bank organized and existing as a national bank
29 association pursuant to the provisions of the national bank act, 12
30 U.S.C. Sec. 21 et seq.;

31 (iii) A savings association or federal savings bank as defined in
32 the federal deposit insurance act, 12 U.S.C. Sec. 1813(b)(1);

33 (iv) Any bank or thrift institution incorporated or organized
34 under the laws of any state;

35 (v) Any corporation organized under the provisions of 12 U.S.C.
36 Sec. 611 through 631;

37 (vi) Any agency or branch of a foreign depository as defined in
38 12 U.S.C. Sec. 3101 that is not exempt under RCW 82.04.315;

(vii) A production credit association organized under the federal farm credit act of 1933, all of whose stock held by the federal production credit corporation has been retired;

(viii) Any corporation or other business entity who receives gross income taxable under RCW 82.04.290, and whose voting interests are more than ~~((fifty))~~ 50 percent owned, directly or indirectly, by any person or business entity described in (d)(i) through (vii) of this subsection other than an insurance company liable for the insurance premiums tax under RCW 48.14.020 or any other company taxable under chapter 48.14 RCW;

(ix)(A) A corporation or other business entity that receives more than ~~((fifty))~~ 50 percent of its total gross income for federal income tax purposes from finance leases. For purposes of this subsection, a "finance lease" means a lease that meets two requirements:

(I) It is the type of lease permitted to be made by national banks (see 12 U.S.C. Sec. 24(7) and (10), comptroller of the currency regulations, part 23, leasing (added by 56 C.F.R. Sec. 28314, June 20, 1991, effective July 22, 1991), and regulation Y of the federal reserve system 12 C.F.R. Part 225.25, as amended); and

(II) It is the economic equivalent of an extension of credit, i.e., the lease is treated by the lessor as a loan for federal income tax purposes. In no event does a lease qualify as an extension of credit where the lessor takes depreciation on such property for federal income tax purposes.

(B) For this classification to apply, the average of the gross income in the current tax year and immediately preceding two tax years must satisfy the more than ~~((fifty))~~ 50 percent requirement;

(x) Any other person or business entity, other than an insurance general agent taxable under RCW 82.04.280(1)(e), an insurance business exempt from the business and occupation tax under RCW 82.04.320, a real estate broker taxable under RCW 82.04.255, a securities dealer or international investment management company taxable under RCW 82.04.290(2), that receives more than ~~((fifty))~~ 50 percent of its gross receipts from activities that a person described in (d)(ii) through (vii) and (ix) of this subsection is authorized to transact.

(e)(i) "Specified financial institution" means a financial institution that is a member of a consolidated financial institution group that reported on its consolidated financial statement for the

1 previous calendar year annual net income of at least (~~one billion~~
2 ~~dollars~~) \$1,000,000,000, not including net income attributable to
3 noncontrolling interests, as the terms "net income" and
4 "noncontrolling interest" are used in the consolidated financial
5 statement.

6 (ii) If financial institutions are no longer required to file
7 consolidated financial statements, "specified financial institution"
8 means any person that was subject to the additional tax in this
9 section in at least two of the previous four calendar years.

10 (3) The department must notify the fiscal committees of the
11 legislature if financial institutions are no longer required to file
12 consolidated financial statements.

13 (4) To aid in the effective administration of the additional tax
14 imposed in this section, the department may require a person believed
15 to be a specified financial institution to disclose whether it is a
16 member of a consolidated financial institution group and, if so, to
17 identify all other members of its consolidated financial institution
18 group. A person failing to comply with this subsection is deemed to
19 have intended to evade tax payable under this section and is subject
20 to the penalty in RCW 82.32.090(7) on any tax due under this section
21 by the person and any financial institution affiliated with the
22 person.

23 (5) Taxes collected under this section must be deposited into the
24 general fund.

25 NEW SECTION. **Sec. 4.** RCW 82.32.805 and 82.32.808 do not apply
26 to this act.

27 NEW SECTION. **Sec. 5.** Section 2 of this act takes effect January
28 1, 2026.

29 NEW SECTION. **Sec. 6.** Except for section 2 of this act, this act
30 is necessary for the immediate preservation of the public peace,
31 health, or safety, or support of the state government and its
32 existing public institutions, and takes effect July 1, 2025.

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