
ENGROSSED SUBSTITUTE HOUSE BILL 2081

State of Washington

69th Legislature

2025 Regular Session

By House Finance (originally sponsored by Representatives Fitzgibbon, Peterson, Pollet, Parshley, Scott, Reed, Berry, and Macri)

1 AN ACT Relating to funding public schools, including higher
2 education, health care, social services, and other programs and
3 services to benefit Washingtonians by modifying business and
4 occupation tax surcharges, rates, and the advanced computing
5 surcharge cap, clarifying the business and occupation tax deduction
6 for certain investments, and creating a temporary business and
7 occupation tax surcharge on large companies with annual revenues with
8 more than \$250,000,000; amending RCW 82.04.230, 82.04.240, 82.04.250,
9 82.04.257, 82.04.263, 82.04.270, 82.04.280, 82.04.285, 82.04.290,
10 82.04.2905, 82.04.2906, 82.04.260, 82.04.29004, and 82.04.4281;
11 reenacting and amending RCW 82.04.260 and 82.04.299; adding a new
12 section to chapter 82.32 RCW; adding a new section to chapter 82.04
13 RCW; creating new sections; providing effective dates; and providing
14 expiration dates.

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

16 **PART I**

17 **BUSINESS AND OCCUPATION RATE CHANGES**

18 **Sec. 101.** RCW 82.04.230 and 2006 c 300 s 5 are each amended to
19 read as follows:

1 Upon every person engaging within this state in business as an
2 extractor, except persons taxable as an extractor under any other
3 provision in this chapter; as to such persons the amount of the tax
4 with respect to such business shall be equal to the value of the
5 products, including by-products, extracted for sale or for commercial
6 or industrial use, multiplied by the rate of (~~(0.484)~~) 0.5 percent.

7 The measure of the tax is the value of the products, including
8 by-products, so extracted, regardless of the place of sale or the
9 fact that deliveries may be made to points outside the state.

10 **Sec. 102.** RCW 82.04.240 and 2004 c 24 s 4 are each amended to
11 read as follows:

12 Upon every person engaging within this state in business as a
13 manufacturer, except persons taxable as manufacturers under other
14 provisions of this chapter; as to such persons the amount of the tax
15 with respect to such business shall be equal to the value of the
16 products, including by-products, manufactured, multiplied by the rate
17 of (~~(0.484)~~) 0.5 percent.

18 The measure of the tax is the value of the products, including
19 by-products, so manufactured regardless of the place of sale or the
20 fact that deliveries may be made to points outside the state.

21 **Sec. 103.** RCW 82.04.250 and 2014 c 97 s 402 are each amended to
22 read as follows:

23 (1) Upon every person engaging within this state in the business
24 of making sales at retail, except persons taxable as retailers under
25 other provisions of this chapter, as to such persons, the amount of
26 tax with respect to such business is equal to the gross proceeds of
27 sales of the business, multiplied by the rate of (~~(0.471)~~) 0.5
28 percent.

29 (2) Upon every person engaging within this state in the business
30 of making sales at retail that are exempt from the tax imposed under
31 chapter 82.08 RCW by reason of RCW 82.08.0261, 82.08.0262, or
32 82.08.0263, except persons taxable under RCW 82.04.260(11) or
33 subsection (3) of this section, as to such persons, the amount of tax
34 with respect to such business is equal to the gross proceeds of sales
35 of the business, multiplied by the rate of (~~(0.484)~~) 0.5 percent.

36 (3)(a) Until July 1, 2040, upon every person classified by the
37 federal aviation administration as a federal aviation regulation part
38 145 certificated repair station and that is engaging within this

1 state in the business of making sales at retail that are exempt from
2 the tax imposed under chapter 82.08 RCW by reason of RCW 82.08.0261,
3 82.08.0262, or 82.08.0263, as to such persons, the amount of tax with
4 respect to such business is equal to the gross proceeds of sales of
5 the business, multiplied by the rate of .2904 percent.

6 (b) A person reporting under the tax rate provided in this
7 subsection (3) must file a complete annual report with the department
8 under RCW 82.32.534.

9 **Sec. 104.** RCW 82.04.257 and 2017 c 323 s 515 are each amended to
10 read as follows:

11 (1) Except as provided in subsection (2) of this section, upon
12 every person engaging within this state in the business of making
13 sales at retail or wholesale of digital goods, digital codes, digital
14 automated services, or services described in RCW 82.04.050 (2)(g) or
15 (6)(c), as to such persons, the amount of tax with respect to such
16 business is equal to the gross proceeds of sales of the business,
17 multiplied by the rate of (~~(0.471)~~) 0.5 percent in the case of retail
18 sales and by the rate of (~~(0.484)~~) 0.5 percent in the case of
19 wholesale sales.

20 (2) Persons providing subscription television services or
21 subscription radio services are subject to tax under RCW 82.04.290(2)
22 on the gross income of the business received from providing such
23 services.

24 (3) For purposes of this section, a person is considered to be
25 engaging within this state in the business of making sales of digital
26 goods, digital codes, digital automated services, or services
27 described in RCW 82.04.050 (2)(g) or (6)(c), if the person makes
28 sales of digital goods, digital codes, digital automated services, or
29 services described in RCW 82.04.050 (2)(g) or (6)(c) and the sales
30 are sourced to this state under RCW 82.32.730 for sales tax purposes
31 or would have been sourced to this state under RCW 82.32.730 if the
32 sale had been taxable under chapter 82.08 RCW.

33 (4) A person subject to tax under this section is subject to the
34 mandatory electronic filing and payment requirements in RCW
35 82.32.080.

36 **Sec. 105.** RCW 82.04.263 and 2009 c 469 s 202 are each amended to
37 read as follows:

1 (1) Upon every person engaging within this state in the business
2 of cleaning up for the United States, or its instrumentalities,
3 radioactive waste and other by-products of weapons production and
4 nuclear research and development; as to such persons the amount of
5 the tax with respect to such business shall be equal to the gross
6 income of the business multiplied by the rate of (~~(0.471)~~) 0.5
7 percent.

8 (2) For the purposes of this chapter, "cleaning up radioactive
9 waste and other by-products of weapons production and nuclear
10 research and development" means:

11 (a) The activities of handling, storing, treating, immobilizing,
12 stabilizing, or disposing of radioactive waste, radioactive tank
13 waste and capsules, nonradioactive hazardous solid and liquid wastes,
14 or spent nuclear fuel;

15 (b) Spent nuclear fuel conditioning;

16 (c) Removal of contamination in soils and groundwater;

17 (d) Decontamination and decommissioning of facilities; and

18 (e) Services supporting the performance of cleanup. For the
19 purposes of this subsection (2)(e), a service supports the
20 performance of cleanup if it:

21 (i) Is within the scope of work under a clean-up contract with
22 the United States department of energy; or

23 (ii) Assists in the accomplishment of a requirement of a clean-up
24 project undertaken by the United States department of energy under a
25 subcontract entered into with the prime contractor or another
26 subcontractor in furtherance of a clean-up contract between the
27 United States department of energy and a prime contractor.

28 (3) A service does not assist in the accomplishment of a
29 requirement of a clean-up project undertaken by the United States
30 department of energy if the same services are routinely provided to
31 businesses not engaged in clean-up activities, except that the
32 following services are always deemed to contribute to the
33 accomplishment of a requirement of a clean-up project undertaken by
34 the United States department of energy:

35 (a) Information technology and computer support services;

36 (b) Services rendered in respect to infrastructure; and

37 (c) Security, safety, and health services.

38 (4) The legislature intends that the examples provided in this
39 subsection be used as a guideline when determining whether a service

1 is "routinely provided to businesses not engaged in clean-up
2 activities" as that phrase is used in subsection (3) of this section.

3 (a) The radioactive waste clean-up classification does not apply
4 to general accounting services but does apply to performance audits
5 performed for persons cleaning up radioactive waste.

6 (b) The radioactive waste clean-up classification does not apply
7 to general legal services but does apply to those legal services that
8 assist in the accomplishment of a requirement of a clean-up project
9 undertaken by the United States department of energy. Thus, legal
10 services provided to contest any local, state, or federal tax
11 liability or to defend a company against a workers' compensation
12 claim arising from a worksite injury do not qualify for the
13 radioactive waste clean-up classification. But, legal services
14 related to the resolution of a contractual dispute between the
15 parties to a clean-up contract between the United States department
16 of energy and a prime contractor do qualify.

17 (c) General office janitorial services do not qualify for the
18 radioactive waste clean-up classification, but the specialized
19 cleaning of equipment exposed to radioactive waste does qualify.

20 **Sec. 106.** RCW 82.04.270 and 2004 c 24 s 5 are each amended to
21 read as follows:

22 Upon every person engaging within this state in the business of
23 making sales at wholesale, except persons taxable as wholesalers
24 under other provisions of this chapter; as to such persons the amount
25 of tax with respect to such business shall be equal to the gross
26 proceeds of sales of such business multiplied by the rate of
27 (~~(0.484)~~) 0.5 percent.

28 **Sec. 107.** RCW 82.04.280 and 2019 c 449 s 1 are each amended to
29 read as follows:

30 (1) Upon every person engaging within this state in the business
31 of: (a) Printing materials other than newspapers, and of publishing
32 periodicals or magazines; (b) building, repairing or improving any
33 street, place, road, highway, easement, right-of-way, mass public
34 transportation terminal or parking facility, bridge, tunnel, or
35 trestle which is owned by a municipal corporation or political
36 subdivision of the state or by the United States and which is used or
37 to be used, primarily for foot or vehicular traffic including mass
38 transportation vehicles of any kind and including any readjustment,

1 reconstruction or relocation of the facilities of any public, private
2 or cooperatively owned utility or railroad in the course of such
3 building, repairing or improving, the cost of which readjustment,
4 reconstruction, or relocation, is the responsibility of the public
5 authority whose street, place, road, highway, easement, right-of-way,
6 mass public transportation terminal or parking facility, bridge,
7 tunnel, or trestle is being built, repaired or improved; (c)
8 extracting for hire or processing for hire, except persons taxable as
9 extractors for hire or processors for hire under another section of
10 this chapter; (d) operating a cold storage warehouse or storage
11 warehouse, but not including the rental of cold storage lockers; (e)
12 representing and performing services for fire or casualty insurance
13 companies as an independent resident managing general agent licensed
14 under the provisions of chapter 48.17 RCW; (f) radio and television
15 broadcasting, but excluding revenues from network, national, and
16 regional advertising computed either: (i) As a standard deduction
17 that the department must publish by rule by September 30, 2020, and
18 by September 30th of every fifth year thereafter, based on the
19 national average thereof as reported by the United States census
20 bureau's economic census; or (ii) in lieu thereof by itemization by
21 the individual broadcasting station, and excluding that portion of
22 revenue represented by the out-of-state audience computed as a ratio
23 to the broadcasting station's total audience as measured by the .5
24 millivolt/meter signal strength contour for AM radio, the one
25 millivolt/meter or sixty dBu signal strength contour for FM radio,
26 the twenty-eight dBu signal strength contour for television channels
27 two through six, the thirty-six dBu signal strength contour for
28 television channels seven through thirteen, and the forty-one dBu
29 signal strength contour for television channels fourteen through
30 sixty-nine with delivery by wire, satellite, or any other means, if
31 any; (g) engaging in activities which bring a person within the
32 definition of consumer contained in RCW 82.04.190(6); as to such
33 persons, the amount of tax on such business is equal to the gross
34 income of the business multiplied by the rate of (~~0.484~~) 0.5
35 percent.

36 (2) For the purposes of this section, the following definitions
37 apply unless the context clearly requires otherwise.

38 (a) "Cold storage warehouse" means a storage warehouse used to
39 store fresh and/or frozen perishable fruits or vegetables, meat,
40 seafood, dairy products, or fowl, or any combination thereof, at a

1 desired temperature to maintain the quality of the product for
2 orderly marketing.

3 (b) "Storage warehouse" means a building or structure, or any
4 part thereof, in which goods, wares, or merchandise are received for
5 storage for compensation, except field warehouses, fruit warehouses,
6 fruit packing plants, warehouses licensed under chapter 22.09 RCW,
7 public garages storing automobiles, railroad freight sheds, docks and
8 wharves, and "self-storage" or "mini storage" facilities whereby
9 customers have direct access to individual storage areas by separate
10 entrance. "Storage warehouse" does not include a building or
11 structure, or that part of such building or structure, in which an
12 activity taxable under RCW 82.04.272 is conducted.

13 (c) "Periodical or magazine" means a printed publication, other
14 than a newspaper, issued regularly at stated intervals at least once
15 every three months, including any supplement or special edition of
16 the publication.

17 **Sec. 108.** RCW 82.04.285 and 2023 c 284 s 4 are each amended to
18 read as follows:

19 (1) Upon every person engaging within this state in the business
20 of operating contests of chance; as to such persons, the amount of
21 tax with respect to the business of operating contests of chance is
22 equal to the gross income of the business derived from contests of
23 chance multiplied by the rate of (~~(1.5)~~) 1.8 percent.

24 (2) An additional tax is imposed on those persons subject to tax
25 in subsection (1) of this section. The amount of the additional tax
26 with respect to the business of operating contests of chance is equal
27 to the gross income of the business derived from contests of chance
28 multiplied by the rate of 0.2 percent through June 30, 2024, and 0.26
29 percent thereafter. The money collected under this subsection (2)
30 shall be deposited in the problem gambling account created in RCW
31 41.05.751. This subsection does not apply to businesses operating
32 contests of chance when the gross income from the operation of
33 contests of chance is less than \$50,000 per year.

34 (3)(a) For the purpose of this section, "contests of chance"
35 means any contests, games, gaming schemes, or gaming devices, other
36 than the state lottery as defined in RCW 67.70.010, in which the
37 outcome depends in a material degree upon an element of chance,
38 notwithstanding that skill of the contestants may also be a factor in

1 the outcome. The term includes social card games, bingo, raffle, and
2 punchboard games, and pull-tabs as defined in chapter 9.46 RCW.

3 (b) The term does not include: (i) Race meet for the conduct of
4 which a license must be secured from the Washington horse racing
5 commission, (ii) "amusement game" as defined in RCW 9.46.0201, or
6 (iii) any activity that is not subject to regulation by the gambling
7 commission.

8 (4) "Gross income of the business" does not include the monetary
9 value or actual cost of any prizes that are awarded, amounts paid to
10 players for winning wagers, accrual of prizes for progressive jackpot
11 contests, or repayment of amounts used to seed guaranteed progressive
12 jackpot prizes.

13 **Sec. 109.** RCW 82.04.290 and 2020 c 2 s 3 are each amended to
14 read as follows:

15 (1) Upon every person engaging within this state in the business
16 of providing qualifying international investment management services,
17 as to such persons, the amount of tax with respect to such business
18 is equal to the gross income or gross proceeds of sales of the
19 business multiplied by a rate of 0.275 percent.

20 (2)(a) Upon every person engaging within this state in any
21 business activity other than or in addition to an activity taxed
22 explicitly under another section in this chapter or subsection (1) or
23 (3) of this section; as to such persons the amount of tax on account
24 of such activities is equal to the gross income of the business
25 multiplied by the rate of:

26 (i) 1.75 percent for any person whose gross income of the
27 business subject to the tax imposed under this subsection (2), for
28 the immediately preceding calendar year, was equal to or greater than
29 \$1,000,000 and less than \$5,000,000 unless: (A) The person is
30 affiliated with one or more other persons; and (B) the aggregate
31 gross income of the business subject to the tax imposed under this
32 subsection (2) for all affiliated persons was greater than or equal
33 to \$5,000,000 for the immediately preceding calendar year; ((or))

34 (ii) 1.5 percent for:

35 (A) Any person subject to the surcharge imposed under RCW
36 82.04.299;

37 (B) Any person whose gross income of the business subject to the
38 tax imposed under this subsection (2), for the immediately preceding
39 calendar year, was less than ~~((one million dollars))~~ \$1,000,000,

1 unless (I) the person is affiliated with one or more other persons,
2 and (II) the aggregate gross income of the business subject to the
3 tax imposed under this subsection (2) for all affiliated persons was
4 greater than or equal to (~~one million dollars~~) \$1,000,000 for the
5 immediately preceding calendar year; and

6 (C) Hospitals as defined in RCW 70.41.020, including any hospital
7 that comes within the scope of chapter 71.12 RCW if the hospital is
8 also licensed under chapter 70.41 RCW. This subsection (2)(a)(ii)(C)
9 must not be construed as modifying RCW 82.04.260(10); or
10 (iii) 2.1 percent.

11 (b) This subsection (2) includes, among others, and without
12 limiting the scope hereof (whether or not title to materials used in
13 the performance of such business passes to another by accession,
14 confusion or other than by outright sale), persons engaged in the
15 business of rendering any type of service which does not constitute a
16 "sale at retail" or a "sale at wholesale." The value of advertising,
17 demonstration, and promotional supplies and materials furnished to an
18 agent by his or her principal or supplier to be used for
19 informational, educational, and promotional purposes is not
20 considered a part of the agent's remuneration or commission and is
21 not subject to taxation under this section.

22 (c) 14.3 percent of the revenues collected under (a)(i) and (iii)
23 of this subsection (2) must be deposited into the workforce education
24 investment account created in RCW 43.79.195.

25 (d)(i) To aid in the effective administration of this subsection
26 (2), the department may require a person claiming to be subject to
27 the 1.75 percent tax rate under (a)(i) of this subsection (2) or the
28 1.5 percent tax rate under (a)(ii)(B) of this subsection (2) to
29 identify all of the person's affiliates, including their department
30 tax registration number or unified business identifier number, as may
31 be applicable, or to certify that the person is not affiliated with
32 any other person. Requests under this subsection (2)(d)(i) must be in
33 writing and may be made electronically.

34 (ii) If the department establishes, by clear, cogent, and
35 convincing evidence, that a person, with intent to evade the
36 additional taxes due under either the 1.75 percent tax rate in (a)(i)
37 of this subsection (2) or the 2.1 percent tax rate in (a)(iii) of
38 this subsection (2), failed to provide the department with complete
39 and accurate information in response to a written request under
40 (d)(i) of this subsection (2) within (~~thirty~~) 30 days of such

1 request, the person is ineligible for the ~~((1.5 percent tax rate in~~
2 ~~(a)(ii) of))~~ lesser applicable tax rate in this subsection (2) for
3 the entire current calendar year and the following four calendar
4 years. However, the department must waive the provisions of this
5 subsection (2)(d)(ii) for any tax reporting period that the person is
6 otherwise eligible for the 1.75 percent tax rate in (a)(i) of this
7 subsection (2) or the 1.5 percent tax rate in (a)(ii) of this
8 subsection (2) if (A) the department has not previously determined
9 that the person failed to fully comply with (d)(i) of this subsection
10 (2), and (B) within ~~((thirty))~~ 30 days of the notice of additional
11 tax due as a result of the person's failure to fully comply with
12 (d)(i) of this subsection (2) the department determines that the
13 person has come into full compliance with (d)(i) of this subsection
14 (2). This subsection (2)(d) applies only with respect to persons
15 claiming entitlement to the 1.5 percent tax rate solely by reason of
16 (a)(ii)(B) of this subsection (2).

17 (e) For the purposes of (a)(i) or (ii)(B) of this subsection (2),
18 if a taxpayer is subject to the reconciliation provisions of RCW
19 82.04.462(4), and calculates gross income of the business subject to
20 the tax imposed under this subsection (2) for the immediately
21 preceding calendar year, or aggregate gross income of the business
22 subject to the tax imposed under this subsection (2) for the
23 immediately preceding calendar year for all affiliated persons, based
24 on incomplete information, the taxpayer must correct the reporting
25 for the current calendar year when complete information for the
26 immediately preceding calendar year is available.

27 (f) For purposes of this subsection (2), the definitions in this
28 subsection (2)(f) apply:

29 (i) "Affiliate" means a person that directly or indirectly,
30 through one or more intermediaries, controls, is controlled by, or is
31 under common control with another person; and

32 (ii) "Control" means the possession, directly or indirectly, of
33 more than eighty percent of the power to direct or cause the
34 direction of the management and policies of a person, whether through
35 the ownership of voting shares, by contract, or otherwise.

36 (3)(a) Until July 1, 2040, upon every person engaging within this
37 state in the business of performing aerospace product development for
38 others, as to such persons, the amount of tax with respect to such
39 business is equal to the gross income of the business multiplied by a
40 rate of 0.9 percent.

(b) A person reporting under the tax rate provided in this subsection (3) must file a complete annual report with the department under RCW 82.32.534.

(c) "Aerospace product development" has the meaning as provided in RCW 82.04.4461.

Sec. 110. RCW 82.04.2905 and 2024 c 195 s 2 are each amended to read as follows:

(1) Except as provided in subsection (2) of this section, upon every person engaging within this state in the business of providing child care for periods of less than twenty-four hours, the amount of tax with respect to such business is equal to the gross proceeds derived from such sales multiplied by the rate of ~~((0.484))~~ 0.5 percent.

(2) Until January 1, 2035, this chapter does not apply to amounts received by a child care provider for the care and supervision for periods of less than 24 hours of children:

(a) Under 13 years of age; or

(b) Under 19 years of age who have a verified special need or are under court supervision as determined by the department of children, youth, and families under chapter 43.216 RCW.

(3) The exemption under subsection (2) of this section applies only to persons primarily engaged in the business of providing child care.

Sec. 111. RCW 82.04.2906 and 2003 c 343 s 1 are each amended to read as follows:

(1) Upon every person engaging within this state in the business of providing intensive inpatient or recovery house residential treatment services for chemical dependency, certified by the department of social and health services, for which payment from the United States or any instrumentality thereof or from the state of Washington or any municipal corporation or political subdivision thereof is received as compensation for or to support those services; as to such persons the amount of tax with respect to such business shall be equal to the gross income from such services multiplied by the rate of ~~((0.484))~~ 0.5 percent.

(2) If the persons described in subsection (1) of this section receive income from sources other than those described in subsection (1) of this section or provide services other than those named in

subsection (1) of this section, that income and those services are subject to tax as otherwise provided in this chapter.

Sec. 112. RCW 82.04.260 and 2023 c 422 s 5 and 2023 c 286 s 3 are each reenacted and amended to read as follows:

(1) Upon every person engaging within this state in the business of manufacturing:

(a) Wheat into flour, barley into pearl barley, soybeans into soybean oil, canola into canola oil, canola meal, or canola by-products, or sunflower seeds into sunflower oil; as to such persons the amount of tax with respect to such business is equal to the value of the flour, pearl barley, oil, canola meal, or canola by-product manufactured, multiplied by the rate of 0.138 percent;

(b) Beginning July 1, 2035, seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing by that person; or selling manufactured seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing, to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales, multiplied by the rate of 0.138 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state;

(c)(i) Except as provided otherwise in (c)(iii) of this subsection, beginning July 1, 2035, until January 1, 2046, dairy products; or selling dairy products that the person has manufactured to purchasers who either transport in the ordinary course of business the goods out of state or purchasers who use such dairy products as an ingredient or component in the manufacturing of a dairy product; as to such persons the tax imposed is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of 0.138 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state or sold to a manufacturer for use as an ingredient or component in the manufacturing of a dairy product.

(ii) For the purposes of this subsection (1)(c), "dairy products" means:

(A) Products, not including any cannabis-infused product, that as of September 20, 2001, are identified in 21 C.F.R., chapter 1, parts 131, 133, and 135, including by-products from the manufacturing of the dairy products, such as whey and casein; and

(B) Products comprised of not less than 70 percent dairy products that qualify under (c)(ii)(A) of this subsection, measured by weight or volume.

(iii) The preferential tax rate provided to taxpayers under this subsection (1)(c) does not apply to sales of dairy products on or after July 1, 2023, where a dairy product is used by the purchaser as an ingredient or component in the manufacturing in Washington of a dairy product;

(d)(i) Beginning July 1, 2035, fruits or vegetables by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables, or selling at wholesale fruits or vegetables manufactured by the seller by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables and sold to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of 0.138 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state.

(ii) For purposes of this subsection (1)(d), "fruits" and "vegetables" do not include cannabis, useable cannabis, or cannabis-infused products; and

(e) Wood biomass fuel; as to such persons the amount of tax with respect to the business is equal to the value of wood biomass fuel manufactured, multiplied by the rate of 0.138 percent. For the purposes of this section, "wood biomass fuel" means a liquid or gaseous fuel that is produced from lignocellulosic feedstocks, including wood, forest, or field residue and dedicated energy crops, and that does not include wood treated with chemical preservations such as creosote, pentachlorophenol, or copper-chrome-arsenic.

(2) Upon every person engaging within this state in the business of splitting or processing dried peas; as to such persons the amount

1 of tax with respect to such business is equal to the value of the
2 peas split or processed, multiplied by the rate of 0.138 percent.

3 (3) Upon every nonprofit corporation and nonprofit association
4 engaging within this state in research and development, as to such
5 corporations and associations, the amount of tax with respect to such
6 activities is equal to the gross income derived from such activities
7 multiplied by the rate of (~~0.484~~) 0.5 percent.

8 (4) Upon every person engaging within this state in the business
9 of slaughtering, breaking and/or processing perishable meat products
10 and/or selling the same at wholesale only and not at retail; as to
11 such persons the tax imposed is equal to the gross proceeds derived
12 from such sales multiplied by the rate of 0.138 percent.

13 (5) (a) Upon every person engaging within this state in the
14 business of acting as a travel agent or tour operator and whose
15 annual taxable amount for the prior calendar year from such business
16 was \$250,000 or less; as to such persons the amount of the tax with
17 respect to such activities is equal to the gross income derived from
18 such activities multiplied by the rate of 0.275 percent.

19 (b) Upon every person engaging within this state in the business
20 of acting as a travel agent or tour operator and whose annual taxable
21 amount for the prior calendar year from such business was more than
22 \$250,000; as to such persons the amount of the tax with respect to
23 such activities is equal to the gross income derived from such
24 activities multiplied by the rate of 0.275 percent through June 30,
25 2019, and 0.9 percent beginning July 1, 2019.

26 (6) Upon every person engaging within this state in business as
27 an international steamship agent, international customs house broker,
28 international freight forwarder, vessel and/or cargo charter broker
29 in foreign commerce, and/or international air cargo agent; as to such
30 persons the amount of the tax with respect to only international
31 activities is equal to the gross income derived from such activities
32 multiplied by the rate of 0.275 percent.

33 (7) Upon every person engaging within this state in the business
34 of stevedoring and associated activities pertinent to the movement of
35 goods and commodities in waterborne interstate or foreign commerce;
36 as to such persons the amount of tax with respect to such business is
37 equal to the gross proceeds derived from such activities multiplied
38 by the rate of 0.275 percent. Persons subject to taxation under this
39 subsection are exempt from payment of taxes imposed by chapter 82.16
40 RCW for that portion of their business subject to taxation under this

subsection. Stevedoring and associated activities pertinent to the conduct of goods and commodities in waterborne interstate or foreign commerce are defined as all activities of a labor, service or transportation nature whereby cargo may be loaded or unloaded to or from vessels or barges, passing over, onto or under a wharf, pier, or similar structure; cargo may be moved to a warehouse or similar holding or storage yard or area to await further movement in import or export or may move to a consolidation freight station and be stuffed, unstuffed, containerized, separated or otherwise segregated or aggregated for delivery or loaded on any mode of transportation for delivery to its consignee. Specific activities included in this definition are: Wharfage, handling, loading, unloading, moving of cargo to a convenient place of delivery to the consignee or a convenient place for further movement to export mode; documentation services in connection with the receipt, delivery, checking, care, custody and control of cargo required in the transfer of cargo; imported automobile handling prior to delivery to consignee; terminal stevedoring and incidental vessel services, including but not limited to plugging and unplugging refrigerator service to containers, trailers, and other refrigerated cargo receptacles, and securing ship hatch covers.

(8)(a) Upon every person engaging within this state in the business of disposing of low-level waste, as defined in RCW 70A.380.010; as to such persons the amount of the tax with respect to such business is equal to the gross income of the business, excluding any fees imposed under chapter 70A.384 RCW, multiplied by the rate of 3.3 percent.

(b) If the gross income of the taxpayer is attributable to activities both within and without this state, the gross income attributable to this state must be determined in accordance with the methods of apportionment required under RCW 82.04.460.

(9) Upon every person engaging within this state as an insurance producer or title insurance agent licensed under chapter 48.17 RCW or a surplus line broker licensed under chapter 48.15 RCW; as to such persons, the amount of the tax with respect to such licensed activities is equal to the gross income of such business multiplied by the rate of (~~(0.484)~~) 0.5 percent.

(10) Upon every person engaging within this state in business as a hospital, as defined in chapter 70.41 RCW, that is operated as a nonprofit corporation or by the state or any of its political

subdivisions, as to such persons, the amount of tax with respect to such activities is equal to the gross income of the business multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5 percent thereafter.

(11)(a) Beginning October 1, 2005, upon every person engaging within this state in the business of manufacturing commercial airplanes, or components of such airplanes, or making sales, at retail or wholesale, of commercial airplanes or components of such airplanes, manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of:

(i) 0.4235 percent from October 1, 2005, through June 30, 2007;

(ii) 0.2904 percent beginning July 1, 2007, through March 31, 2020; and

(iii)(A) Beginning April 1, 2020, through December 31, 2026, 0.484 percent, subject to any reduction required under (e) of this subsection (11). The tax rate in this subsection (11)(a)(iii) applies to all business activities described in this subsection (11)(a).

(B) Beginning January 1, 2027, 0.5 percent, subject to any reduction required under (e) of this subsection (11). The tax rate in this subsection (11)(a)(iii) applies to all business activities described in this subsection (11)(a).

(b) Beginning July 1, 2008, upon every person who is not eligible to report under the provisions of (a) of this subsection (11) and is engaging within this state in the business of manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes, or making sales, at retail or wholesale, of such tooling manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, be equal to the gross income of the business, multiplied by the rate of:

(i) 0.2904 percent through March 31, 2020; (~~and~~)

(ii) Beginning April 1, 2020, through December 31, 2026, the following rates, which are subject to any reduction required under (e) of this subsection (11):

1 (A) The rate under RCW 82.04.250(1) on the business of making
2 retail sales of tooling specifically designed for use in
3 manufacturing commercial airplanes or components of such airplanes;
4 and

5 (B) 0.484 percent on all other business activities described in
6 this subsection (11)(b); and

7 (iii) Beginning January 1, 2027, the following rates, which are
8 subject to any reduction required under (e) of this subsection (11):

9 (A) The rate under RCW 82.04.250(1) on the business of making
10 retail sales of tooling specifically designed for use in
11 manufacturing commercial airplanes or components of such airplanes;
12 and

13 (B) 0.5 percent on all other business activities described in
14 this subsection (11)(b).

15 (c) For the purposes of this subsection (11), "commercial
16 airplane" and "component" have the same meanings as provided in RCW
17 82.32.550.

18 (d)(i) In addition to all other requirements under this title, a
19 person reporting under the tax rate provided in this subsection (11)
20 must file a complete annual tax performance report with the
21 department under RCW 82.32.534. However, this requirement does not
22 apply to persons reporting under the tax rate in (a)(iii) of this
23 subsection (11), so long as that rate remains ((0.484)) 0.5 percent,
24 or under any of the tax rates in (b)(ii)(A) and (B) of this
25 subsection (11), so long as those tax rates remain the rate imposed
26 pursuant to RCW 82.04.250(1) and ((0.484)) 0.5 percent, respectively.

27 (ii) Nothing in (d)(i) of this subsection (11) may be construed
28 as affecting the obligation of a person reporting under a tax rate
29 provided in this subsection (11) to file a complete annual tax
30 performance report with the department under RCW 82.32.534: (A)
31 Pursuant to another provision of this title as a result of claiming a
32 tax credit or exemption; or (B) pursuant to (d)(i) of this subsection
33 (11) as a result of claiming the tax rates in (a)(ii) or (b)(i) of
34 this subsection (11) for periods ending before April 1, 2020.

35 (e)(i) After March 31, 2021, the tax rates under (a)(iii) and
36 (b)(ii) of this subsection (11) must be reduced to 0.357 percent
37 provided the conditions in RCW 82.04.2602 are met. The effective date
38 of the rates authorized under this subsection (11)(e) must occur on
39 the first day of the next calendar quarter that is at least 60 days

1 after the department receives the last of the two written notices
2 pursuant to RCW 82.04.2602 (3) and (4).

3 (ii) Both a significant commercial airplane manufacturer
4 separately and the rest of the aerospace industry as a whole,
5 receiving the rate of 0.357 percent under this subsection (11)(e) are
6 subject to the aerospace apprenticeship utilization rates required
7 under RCW 49.04.220 by April 1, 2026, or five years after the
8 effective date of the 0.357 percent rate authorized under this
9 subsection (11)(e), whichever is later, as determined by the
10 department of labor and industries.

11 (iii) The provisions of RCW 82.32.805 and 82.32.808 do not apply
12 to this subsection (11)(e).

13 (f)(i) Except as provided in (f)(ii) of this subsection (11),
14 this subsection (11) does not apply on and after July 1, 2040.

15 (ii) With respect to the manufacturing of commercial airplanes or
16 making sales, at retail or wholesale, of commercial airplanes, this
17 subsection (11) does not apply on and after July 1st of the year in
18 which the department makes a determination that any final assembly or
19 wing assembly of any version or variant of a commercial airplane that
20 is the basis of a siting of a significant commercial airplane
21 manufacturing program in the state under RCW 82.32.850 has been sited
22 outside the state of Washington. This subsection (11)(f)(ii) only
23 applies to the manufacturing or sale of commercial airplanes that are
24 the basis of a siting of a significant commercial airplane
25 manufacturing program in the state under RCW 82.32.850. This
26 subsection (11)(f)(ii) continues to apply during the time that a
27 person is subject to the tax rate in (a)(iii) of this subsection
28 (11).

29 (g) For the purposes of this subsection, "a significant
30 commercial airplane manufacturer" means a manufacturer of commercial
31 airplanes with at least 50,000 full-time employees in Washington as
32 of January 1, 2021.

33 (12)(a) Until July 1, 2045, upon every person engaging within
34 this state in the business of extracting timber or extracting for
35 hire timber; as to such persons the amount of tax with respect to the
36 business is, in the case of extractors, equal to the value of
37 products, including by-products, extracted, or in the case of
38 extractors for hire, equal to the gross income of the business,
39 multiplied by the rate of 0.4235 percent from July 1, 2006, through

1 June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30,
2 2045.

3 (b) Until July 1, 2045, upon every person engaging within this
4 state in the business of manufacturing or processing for hire: (i)
5 Timber into timber products or wood products; (ii) timber products
6 into other timber products or wood products; or (iii) products
7 defined in RCW 19.27.570(1); as to such persons the amount of the tax
8 with respect to the business is, in the case of manufacturers, equal
9 to the value of products, including by-products, manufactured, or in
10 the case of processors for hire, equal to the gross income of the
11 business, multiplied by the rate of 0.4235 percent from July 1, 2006,
12 through June 30, 2007, and 0.2904 percent from July 1, 2007, through
13 June 30, 2045.

14 (c) Until July 1, 2045, upon every person engaging within this
15 state in the business of selling at wholesale: (i) Timber extracted
16 by that person; (ii) timber products manufactured by that person from
17 timber or other timber products; (iii) wood products manufactured by
18 that person from timber or timber products; or (iv) products defined
19 in RCW 19.27.570(1) manufactured by that person; as to such persons
20 the amount of the tax with respect to the business is equal to the
21 gross proceeds of sales of the timber, timber products, wood
22 products, or products defined in RCW 19.27.570(1) multiplied by the
23 rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and
24 0.2904 percent from July 1, 2007, through June 30, 2045.

25 (d) Until July 1, 2045, upon every person engaging within this
26 state in the business of selling standing timber; as to such persons
27 the amount of the tax with respect to the business is equal to the
28 gross income of the business multiplied by the rate of 0.2904
29 percent. For purposes of this subsection (12)(d), "selling standing
30 timber" means the sale of timber apart from the land, where the buyer
31 is required to sever the timber within 30 months from the date of the
32 original contract, regardless of the method of payment for the timber
33 and whether title to the timber transfers before, upon, or after
34 severance.

35 (e) For purposes of this subsection, the following definitions
36 apply:

37 (i) "Biocomposite surface products" means surface material
38 products containing, by weight or volume, more than 50 percent
39 recycled paper and that also use nonpetroleum-based phenolic resin as
40 a bonding agent.

1 (ii) "Paper and paper products" means products made of interwoven
2 cellulosic fibers held together largely by hydrogen bonding. "Paper
3 and paper products" includes newsprint; office, printing, fine, and
4 pressure-sensitive papers; paper napkins, towels, and toilet tissue;
5 kraft bag, construction, and other kraft industrial papers;
6 paperboard, liquid packaging containers, containerboard, corrugated,
7 and solid-fiber containers including linerboard and corrugated
8 medium; and related types of cellulosic products containing
9 primarily, by weight or volume, cellulosic materials. "Paper and
10 paper products" does not include books, newspapers, magazines,
11 periodicals, and other printed publications, advertising materials,
12 calendars, and similar types of printed materials.

13 (iii) "Recycled paper" means paper and paper products having 50
14 percent or more of their fiber content that comes from postconsumer
15 waste. For purposes of this subsection (12)(e)(iii), "postconsumer
16 waste" means a finished material that would normally be disposed of
17 as solid waste, having completed its life cycle as a consumer item.

18 (iv) "Timber" means forest trees, standing or down, on privately
19 or publicly owned land. "Timber" does not include Christmas trees
20 that are cultivated by agricultural methods or short-rotation
21 hardwoods as defined in RCW 84.33.035.

22 (v) "Timber products" means:

23 (A) Logs, wood chips, sawdust, wood waste, and similar products
24 obtained wholly from the processing of timber, short-rotation
25 hardwoods as defined in RCW 84.33.035, or both;

26 (B) Pulp, including market pulp and pulp derived from recovered
27 paper or paper products; and

28 (C) Recycled paper, but only when used in the manufacture of
29 biocomposite surface products.

30 (vi) "Wood products" means paper and paper products; dimensional
31 lumber; engineered wood products such as particleboard, oriented
32 strand board, medium density fiberboard, and plywood; wood doors;
33 wood windows; and biocomposite surface products.

34 (f) Except for small harvesters as defined in RCW 84.33.035, a
35 person reporting under the tax rate provided in this subsection (12)
36 must file a complete annual tax performance report with the
37 department under RCW 82.32.534.

38 (g) Nothing in this subsection (12) may be construed to affect
39 the taxation of any activity defined as a retail sale in RCW

82.04.050(2) (b) or (c), defined as a wholesale sale in RCW 82.04.060(2), or taxed under RCW 82.04.280(1)(g).

(13) Upon every person engaging within this state in inspecting, testing, labeling, and storing canned salmon owned by another person, as to such persons, the amount of tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of (~~0.484~~) 0.5 percent.

Sec. 113. RCW 82.04.260 and 2023 c 422 s 5 are each amended to read as follows:

(1) Upon every person engaging within this state in the business of manufacturing:

(a) Wheat into flour, barley into pearl barley, soybeans into soybean oil, canola into canola oil, canola meal, or canola by-products, or sunflower seeds into sunflower oil; as to such persons the amount of tax with respect to such business is equal to the value of the flour, pearl barley, oil, canola meal, or canola by-product manufactured, multiplied by the rate of 0.138 percent;

(b) Beginning July 1, 2035, seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing by that person; or selling manufactured seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing, to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales, multiplied by the rate of 0.138 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state;

(c)(i) Except as provided otherwise in (c)(iii) of this subsection, beginning July 1, 2035, until January 1, 2046, dairy products; or selling dairy products that the person has manufactured to purchasers who either transport in the ordinary course of business the goods out of state or purchasers who use such dairy products as an ingredient or component in the manufacturing of a dairy product; as to such persons the tax imposed is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of 0.138 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070

1 establishing that the goods were transported by the purchaser in the
2 ordinary course of business out of this state or sold to a
3 manufacturer for use as an ingredient or component in the
4 manufacturing of a dairy product.

5 (ii) For the purposes of this subsection (1)(c), "dairy products"
6 means:

7 (A) Products, not including any cannabis-infused product, that as
8 of September 20, 2001, are identified in 21 C.F.R., chapter 1, parts
9 131, 133, and 135, including by-products from the manufacturing of
10 the dairy products, such as whey and casein; and

11 (B) Products comprised of not less than 70 percent dairy products
12 that qualify under (c)(ii)(A) of this subsection, measured by weight
13 or volume.

14 (iii) The preferential tax rate provided to taxpayers under this
15 subsection (1)(c) does not apply to sales of dairy products on or
16 after July 1, 2023, where a dairy product is used by the purchaser as
17 an ingredient or component in the manufacturing in Washington of a
18 dairy product;

19 (d)(i) Beginning July 1, 2035, fruits or vegetables by canning,
20 preserving, freezing, processing, or dehydrating fresh fruits or
21 vegetables, or selling at wholesale fruits or vegetables manufactured
22 by the seller by canning, preserving, freezing, processing, or
23 dehydrating fresh fruits or vegetables and sold to purchasers who
24 transport in the ordinary course of business the goods out of this
25 state; as to such persons the amount of tax with respect to such
26 business is equal to the value of the products manufactured or the
27 gross proceeds derived from such sales multiplied by the rate of
28 0.138 percent. Sellers must keep and preserve records for the period
29 required by RCW 82.32.070 establishing that the goods were
30 transported by the purchaser in the ordinary course of business out
31 of this state.

32 (ii) For purposes of this subsection (1)(d), "fruits" and
33 "vegetables" do not include cannabis, useable cannabis, or cannabis-
34 infused products; and

35 (e) Wood biomass fuel; as to such persons the amount of tax with
36 respect to the business is equal to the value of wood biomass fuel
37 manufactured, multiplied by the rate of 0.138 percent. For the
38 purposes of this section, "wood biomass fuel" means a liquid or
39 gaseous fuel that is produced from lignocellulosic feedstocks,
40 including wood, forest, or field residue and dedicated energy crops,

1 and that does not include wood treated with chemical preservations
2 such as creosote, pentachlorophenol, or copper-chrome-arsenic.

3 (2) Upon every person engaging within this state in the business
4 of splitting or processing dried peas; as to such persons the amount
5 of tax with respect to such business is equal to the value of the
6 peas split or processed, multiplied by the rate of 0.138 percent.

7 (3) Upon every nonprofit corporation and nonprofit association
8 engaging within this state in research and development, as to such
9 corporations and associations, the amount of tax with respect to such
10 activities is equal to the gross income derived from such activities
11 multiplied by the rate of (~~0.484~~) 0.5 percent.

12 (4) Upon every person engaging within this state in the business
13 of slaughtering, breaking and/or processing perishable meat products
14 and/or selling the same at wholesale only and not at retail; as to
15 such persons the tax imposed is equal to the gross proceeds derived
16 from such sales multiplied by the rate of 0.138 percent.

17 (5)(a) Upon every person engaging within this state in the
18 business of acting as a travel agent or tour operator and whose
19 annual taxable amount for the prior calendar year from such business
20 was \$250,000 or less; as to such persons the amount of the tax with
21 respect to such activities is equal to the gross income derived from
22 such activities multiplied by the rate of 0.275 percent.

23 (b) Upon every person engaging within this state in the business
24 of acting as a travel agent or tour operator and whose annual taxable
25 amount for the prior calendar year from such business was more than
26 \$250,000; as to such persons the amount of the tax with respect to
27 such activities is equal to the gross income derived from such
28 activities multiplied by the rate of 0.275 percent through June 30,
29 2019, and 0.9 percent beginning July 1, 2019.

30 (6) Upon every person engaging within this state in business as
31 an international steamship agent, international customs house broker,
32 international freight forwarder, vessel and/or cargo charter broker
33 in foreign commerce, and/or international air cargo agent; as to such
34 persons the amount of the tax with respect to only international
35 activities is equal to the gross income derived from such activities
36 multiplied by the rate of 0.275 percent.

37 (7) Upon every person engaging within this state in the business
38 of stevedoring and associated activities pertinent to the movement of
39 goods and commodities in waterborne interstate or foreign commerce;
40 as to such persons the amount of tax with respect to such business is

1 equal to the gross proceeds derived from such activities multiplied
2 by the rate of 0.275 percent. Persons subject to taxation under this
3 subsection are exempt from payment of taxes imposed by chapter 82.16
4 RCW for that portion of their business subject to taxation under this
5 subsection. Stevedoring and associated activities pertinent to the
6 conduct of goods and commodities in waterborne interstate or foreign
7 commerce are defined as all activities of a labor, service or
8 transportation nature whereby cargo may be loaded or unloaded to or
9 from vessels or barges, passing over, onto or under a wharf, pier, or
10 similar structure; cargo may be moved to a warehouse or similar
11 holding or storage yard or area to await further movement in import
12 or export or may move to a consolidation freight station and be
13 stuffed, unstuffed, containerized, separated or otherwise segregated
14 or aggregated for delivery or loaded on any mode of transportation
15 for delivery to its consignee. Specific activities included in this
16 definition are: Wharfage, handling, loading, unloading, moving of
17 cargo to a convenient place of delivery to the consignee or a
18 convenient place for further movement to export mode; documentation
19 services in connection with the receipt, delivery, checking, care,
20 custody and control of cargo required in the transfer of cargo;
21 imported automobile handling prior to delivery to consignee; terminal
22 stevedoring and incidental vessel services, including but not limited
23 to plugging and unplugging refrigerator service to containers,
24 trailers, and other refrigerated cargo receptacles, and securing ship
25 hatch covers.

26 (8)(a) Upon every person engaging within this state in the
27 business of disposing of low-level waste, as defined in RCW
28 70A.380.010; as to such persons the amount of the tax with respect to
29 such business is equal to the gross income of the business, excluding
30 any fees imposed under chapter 70A.384 RCW, multiplied by the rate of
31 3.3 percent.

32 (b) If the gross income of the taxpayer is attributable to
33 activities both within and without this state, the gross income
34 attributable to this state must be determined in accordance with the
35 methods of apportionment required under RCW 82.04.460.

36 (9) Upon every person engaging within this state as an insurance
37 producer or title insurance agent licensed under chapter 48.17 RCW or
38 a surplus line broker licensed under chapter 48.15 RCW; as to such
39 persons, the amount of the tax with respect to such licensed

activities is equal to the gross income of such business multiplied by the rate of (~~0.484~~) 0.5 percent.

(10) Upon every person engaging within this state in business as a hospital, as defined in chapter 70.41 RCW, that is operated as a nonprofit corporation or by the state or any of its political subdivisions, as to such persons, the amount of tax with respect to such activities is equal to the gross income of the business multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5 percent thereafter.

(11)(a) Beginning October 1, 2005, upon every person engaging within this state in the business of manufacturing commercial airplanes, or components of such airplanes, or making sales, at retail or wholesale, of commercial airplanes or components of such airplanes, manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of:

(i) 0.4235 percent from October 1, 2005, through June 30, 2007;

(ii) 0.2904 percent beginning July 1, 2007, through March 31, 2020; and

(iii)(A) Beginning April 1, 2020, through December 31, 2026, 0.484 percent, subject to any reduction required under (e) of this subsection (11). The tax rate in this subsection (11)(a)(iii) applies to all business activities described in this subsection (11)(a).

(B) Beginning January 1, 2027, 0.5 percent, subject to any reduction required under (e) of this subsection (11). The tax rate in this subsection (11)(a)(iii) applies to all business activities described in this subsection (11)(a).

(b) Beginning July 1, 2008, upon every person who is not eligible to report under the provisions of (a) of this subsection (11) and is engaging within this state in the business of manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes, or making sales, at retail or wholesale, of such tooling manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in

1 the case of processors for hire, be equal to the gross income of the
2 business, multiplied by the rate of:

3 (i) 0.2904 percent through March 31, 2020; (~~and~~)

4 (ii) Beginning April 1, 2020, the following rates, which are
5 subject to any reduction required under (e) of this subsection (11):

6 (A) The rate under RCW 82.04.250(1) on the business of making
7 retail sales of tooling specifically designed for use in
8 manufacturing commercial airplanes or components of such airplanes;
9 and

10 (B) 0.484 percent on all other business activities described in
11 this subsection (11) (b); and

12 (iii) Beginning January 1, 2027, the following rates, which are
13 subject to any reduction required under (e) of this subsection (11):

14 (A) The rate under RCW 82.04.250(1) on the business of making
15 retail sales of tooling specifically designed for use in
16 manufacturing commercial airplanes or components of such airplanes;
17 and

18 (B) 0.5 percent on all other business activities described in
19 this subsection (11) (b).

20 (c) For the purposes of this subsection (11), "commercial
21 airplane" and "component" have the same meanings as provided in RCW
22 82.32.550.

23 (d) (i) In addition to all other requirements under this title, a
24 person reporting under the tax rate provided in this subsection (11)
25 must file a complete annual tax performance report with the
26 department under RCW 82.32.534. However, this requirement does not
27 apply to persons reporting under the tax rate in (a) (iii) of this
28 subsection (11), so long as that rate remains (~~0.484~~) 0.5 percent,
29 or under any of the tax rates in (b) (ii) (A) and (B) of this
30 subsection (11), so long as those tax rates remain the rate imposed
31 pursuant to RCW 82.04.250(1) and 0.484 percent, respectively.

32 (ii) Nothing in (d) (i) of this subsection (11) may be construed
33 as affecting the obligation of a person reporting under a tax rate
34 provided in this subsection (11) to file a complete annual tax
35 performance report with the department under RCW 82.32.534: (A)
36 Pursuant to another provision of this title as a result of claiming a
37 tax credit or exemption; or (B) pursuant to (d) (i) of this subsection
38 (11) as a result of claiming the tax rates in (a) (ii) or (b) (i) of
39 this subsection (11) for periods ending before April 1, 2020.

1 (e)(i) After March 31, 2021, the tax rates under (a)(iii) and
2 (b)(ii) of this subsection (11) must be reduced to 0.357 percent
3 provided the conditions in RCW 82.04.2602 are met. The effective date
4 of the rates authorized under this subsection (11)(e) must occur on
5 the first day of the next calendar quarter that is at least 60 days
6 after the department receives the last of the two written notices
7 pursuant to RCW 82.04.2602 (3) and (4).

8 (ii) Both a significant commercial airplane manufacturer
9 separately and the rest of the aerospace industry as a whole,
10 receiving the rate of 0.357 percent under this subsection (11)(e) are
11 subject to the aerospace apprenticeship utilization rates required
12 under RCW 49.04.220 by April 1, 2026, or five years after the
13 effective date of the 0.357 percent rate authorized under this
14 subsection (11)(e), whichever is later, as determined by the
15 department of labor and industries.

16 (iii) The provisions of RCW 82.32.805 and 82.32.808 do not apply
17 to this subsection (11)(e).

18 (f)(i) Except as provided in (f)(ii) of this subsection (11),
19 this subsection (11) does not apply on and after July 1, 2040.

20 (ii) With respect to the manufacturing of commercial airplanes or
21 making sales, at retail or wholesale, of commercial airplanes, this
22 subsection (11) does not apply on and after July 1st of the year in
23 which the department makes a determination that any final assembly or
24 wing assembly of any version or variant of a commercial airplane that
25 is the basis of a siting of a significant commercial airplane
26 manufacturing program in the state under RCW 82.32.850 has been sited
27 outside the state of Washington. This subsection (11)(f)(ii) only
28 applies to the manufacturing or sale of commercial airplanes that are
29 the basis of a siting of a significant commercial airplane
30 manufacturing program in the state under RCW 82.32.850. This
31 subsection (11)(f)(ii) continues to apply during the time that a
32 person is subject to the tax rate in (a)(iii) of this subsection
33 (11).

34 (g) For the purposes of this subsection, "a significant
35 commercial airplane manufacturer" means a manufacturer of commercial
36 airplanes with at least 50,000 full-time employees in Washington as
37 of January 1, 2021.

38 (12)(a) Until July 1, 2045, upon every person engaging within
39 this state in the business of extracting timber or extracting for
40 hire timber; as to such persons the amount of tax with respect to the

1 business is, in the case of extractors, equal to the value of
2 products, including by-products, extracted, or in the case of
3 extractors for hire, equal to the gross income of the business,
4 multiplied by the rate of 0.4235 percent from July 1, 2006, through
5 June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30,
6 2045.

7 (b) Until July 1, 2045, upon every person engaging within this
8 state in the business of manufacturing or processing for hire: (i)
9 Timber into timber products or wood products; (ii) timber products
10 into other timber products or wood products; or (iii) products
11 defined in RCW 19.27.570(1); as to such persons the amount of the tax
12 with respect to the business is, in the case of manufacturers, equal
13 to the value of products, including by-products, manufactured, or in
14 the case of processors for hire, equal to the gross income of the
15 business, multiplied by the rate of 0.4235 percent from July 1, 2006,
16 through June 30, 2007, and 0.2904 percent from July 1, 2007, through
17 June 30, 2045.

18 (c) Until July 1, 2045, upon every person engaging within this
19 state in the business of selling at wholesale: (i) Timber extracted
20 by that person; (ii) timber products manufactured by that person from
21 timber or other timber products; (iii) wood products manufactured by
22 that person from timber or timber products; or (iv) products defined
23 in RCW 19.27.570(1) manufactured by that person; as to such persons
24 the amount of the tax with respect to the business is equal to the
25 gross proceeds of sales of the timber, timber products, wood
26 products, or products defined in RCW 19.27.570(1) multiplied by the
27 rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and
28 0.2904 percent from July 1, 2007, through June 30, 2045.

29 (d) Until July 1, 2045, upon every person engaging within this
30 state in the business of selling standing timber; as to such persons
31 the amount of the tax with respect to the business is equal to the
32 gross income of the business multiplied by the rate of 0.2904
33 percent. For purposes of this subsection (12)(d), "selling standing
34 timber" means the sale of timber apart from the land, where the buyer
35 is required to sever the timber within 30 months from the date of the
36 original contract, regardless of the method of payment for the timber
37 and whether title to the timber transfers before, upon, or after
38 severance.

39 (e) For purposes of this subsection, the following definitions
40 apply:

1 (i) "Biocomposite surface products" means surface material
2 products containing, by weight or volume, more than 50 percent
3 recycled paper and that also use nonpetroleum-based phenolic resin as
4 a bonding agent.

5 (ii) "Paper and paper products" means products made of interwoven
6 cellulosic fibers held together largely by hydrogen bonding. "Paper
7 and paper products" includes newsprint; office, printing, fine, and
8 pressure-sensitive papers; paper napkins, towels, and toilet tissue;
9 kraft bag, construction, and other kraft industrial papers;
10 paperboard, liquid packaging containers, containerboard, corrugated,
11 and solid-fiber containers including linerboard and corrugated
12 medium; and related types of cellulosic products containing
13 primarily, by weight or volume, cellulosic materials. "Paper and
14 paper products" does not include books, newspapers, magazines,
15 periodicals, and other printed publications, advertising materials,
16 calendars, and similar types of printed materials.

17 (iii) "Recycled paper" means paper and paper products having 50
18 percent or more of their fiber content that comes from postconsumer
19 waste. For purposes of this subsection (12)(e)(iii), "postconsumer
20 waste" means a finished material that would normally be disposed of
21 as solid waste, having completed its life cycle as a consumer item.

22 (iv) "Timber" means forest trees, standing or down, on privately
23 or publicly owned land. "Timber" does not include Christmas trees
24 that are cultivated by agricultural methods or short-rotation
25 hardwoods as defined in RCW 84.33.035.

26 (v) "Timber products" means:

27 (A) Logs, wood chips, sawdust, wood waste, and similar products
28 obtained wholly from the processing of timber, short-rotation
29 hardwoods as defined in RCW 84.33.035, or both;

30 (B) Pulp, including market pulp and pulp derived from recovered
31 paper or paper products; and

32 (C) Recycled paper, but only when used in the manufacture of
33 biocomposite surface products.

34 (vi) "Wood products" means paper and paper products; dimensional
35 lumber; engineered wood products such as particleboard, oriented
36 strand board, medium density fiberboard, and plywood; wood doors;
37 wood windows; and biocomposite surface products.

38 (f) Except for small harvesters as defined in RCW 84.33.035, a
39 person reporting under the tax rate provided in this subsection (12)

1 must file a complete annual tax performance report with the
2 department under RCW 82.32.534.

3 (g) Nothing in this subsection (12) may be construed to affect
4 the taxation of any activity defined as a retail sale in RCW
5 82.04.050(2) (b) or (c), defined as a wholesale sale in RCW
6 82.04.060(2), or taxed under RCW 82.04.280(1)(g).

7 (13) Upon every person engaging within this state in inspecting,
8 testing, labeling, and storing canned salmon owned by another person,
9 as to such persons, the amount of tax with respect to such activities
10 is equal to the gross income derived from such activities multiplied
11 by the rate of (~~(0.484)~~) 0.5 percent.

12 (14)(a) Upon every person engaging within this state in the
13 business of printing a newspaper, publishing a newspaper, or both,
14 the amount of tax on such business is equal to the gross income of
15 the business multiplied by the rate of 0.35 percent until July 1,
16 2024, and (~~(0.484)~~) 0.5 percent thereafter.

17 (b) A person reporting under the tax rate provided in this
18 subsection (14) must file a complete annual tax performance report
19 with the department under RCW 82.32.534.

20 NEW SECTION. Sec. 114. A new section is added to chapter 82.32
21 RCW to read as follows:

22 The department must engage its business advisory council as well
23 as a group of stakeholder taxpayers to recommend statutory and
24 administrative changes to simplify tax compliance for taxpayers. The
25 recommendations should include ways to simplify online filing, the
26 development of guidance materials to ease taxpayer compliance in
27 reporting business activities accurately, and enhance the
28 accessibility of information.

29 **PART II**

30 **SURCHARGE ON HIGH GROSSING BUSINESSES AND FINANCIAL INSTITUTIONS**

31 NEW SECTION. Sec. 201. A new section is added to chapter 82.04
32 RCW to read as follows:

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

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

1 (3)(a) Any Washington taxable income subject to the tax in RCW
2 82.04.29004 is exempt from the surcharge imposed in this section.

3 (b)(i) Any Washington taxable income subject to the manufacturing
4 tax rates in RCW 82.04.240, 82.04.2404, 82.04.241, 82.04.260,
5 82.04.2602, 82.04.287, 82.04.2909, or 82.04.294(1) is exempt from the
6 surcharge imposed in this section.

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

11 (iii) Any Washington taxable income attributable to retail sales
12 that are exempt from the imposition of sales tax in RCW 82.08.0293,
13 82.08.0297, and 82.08.0281 is exempt from the surcharge imposed in
14 this section.

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

18 (v) Any Washington taxable income attributable to the wholesale
19 or retail sale of petroleum products by a person who is both located
20 in a state other than Washington and the owner of such materials
21 processed for it in Washington by an affiliated processor for hire
22 subject to the rate in RCW 82.04.280(1)(c), is exempt from the
23 surcharge imposed in this section. For the purposes of this
24 subsection (3)(b)(v), the following definitions apply:

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

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

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

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

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

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

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

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

(6) This section expires December 31, 2029.

Sec. 202. RCW 82.04.29004 and 2019 c 420 s 2 are each amended to read as follows:

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

(b) Beginning October 1, 2025, in addition to any other taxes imposed under this chapter, an additional tax is imposed on specified financial institutions. The additional tax is equal to the gross income of the business taxable under RCW 82.04.290(2) multiplied by the rate of 1.5 percent.

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

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

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

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

(d) "Financial institution" means:

(i) Any corporation or other business entity chartered under Titles 30A, 30B, 31, 32, and 33 RCW, or registered under the federal bank holding company act of 1956, as amended, or registered as a

1 savings and loan holding company under the federal national housing
2 act, as amended;

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

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

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

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

12 (vi) Any agency or branch of a foreign depository as defined in
13 12 U.S.C. Sec. 3101 that is not exempt under RCW 82.04.315;

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

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

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

29 (I) It is the type of lease permitted to be made by national
30 banks (see 12 U.S.C. Sec. 24(7) and (10), comptroller of the currency
31 regulations, part 23, leasing (added by 56 C.F.R. Sec. 28314, June
32 20, 1991, effective July 22, 1991), and regulation Y of the federal
33 reserve system 12 C.F.R. Part 225.25, as amended); and

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

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

4 (x) Any other person or business entity, other than an insurance
5 general agent taxable under RCW 82.04.280(1)(e), an insurance
6 business exempt from the business and occupation tax under RCW
7 82.04.320, a real estate broker taxable under RCW 82.04.255, a
8 securities dealer or international investment management company
9 taxable under RCW 82.04.290(2), that receives more than ((fifty)) 50
10 percent of its gross receipts from activities that a person described
11 in (d)(ii) through (vii) and (ix) of this subsection is authorized to
12 transact.

13 (e)(i) "Specified financial institution" means a financial
14 institution that is a member of a consolidated financial institution
15 group that reported on its consolidated financial statement for the
16 previous calendar year annual net income of at least ((one billion
17 dollars)) \$1,000,000,000, not including net income attributable to
18 noncontrolling interests, as the terms "net income" and
19 "noncontrolling interest" are used in the consolidated financial
20 statement.

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

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

28 (4) To aid in the effective administration of the additional tax
29 imposed in this section, the department may require a person believed
30 to be a specified financial institution to disclose whether it is a
31 member of a consolidated financial institution group and, if so, to
32 identify all other members of its consolidated financial institution
33 group. A person failing to comply with this subsection is deemed to
34 have intended to evade tax payable under this section and is subject
35 to the penalty in RCW 82.32.090(7) on any tax due under this section
36 by the person and any financial institution affiliated with the
37 person.

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

1 equal to (~~(fifty)~~) 50 percent of the amount of the total surcharge
2 payable by all members of that affiliated group for the calendar year
3 during which the person or persons failed to fully comply with this
4 subsection (1)(e). The penalty under this subsection (1)(e) is in
5 lieu of and not in addition to the evasion penalty under RCW
6 82.32.090(7).

7 (f) For the purposes of this subsection (1) the following
8 definitions apply:

9 (i) "Advanced computing" means designing or developing computer
10 software or computer hardware, whether directly or contracting with
11 another person, including: Modifications to computer software or
12 computer hardware; cloud computing services; or operating as a
13 marketplace facilitator as defined by RCW 82.08.0531, an online
14 search engine, or online social networking platform;

15 (ii) "Affiliate" and "affiliated" means a person that directly or
16 indirectly, through one or more intermediaries, controls, is
17 controlled by, or is under common control with another person;

18 (iii) "Affiliated group" means a group of two or more persons
19 that are affiliated with each other;

20 (iv) "Cloud computing services" means on-demand delivery of
21 computing resources, such as networks, servers, storage,
22 applications, and services, over the internet;

23 (v) "Control" means the possession, directly or indirectly, of
24 more than (~~(fifty)~~) 50 percent of the power to direct or cause the
25 direction of the management and policies of a person, whether through
26 the ownership of voting shares, by contract, or otherwise; and

27 (vi) "Select advanced computing business" means a person who is a
28 member of an affiliated group with at least one member of the
29 affiliated group engaging in the business of advanced computing, and
30 the affiliated group has worldwide gross revenue of more than
31 (~~(twenty-five billion dollars)~~) \$25,000,000,000 during the
32 immediately preceding calendar year. A person who is primarily
33 engaged within this state in the provision of commercial mobile
34 service, as that term is defined in 47 U.S.C. Sec. 332(d)(1), shall
35 not be considered a select advanced computing business. A person who
36 is primarily engaged in this state in the operation and provision of
37 access to transmission facilities and infrastructure that the person
38 owns or leases for the transmission of voice, data, text, sound, and
39 video using wired telecommunications networks shall not be considered
40 a select advanced computing business. A person that is primarily

engaged in business as a "financial institution" as defined in RCW 82.04.29004, as that section existed on January 1, 2020, shall not be considered a select advanced computing business. For purposes of this subsection (1)(f)(vi), "primarily" is determined based on gross income of the business.

(2)(a) The workforce education investment surcharge under this section does not apply to:

(i) Any hospital as defined in RCW 70.41.020, including any hospital that comes within the scope of chapter 71.12 RCW if the hospital is also licensed under chapter 70.41 RCW; or

(ii) A provider clinic offering primary care, multispecialty and surgical services, including behavioral health services, and any affiliate of the provider clinic if the affiliate is an organization that offers health care services or provides administrative support for a provider clinic, or is an independent practice association or accountable care organization.

(b) The exemptions under this subsection (2) do not apply to amounts received by any member of an affiliated group other than the businesses described in (a) of this subsection.

(c) For purposes of the exemption in (a)(ii) of this subsection:

(i) "Health care services" means services offered by health care providers relating to the prevention, cure, or treatment of illness, injury, or disease.

(ii) "Primary care" means wellness and prevention services and the diagnosis and treatment of health conditions.

(3) Revenues from the surcharge under this section must be deposited directly into the workforce education investment account established in RCW 43.79.195.

(4) Beginning in fiscal year 2028, and each year thereafter, when the number of qualified Washington state applicants exceeds the available enrollments by 100 at computer science engineering degree programs in four-year state universities, then a commensurate number of computer science and engineering degree enrollments at those state universities must be automatically added and funded for the surcharge imposed under this section to accommodate the additional demand.

(5) The department has the authority to determine through an audit or other investigation whether a person is subject to the surcharge imposed in this section.

**MODIFYING THE BUSINESS AND OCCUPATION TAX DEDUCTION UNDER RCW
82.04.4281**

NEW SECTION. **Sec. 401.** The legislature finds that the decision of the state supreme court in *Antio, LLC v. Department of Revenue* could lead to uncertainty insofar as it affirms that the business and occupation tax deduction provided in RCW 82.04.4281 for the investment income of persons is only applicable if such income is from investments that are incidental to the main purpose of a person's business, without providing a bright line rule for what constitutes incidental to the main purpose of the person's business. The legislature intends, by adopting this revision of the statute, to avoid uncertainty and provide clarity around what incidental to the main purpose of the business means and, by extension, what income qualifies for the business and occupation tax deduction provided in RCW 82.04.4281 for investment income.

The legislature also intends to make it clear that amounts received by individuals from personal investments are generally not considered amounts received from engaging in business and therefore are not subject to the business and occupation tax. To that end, the legislature directs the department of revenue to provide guidance on what constitutes income from personal investments that are not considered engaging in business and thus not subject to the business and occupation tax.

The legislature further intends to make it clear that nondeductible investment income is subject to the service and other activities business and occupation tax classification and should be apportioned in accordance with RCW 82.04.462.

Sec. 402. RCW 82.04.4281 and 2007 c 54 s 9 are each amended to read as follows:

(1) In computing tax ~~((there))~~ under this chapter, a person may ~~((be deducted))~~ deduct the following from the measure of tax:

(a) ~~((Amounts))~~ Except as provided in subsection (2) of this section, amounts derived from investments ~~((+))~~ that are incidental to the main purpose of the person's business. Investments are incidental to the main purpose of the person's business if the total worldwide gross income derived from such investments is less than five percent of the person's total worldwide gross income of the business annually.

1 (b) Amounts derived as dividends or distributions from the
2 capital account by a parent from its subsidiary entities (~~(+and)~~).

3 (c) Amounts derived from interest on loans between subsidiary
4 entities and a parent entity or between subsidiaries of a common
5 parent entity, but only if the total investment and loan income is
6 less than five percent of gross receipts of the business annually.

7 (2) The following are not deductible under either subsection
8 (1)(a) or (3) of this section, or both:

9 (a) Amounts received from loans, except as provided in subsection
10 (1)(c) of this section, or the extension of credit to another,
11 revolving credit arrangements, installment sales, the acceptance of
12 payment over time for goods or services, or any of the foregoing that
13 have been transferred by the originator of the same to an affiliate
14 of the transferor; or

15 (b) Amounts received by a banking, lending, or security business.

16 (3) Except as provided in subsections (2) and (4) of this
17 section, in computing tax under this chapter, the following persons
18 may deduct from the measure of the tax amounts derived from such
19 person's investments regardless of whether the investments are
20 incidental to the main purpose of the person's business:

21 (a) Nonprofit organizations;

22 (b) Collective investment vehicles;

23 (c) Retirement accounts and recipients of distributions
24 therefrom, to that extent; and

25 (d) Family investment vehicles and recipients of distributions
26 therefrom, to that extent.

27 (4) The following are not deductible under subsection (3)(b) of
28 this section:

29 (a) Amounts derived from investments of persons who are invested
30 in a collective investment vehicle but not themselves a collective
31 investment vehicle;

32 (b) Amounts received by persons as compensation for services
33 rendered to either the collective investment vehicle or the
34 collective investment vehicle's investors, or both;

35 (c) Amounts derived from sources other than investments by a
36 collective investment vehicle; or

37 (d) Amounts derived from factoring.

38 (5) The department must, consistent with the purpose of this
39 section, adopt rules necessary to implement this section including,
40 but not limited to, rules that provide examples of investment income

1 from personal investments that is not eligible for a deduction under
2 this section by virtue of it not being income from engaging in
3 business and thus not taxable under this chapter. Such rule making
4 must also include examples of the tax treatment of investment income
5 received by persons making certain investments through different
6 types of collective investment vehicles.

7 (6) The definitions in this subsection apply only to this
8 section.

9 (a) "Banking business" means a person engaging in business as a
10 national or state-chartered bank, a mutual savings bank, a savings
11 and loan association, a trust company, an alien bank, a foreign bank,
12 a credit union, a stock savings bank, or a similar entity that is
13 chartered under Title 30, 31, 32, or 33 RCW, or organized under Title
14 12 U.S.C.

15 (b)(i) "Collective investment vehicle" means a person who meets
16 all the following criteria:

17 (A) The person's total gross income derived from its investments
18 is at least 90 percent of the person's total worldwide gross income
19 of the business annually;

20 (B) The person holds title to passive investment assets for the
21 benefit of the person's investors and the investment decisions are
22 made by another person who serves as the collective investment
23 vehicle's manager or advisor; and

24 (C) The person accepts unrelated persons as its investors.

25 (ii) A collective investment vehicle may take the form of a
26 mutual fund, collective fund, and any similar investment vehicle
27 whether structured as a limited or general partnership, limited
28 liability company, corporation, trust, or otherwise.

29 (c) "Family investment vehicle" means:

30 (i) The estate of any decedent;

31 (ii) An inter vivos or testamentary trust, provided that the
32 grantor and all beneficiaries are either members of the family as
33 defined in RCW 83.100.046, or nonprofit organizations, or both;

34 (iii) A qualified tuition program established under the
35 provisions of the internal revenue code section 529; or

36 (iv) A coverdell education savings account established under the
37 provisions of the internal revenue code section 530.

38 (d) "Internal revenue code" means the United States internal
39 revenue code of 1986, as amended, as of January 1, 2026, or such

subsequent date as the department may provide by rule consistent with this chapter.

(e) "Investments" includes, but is not limited to, securities, trading account assets, federal funds, options, futures contracts, forward contracts, notional principal contracts, equities, foreign currency transactions, fixed income instruments, derivative instruments, and commodities.

(f) "Lending business" means a person engaged in the business of making secured or unsecured loans of money, or extending credit, and (i) more than one-half of the person's gross income is earned from such activities and (ii) more than one-half of the person's total expenditures are incurred in support of such activities.

~~((e))~~ (g) The terms "loan" and "extension of credit" do not include ownership of or trading in publicly traded debt instruments, or substantially equivalent instruments offered in a private placement.

~~((d))~~ (h) "Nonprofit organization" has the same meaning as in RCW 82.04.3651.

(i) "Retirement account" means any qualified plan established under any of the provisions of sections 401 through 409, inclusive, of the internal revenue code.

(j) "Security business" means a person, other than an issuer, who is engaged in the business of effecting transactions in securities as a broker, dealer, or broker-dealer, as those terms are defined in the securities act of Washington, chapter 21.20 RCW, or the federal securities act of 1933. "Security business" does not include any company excluded from the definition of broker or dealer under the federal investment company act of 1940 or any entity that is not an investment company by reason of sections 3(c)(1) and 3(c)(3) through 3(c)(14) thereof.

PART V

MISCELLANEOUS PROVISIONS

NEW SECTION. **Sec. 501.** RCW 82.32.805 and 82.32.808 do not apply to this act.

NEW SECTION. **Sec. 502.** If any provision of this act or its application to any person or circumstance is held invalid, the

1 remainder of the act or the application of the provision to other
2 persons or circumstances is not affected.

3 NEW SECTION. **Sec. 503.** This act is necessary for the support of
4 the state government and its existing public institutions.

5 NEW SECTION. **Sec. 504.** Sections 101 through 108 and 110 through
6 112 of this act take effect January 1, 2027.

7 NEW SECTION. **Sec. 505.** Section 113 of this act takes effect
8 January 1, 2034.

9 NEW SECTION. **Sec. 506.** Section 112 of this act expires January
10 1, 2034.

11 NEW SECTION. **Sec. 507.** Sections 114, 201, 301, 401, and 402 of
12 this act take effect January 1, 2026.

13 NEW SECTION. **Sec. 508.** Sections 109 and 202 of this act take
14 effect October 1, 2025.

--- END ---