Summary of Initiative 26-645

Prepared for members of the Washington House of Representatives by the House Office of Program Research.

This information has been prepared in response to various requests for a summary of Initiative 26-645. It is provided for analytical and legislative policy purposes only. It is not provided as an expression of support for or opposition to any ballot measure. These materials are intended to provide general information and are not intended to be an exhaustive analysis of all issues presented by the measure.

BRIEF SUMMARY

- Repeals the 9.90 percent tax on annual individual income over $1 million.
- Prohibits the state and local governments from imposing taxes on individual income or the receipt of individual income.
- Prohibits taxes measured by an individual's income.
- Defines "income" as "any gain or benefit measured in money derived from an individual's capital, labor, property, or other source" and an "individual" as "a natural person" for the purposes of taxes.

BACKGROUND

Initiative 26-645

Initiative 26-645 was certified to the ballot on July 22, 2026. The ballot title and ballot measure summary prepared by the Attorney General are as follows:

> **Ballot Title**
> Statement of Subject: Initiative Measure No. IP26-645 concerns state and local taxes.
>
> Concise Description: This measure would repeal a 9.9% tax on annual individual income over $1,000,000; prohibit taxes measured by individual income and taxes on individual income or the receipt of individual income; and define "income."
>
> Should this measure be enacted into law? Yes [ ] No [ ]

Ballot Measure Summary

This measure would repeal a 9.9% tax on annual individual income over $1,000,000; prohibit state and local governments from imposing taxes on individual income or the receipt of individual income and taxes measured by an individual's income; and define income as "any gain or benefit measured in money derived from an individual's capital, labor, property, or other source." It would also define "individual" as a natural person for purposes of excise taxes.

Federal Individual Income Taxes.

Federal individual income taxes are based on a taxpayer's adjusted gross income (AGI), which represents total income from all taxable sources minus allowable adjustments, such as retirement or health savings account contributions or student loan interest paid on certain higher education loans. From the AGI, taxpayers subtract either the standard deduction or itemized deductions to determine taxable income. The United States uses a graduated tax rate structure in which taxable income is divided into brackets, with each bracket taxed at a higher marginal rate as income rises. Taxpayers pay the applicable marginal rate only on the income within that bracket. There are seven rates ranging from 10 percent to 37 percent.

Washington has not imposed an individual income tax since 1933. In 2024 the Legislature passed Initiative to the Legislature 2111, which prohibits the state, counties, cities, and other local jurisdictions from imposing taxes on any form of individual income.

Washington Income Tax on Income Exceeding $1 Million.

During the 2026 Regular Session, the Legislature enacted Engrossed Substitute Senate Bill 6346 (ESSB 6346), which imposes a tax on an individual's receipt of income exceeding $1 million and makes numerous changes to the state's business and occupation tax (B&O tax), the state sales and use tax, and the working families tax credit program. The tax is exempted from Initiative 2111's prohibition on imposing any tax on income as long as the individual's income is over $1 million.

Imposition of Tax on Income Exceeding $1 Million.

Beginning January 1, 2028, a 9.90 percent tax is imposed on the receipt of Washington taxable income over $1 million. Only individuals are subject to payment of the tax. The first tax payments begin in calendar year 2029.

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Determining Washington Base Income.

A taxpayer's Washington base income must be calculated before determining the taxpayer's Washington taxable income. A taxpayer's Washington base income is calculated using their federal AGI and applying certain modifications for long-term capital gains, state and local debt obligations, state and local taxes, federal carryovers, incomplete nongrantor trusts, tribal income, and federal debt obligations.

For resident individuals, all income is allocated to the State of Washington. A nonresident taxpayer must allocate individual income attributable to sources or activity in Washington.

Determining Washington Taxable Income.

After determining their Washington base income, a taxpayer may make several adjustments to determine their Washington taxable income.

Standard Deduction.

First, an individual taxpayer may deduct from their Washington base income a standard deduction of $1 million. For spouses or domestic partners, the combined standard deduction is limited to $1 million, regardless of whether they file joint or separate returns. The standard deduction is adjusted annually for inflation beginning with taxes collected in 2030 and every second year thereafter. The standard deduction is reduced for an individual who is not a resident for the entire year.

Charitable Contributions.

Second, an individual taxpayer may deduct from their Washington base income the amount of charitable contributions they claimed for the taxable year under section 170 of the Internal Revenue Code, up to $100,000. For spouses or domestic partners, their combined charitable deduction is limited to $100,000, regardless of whether they file joint or separate returns. Charitable contributions are only eligible for this deduction when made to a nonprofit organization or other organization principally directed and managed in Washington and eligible to receive charitable contributions under the Internal Revenue Code.

Other Adjustments.

In addition, a taxpayer must make several other adjustments to their Washington base income if applicable. A taxpayer must add their distributive share of the tax expense incurred by a pass-through entity electing to pay the tax at the entity level. Additional adjustments may be made to

a taxpayer's Washington base income related to Washington-based wagering losses and qualified commercial cannabis expenditures.

Credits for Other Taxes Paid.

Certain credits are available to reduce income tax liability. A resident may claim a tax credit for income tax paid to another state or to a political subdivision of that state if that income would also be subject to this tax. In addition, if a taxpayer has paid B&O or public utility tax on the same income that is subject to the income tax, a tax credit is available against income taxes owed. Finally, a tax credit is also available for any Washington capital gains tax paid on capital gains subject to this tax.

Allocation and Apportionment of Income for Nonresidents.

A nonresident individual is subject to a tax on the portion of their federal AGI derived from employment within Washington, regardless of the location of the commercial domicile of the employer. Compensation for services performed by a nonresident as part of their employment is allocated to this state to the extent the services are rendered within the state. If the services are performed both within and outside the state, the compensation is apportioned based on the ratio of days worked in the state to total days worked, or by another reasonable method approved by the Department of Revenue (DOR).

Certain other methodologies apply to assigning the income of nonresidents, including those nonresidents who are operating a business within and outside of the state, are members of a professional athletic team, or are student athletes.

A part-year resident's Washington AGI includes all income earned while a resident plus only Washington-source income earned while a nonresident. Special rules apply to income from a pass-through entity.

Estimated Tax Payments.

A taxpayer owing taxes must make estimated payments to the DOR under rules aligned with federal estimated tax payment requirements. The estimated tax amount is calculated by dividing the annualized tax by the number of months in the reporting period. Estimated tax payments are not required if the annualized tax liability is under $5,000.

Filing of a Tax Return.

A taxpayer owing taxes must file an annual return by the filing due date of their federal income

tax return. An individual not owing taxes is not required to file a return. Tax returns must be filed electronically using the DOR's online tax filing service and must include a copy of the taxpayer's federal income tax return and other supporting documentation. Each taxpayer required to file a return must pay taxes due to the DOR on or before the filing due date, regardless of any filing extension. If a taxpayer has obtained an extension of time for filing their federal income tax return for the taxable year and provides the DOR confirmation of the federal extension by the due date for their Washington return, the taxpayer is entitled to the same extension of time for filing their return.

Taxpayers' federal and state filing practices must generally align. If spouses' federal income tax liability is determined on a separate federal return for the taxable year, they must file separate Washington income tax returns. If spouses file a joint federal return, they must do the same for Washington. However, state registered domestic partners may file a joint return in Washington even if they filed separate federal returns for the taxable year. The tax liability of each spouse or state registered domestic partner is joint and several, except under certain conditions.

Pass-Through Entity Tax Election.

Pass-through entities, such as partnerships and limited liability companies, may elect to pay the applicable income tax on behalf of the individual owners at the entity level. The tax rate is 9.90 percent and the tax amount would be similar to the liability of the individual owners. Pass-through entities may opt in by annually filing an election by June 15 of the taxable year. Once the election is made for the tax year it cannot be revoked. The election must be signed by an authorized person, depending on the entity type. Electing entities must make estimated tax payments similar to individuals, based on reasonable income estimates. Owners receive a credit for their share of tax paid by the entity and must report their distributive income on their own Washington returns. Resident and nonresident owners report income differently based on sourcing rules, but both may claim the credit. In calculating individual Washington taxable income, owners must add back any distributive share of the tax expense deduction reflected in the federal AGI. Electing entities must file an annual return with all required information, and the DOR may adopt rules to administer and streamline the process.

Enforcement.

Failure to properly file a return by the due date or any granted extension will subject the taxpayer to a monthly penalty of 5 percent of the tax due, not to exceed 25 percent of the tax due for the taxable year covered by the delinquent return.

Penalties and interest may apply to underpaid estimated taxes unless the estimated tax payments are either at least 90 percent of the tax shown on the tax return or 100 percent of the tax shown

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on the previous year's tax return. A 5 percent penalty applies for substantially underpaid estimated tax payments. "Substantially underpaid" means that a taxpayer's total annual estimated tax payments were less than 80 percent of the actual annual tax due, and at least $5,000.

Any person who knowingly attempts to evade the tax is guilty of a class C felony. Any person who knowingly fails to pay the tax, pay the estimated tax, file returns, or supply required information, is guilty of a gross misdemeanor.

Advisory Group.

Beginning July 1, 2026, the DOR must regularly consult an advisory group on the implementation of the income tax. The advisory group must include certain members representing the Legislature, the DOR, the Office of Financial Management, and the Office of Minority and Women's Business Enterprises. In addition, the advisory group must include gubernatorial appointees representing certain interests and entities.

The advisory group must make recommendations regarding the implementation and administration of the income tax, including the pass-through entity election, the development of a state schedule K-1, filing requirements, safe harbor provisions, sales taxes on services, and other essential administrative and implementation matters.

An initial report of the advisory group recommendations is due to the Legislature by December 15, 2026, with a final report due December 15, 2027.

Department of Revenue Annual Report.

The DOR must report to the Legislature annually beginning January 1, 2028, on the total cost of administering the income tax. The report must include the number of full-time employees required to administer the tax as well as the cost ratio of implementation compared to revenues raised.

Distribution of Revenues.

Beginning July 1, 2029, and each July 1 thereafter, the State Treasurer must deposit 5 percent of the revenues collected from the tax during the previous fiscal year into the Fair Start for Kids Account. The remainder of taxes, interest, and penalties are deposited into the State General Fund.

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SUMMARY

Initiative 26-645 prohibits the imposition of a tax by the state, counties, cities, or other local jurisdictions on individual income, the receipt of individual income, or measured by an individual's income, regardless of the source.

"Income" is defined as any gain or benefit measured in money derived from an individual's capital, labor, property, or other source. An "individual" is defined as a natural person. These definitions apply to all state tax laws, unless the context clearly requires otherwise.

Initiative 26-645 repeals the tax on individual income exceeding $1 million as well as the corresponding provisions associated with the administration of the income tax, including the distributions of revenues. These provisions include:

- imposition of the tax;
- distribution of the tax revenues;
- calculation of Washington base income and Washington taxable income;
- allocation and apportionment of income;
- administrative provisions;
- pension income related provisions;
- amendment of Initiative 2111; and
- additional technical provisions.

Effective Date: The initiative takes effect 30 days after the election at which it is approved.

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