



2025 Legislative Session Wrap-up

The Washington State Legislature adjourned on time on April 27, finishing the 105-day session by passing a \$72 billion biennial budget with significant budget cuts and \$9.37 billion in new taxes that hit nearly every business sector and high net-wealth individuals. On May 20, first-year Democratic Governor Bob Ferguson signed into law numerous budget and tax bills, enacting the largest tax increase in the state's history.

IIABW Defeats Effort to Quadruple Producers B&O Taxes

With a successful grassroots effort and the determined leadership of several key legislators, IIABW defeated an effort to increase the B&O tax on producers' commissions from 0.484% to 2.1%. Lawmakers did make a slight increase in the B&O tax rate by raising it to 0.5%.

Legislation that included the tax hike passed the Senate mostly on a party-line vote. But in the House Finance Committee, several legislators from both parties stood up for IIABW members. Lawmakers were most compelled by the fact that national direct sales insurers pay no sales commissions and, as a result, do not pay taxes on commissions - but local agents and brokers pay the tax. This was accurately seen as a competitive disadvantage that harms producers and local insurance agencies. The "GEICO Gap" message made a difference as the House Finance Committee removed the producers' commissions tax from the bill.

There are many legislators to thank. In the House, Representatives Amy Walen (D-Kirkland & Bellevue), Sharon Tomiko Santos (D-Seattle), Alex Ramel (D-Skagit and Island counties), April Berg (D-Mill Creek), Ed Orcutt (R-Cowlitz and Lewis counties), Kristine Reeves (D-Federal Way), House Majority Leader Joe Fitzgibbon (D-West Seattle), House Republican Leader Drew Stokesbary (R-Auburn) and House Deputy Republican Leader Chris Corry were champions. Also, Senate Republican Leader John Braun (D-Centralia), and Senators Annette Cleveland (D-Vancouver), Mike Chapman (D-Port Angeles) and Chris Gildon (R-Puyallup) fought for IIABW members.

Credit Scoring Study

Funding is provided in the state budget to conduct a study of insurers' use of credit history and other credit-based factors that may have disparate impacts on Washington residents and alternatives to their use.

Wildfire Mitigation Workgroup (HB 1539)

Legislation was signed into law that directs the Commissioner of Public Lands and the OIC to create a working group to study and make recommendations on property mitigation standards. The effort intends to create a framework for how the state can help resist damage from wildland fires, improve transparency of wildfire risk for property owners, and create a grant program for homeowners to assist the property insurance market. IIABW is working with the OIC to have agents appointed to the workgroup.

Restitution and Fines for Bad Actors (SB 5331)

Legislation passed the Senate but died in a House Committee that sought to give the OIC increased ability to punish bad actors and order restitution to consumers harmed by an insurance company's violation of state laws. The bill would have given the OIC broader authority to fine P&C insurers on a per-violation circumstance rather than a per-incident circumstance.

The bill passed the Senate but failed on an 8-7 vote in the House Consumer Protection and Business Committee. Before the final vote, an amendment was adopted that established a \$100,000 cap for intentional violations of insurance laws and an aggregate cap of \$35,000 when there is one insurance law violation. Disagreement over the caps led to defeat of the bill.

Session Summary

Heading into the 2025 session, the state faced a \$15 billion shortfall in the state's operating budget. To close the budget gap against current incoming tax dollars, Democrats sought to maintain existing state programs and raise taxes in a manner that was more progressive in the types of taxes they intended to offer. Legislative Republicans believed the state's budget crisis was a spending problem rather than a revenue problem. GOP legislators said they believed the budget situation could be resolved without tax increases.

As part of their initial proposals, Democrats proposed a "wealth tax" to collect revenue from individuals with over \$50 million in net worth and a "head tax" that proposed a 5.5% tax on all employees making over \$177,600 - paid by the employer.

Ferguson offered a different approach, announcing just before the start of the session that he had identified over \$4 million in budget cuts – preferring cuts before tax increases. While Ferguson did not rule out tax increases, his announcement put the new governor at odds with Democratic lawmakers who sought to avoid cuts to programs in most areas of state government.

As the session progressed, Ferguson had a significant impact on the tax proposals under consideration. He spoke up against the wealth tax, believing the tax would be difficult to administer. The wealth tax came off the table. An aggressive lobbying effort led Democrats to rejecting the head tax.

During the last 10 days of the session, Democratic legislators homed in on \$12 million in tax hikes - but again Ferguson balked at the number. Then on the final three days of the session, lawmakers passed a \$9.37 billion tax package. These five bills include the most substantive tax increases that now sit before Ferguson for signature:

- [HB 2081](#) – The B&O tax (gross receipts) rate increases include:
 - Creating a 0.5% rate surcharge on businesses that earn in Washington state more than \$250 million annually with some exemptions.
 - An increase in insurance producers B&O tax rate from 0.484% to 0.50%
 - Increasing the financial institutions rate surcharge from 1.2 % to 1.5 %
 - Raising the services tax rate from 1.75% to 2.1%,
 - Increasing rates in another 10 rate categories that impact a wide variety of business sectors.
 - Modifying the B&O investment income deduction resulting from the *Antio* court decision.
- [SB 5814](#) – Applying sales tax to the following business activities:
 - Advertising services
 - Temporary staffing services with an exemption for hospitals
 - IT technical consulting services.
 - IT training services and technical support.
 - Custom website development services.
 - Custom software and customization of prewritten computer software.
 - Investigation, security services, security monitoring services, and armored car services.
 - A 95% wholesale tax on nicotine products like Zyn.
- [SB 5813](#) – Raises the state's capital gains tax to 9.9% on gains more than \$1 million and increases the estate tax rates, most notably raising from 20% to 35% the tax rate for estates greater than \$9 million.
- [SB 5794](#) – Numerous tax preference are repealed on certain business sectors.

- [HB 2077](#) – Imposes an excise tax on banking and sales of zero-emission vehicle tax credits by a manufacturer.

These taxes led to a final \$71.9 billion two-year budget, an increase of eight percent from the 2023-2025 two-year budget. Lawmakers did not break into the Rainy Day Fund; instead, they balanced tax increases with budget cuts to reach a final agreement.

Areas of the budget that were most impacted by spending reductions were in human services programs, Medicaid, and higher education. Areas of the budget that saw additional funding support include K-12 special education, materials, supplies and operating costs, and full funding of state employees' collective bargaining agreement. An important Ferguson priority is in the final budget - \$100 million for grants to put more police officers on the streets.

The transportation budget was leaking badly due to a \$1 billion shortfall in the current 2025-2027 due to inflationary cost increases in transportation projects, new ferry construction and culvert replacement projects. Transportation budget writers scrambled to find a path to protect current budget obligations.

As a result, legislators approved a new 6 cents per-gallon gas tax that is indexed by inflation. Additionally, numerous fees were raised including fees on:

- Electric vehicle fees raised from \$75 to \$100;
- Vehicle filing fees raised from \$5.50 to \$6.50;
- Rental car tax rate raised from 5.9% to 11.9%, then reduced to 9.9% in 2027;
- Peer-to-peer car sharing are now subject to rental car taxes in certain circumstances;
- Establishing a luxury vehicle, RV, boat and aircraft tax;
- Tire fees raised from \$1 to \$5 per tire;
- Driver's license/ID cards; and
- Work zone safety violations.

While Democrats were challenged on the budget front, they were able to advance priority bills important to their core base of support, including:

- **Labor:** Passage of legislation that provides unemployment insurance for striking workers, complete funding of state employees collective bargaining agreements, and expansion of the Paid Family and Medical Leave Act.
- **Housing:** Passage of rent control legislation.
- **Consumer Protection:** Passage of bills that protect people from reporting of medical debt on credit reports and providing additional options for people who seek to repair their digital devices.
- **Environment:** Passage of bills to reform residential recycling (EPR) and expanded use of the clean fuels act.

- **Education:** Passage of bills that clarify the rights parents have in certain aspects of their child's K-12 education, additional special education funding, and increased funding for materials, supplies, operating costs and special education support.