



2026 Washington State Legislative Session Wrap-up

The Washington Legislature adjourned on March 12 after approving a \$79 billion supplemental operating budget and passing a landmark income tax on millionaires, closing a 60-day session dominated by efforts to address a \$2 billion budget shortfall. To close the gap, lawmakers relied on a mix of spending adjustments, new revenue, and one-time measures. The plan includes an \$880 million withdrawal from the state's rainy-day fund, with lawmakers planning to restore those reserves in 2029 using an overfunded pension account for police officers and firefighters.

Rising legal liability costs emerged as one of the largest new pressures on the budget. Lawmakers set aside nearly \$1 billion to cover mounting expenses tied to lawsuits against the state, along with potential federal changes to safety-net programs such as Medicaid and food assistance.

Lawmakers also approved three tax changes aimed at boosting revenue. The measures impose a new tax on insurance companies when transferring income to subsidiaries, eliminate a preferential tax rate for prescription drug wholesalers, and remove a sales tax exemption for replacement equipment used by data centers.

Earlier in the session, lawmakers rejected a proposal that would have required certain employers to reimburse the state when workers rely on Medicaid for health coverage. The measure targeted large companies whose employees qualify for Apple Health and would have required businesses to help offset public costs.

Lawmakers also rolled back a recent estate tax increase, cutting the top rate on large estates from 35% to 20% and lowering rates across multiple brackets after concerns the higher rates could prompt wealthy residents to relocate.

Democratic lawmakers said their budget preserves essential services while addressing the deficit through targeted cuts, new revenue, and temporary use of reserves. Republicans countered that the plan continues spending growth while relying on temporary maneuvers. They warned the approach could deepen future deficits and force steeper cuts or additional taxes in coming years.

Millionaires' income tax debate

Heading into the session, Gov. Bob Ferguson and legislative Democrats endorsed a 9.9% income tax on adjusted gross income above \$1 million, pitching it as a long-term fix for Washington's budget challenges. Supporters said the measure would generate billions annually while making the state's tax system less regressive.

The proposal reignited debate over Washington's tax structure. Republicans, business groups, and some moderate Democrats argued an income tax could violate the state constitution's treatment of income as property and warned it could eventually extend beyond high earners. Supporters pointed to recent court rulings upholding the state's capital-gains tax as evidence the legal landscape may be shifting.

IIABW shared our concern that the tax will impact small businesses structured as pass-through entities (S-corps/ partnerships/ LLCs) where business income is reported on the owner's individual return. Pass-through income can trigger the tax even without cash distribution to the owners. Under this tax, agency owners can face this new Washington income tax on profits retained within the business for payroll, debt service, or expansion.

Lawmakers approved the tax to take effect in 2028, setting the stage for court challenges and a voter referendum.

Wildfire Risk and Mitigation: SB 5928 & SB 6079

Two wildfire-related bills died this session. Together, Washington State Senate Bill 5928 and Washington State Senate Bill 6079 would have transformed Washington's wildfire insurance landscape by emphasizing transparency, proactive mitigation, and policyholder support.

- SB 5928 would have established comprehensive wildfire risk scoring transparency for property insurance. The bill would have required insurers to disclose wildfire risk scores to policyholders, explain the factors driving each score, and provide clear, actionable steps property owners could take to reduce their risk. Policyholders could have appealed their scores if they had completed mitigation work or identified inaccuracies. Independent agents would have needed to guide clients through score interpretation, mitigation strategies, and appeal processes, while insurers would have been incentivized to standardize scoring methodologies and maintain defensible risk assessments.
- SB 6079 would have created a wildfire mitigation retrofit grant program to help homeowners in high-risk areas bring existing properties up to the standards of the Insurance Institute for Business & Home Safety Wildfire Prepared Home Program. Homeowners who participated could not have been canceled or nonrenewed solely because of wildfire risk. The program would have aligned with the Washington State Department of Natural Resources Ready Neighbors initiative and would have been initially funded through regulatory accounts managed by the Washington State Office of the Insurance Commissioner.

Both bills were priorities for Insurance Commissioner Patty Kuderer. IIABW expects both bills, in some form, will come back for legislative consideration in the 2027 legislative session.

Other Key P&C Bills

House Bill 2255 – Third-Party Litigation Financing (TPLF)

IIABW and the rest of the industry pushed for legislation imposing strict rules on third-party litigation financing (TPLF) agreements. Under the proposal, TPLF activities would have

created much-needed transparency to spotlight this practice. Insurers argued that opaque TPLF arrangements could prolong lawsuits and drive up legal and settlement costs, contributing to higher premiums and underwriting challenges in lines such as commercial auto and umbrella liability.

Additionally, insurers contended that TPLF could inflate both the frequency and severity of claims by supporting lawsuits that might otherwise stall. Analyses from insurance associations and reinsurers had linked litigation funding to social inflation, higher defense costs, and upward pressure on loss ratios and premiums, with some executives warning that, if left unchecked, TPLF could add tens of billions of dollars in industry costs over the coming years.

The following bills did not pass the legislature:

- **Senate Bill 5067 – 0.05 DUI:** This bill proposed decreasing the DUI blood alcohol concentration limit from 0.08 to 0.05 percent for driving, having physical control of a motor vehicle or operating a vessel.
- **Senate Bill 5331 – OIC Enforcement and Penalties:** This bill would have allowed the OIC to order direct consumer restitution, including interest, and impose fines of up to \$10,000 per violation.
- **Senate Bill 6031 – Automobile Insurance Rate Reform:** The bill would have expanded the OIC’s authority to audit rate filings, particularly regarding mileage, usage, and loss cost drivers.
- **Senate Bill 6178 – Claims Reporting Enhancements:** This proposal would have established stricter requirements for reporting large-loss events, including timeliness, specificity, and electronic data submission standards.
- **House Bill 1078 – Pet Insurance:** The legislation would have prohibited pet insurers from canceling or nonrenewing pet insurance policies based on the age or certain health conditions of the pet.
- **Senate Bill 5864 – Real-Time Proof of Insurance:** This bill would have required the Washington State Department of Licensing to establish an accessible online motor vehicle insurance verification system. It also would have required all motor vehicle liability insurers to provide policy information to the system to enable real-time proof of insurance.