Washington Research Council

Policy Brief 26-06
Sept. 22, 2026

I-645: Repealing the State Individual Income Tax

Briefly

A 9.9% tax will be imposed on Washington income over $1 million beginning Jan. 1, 2028. Initiative 645 would repeal the income tax and prohibit any state or local taxes on individual income.

I-645 would reduce revenues for funds subject to the outlook (NGFO) by $3.108 billion in 2027–29 and by $8.324 billion in 2029–31. Excluding the income tax, NGFO revenues would total $79.466 billion in 2027–29 and $84.840 billion in 2029–31. Because the income tax is not yet being collected, no current appropriations rely on the revenues. (The outlook for the current operating budget assumes $2.698 billion in income tax revenues in 2027–29.) There is no way to know how the Legislature would respond to the loss of anticipated income tax revenues.

Repealing the income tax would make it more difficult for the state to close the persistent gap between spending and ongoing revenues, but maintaining the tax would not solve the problem on its own.

Even if I-645 is rejected, the Legislature will still need to grapple with budget uncertainty related to the constitutional challenge to the income tax. Further, if the income tax remains in effect, it will be the state's fourth-largest tax source. But the general volatility of income tax revenues and the uncertainty about how taxpayers will respond to the tax will make writing sustainable budgets more complicated.

A 9.9% tax will be imposed on Washington household income over $1 million beginning Jan. 1, 2028. (The $1 million standard deduction and the tax rate could be changed by the Legislature at any time.) Income tax revenues will not be collected until fiscal year 2029. The tax was adopted earlier this year as part of ESSB 6346, which also reduced some other taxes. (We wrote in depth about ESSB 6346 in "With the Income Tax, Washington Adds a New, Volatile Layer of Taxation.") In November, voters will decide if the income tax should be repealed.

I-645 Would Repeal the Income Tax, Not ESSB 6346

Initiative 645 would repeal the income tax and prohibit any state or local taxes on individual income. Specifically, it would repeal each section of ESSB 6346 that establishes the income tax and its contours.

I-645 would *not* repeal the tax relief sections of ESSB 6346. Consequently, if I-645 is approved, the following provisions of ESSB 6346 would all still become effective Jan. 1, 2029:

- Expanded eligibility for the working families tax credit (estimated to increase spending by $226.0 million in 2027–29 and $467.0 million in 2029–31);

- Sales tax exemptions for diapers, over-the-counter drugs, and certain grooming and hygiene products (estimated to reduce revenues by $44.1 million in 2027–29 and $219.2 million in 2029–31);
- Reversal of the expansion of the sales tax to services, except advertising (estimated to reduce revenues by $182.2 million in 2027–29 and $923.9 million in 2029–31);
- Early termination for certain industries of the temporary business and occupation (B&O) tax surcharge (estimated to reduce revenues by $41.0 million in 2027–29 and $119.0 million in 2029–31); and
- Increase to the small business B&O tax credit (estimated to reduce revenues by $37.1 million in 2027–29 and $257.8 million in 2029–31).

(The fiscal estimates above are in terms of funds subject to the outlook.)

However, I-645 would also leave Sec. 1202 of ESSB 6346 in statute. Sec. 1202 states that "if a court of final jurisdiction invalidates" the individual income tax, the tax relief measures in the bill are null and void. Thus, if the state Supreme Court ultimately holds that the income tax is unconstitutional, then the tax relief measures would be void—regardless of whether I-645 is approved.

Finally, I-645 would prohibit state and local governments from imposing any taxes "on individual income, the receipt of individual income, or measured by an individual's income." I-645 defines "income" as "any gain or benefit measured in money derived from an individual's capital, labor, property, or other source."

I-645 Would Reduce State Revenues in the Future Compared to a Future With the Income Tax

According to the Office of Financial Management (OFM), I-645 would reduce revenues to funds subject to the outlook (NGFO) by $3.108 billion in 2027–29 and by $8.324 billion in 2029–31 (OFM 2026). Additionally, I-645 would reduce state costs related to the implementation of the income tax by $139,000 in 2025–27, $89.4 million in 2027–29, and $60.5 million in 2029–31 (OFM 2026).

Notably, the fiscal impact for I-645 is larger than the income tax revenues assumed in the state's June revenue forecast, by $1.835 billion through 2031. For the June forecast, the Economic and Revenue Forecast Council used the fiscal impact of ESSB 6346, as estimated by the Department of Revenue (DOR). For the I-645 fiscal impact statement, DOR and OFM increased that estimate based on economic growth in the June forecast.

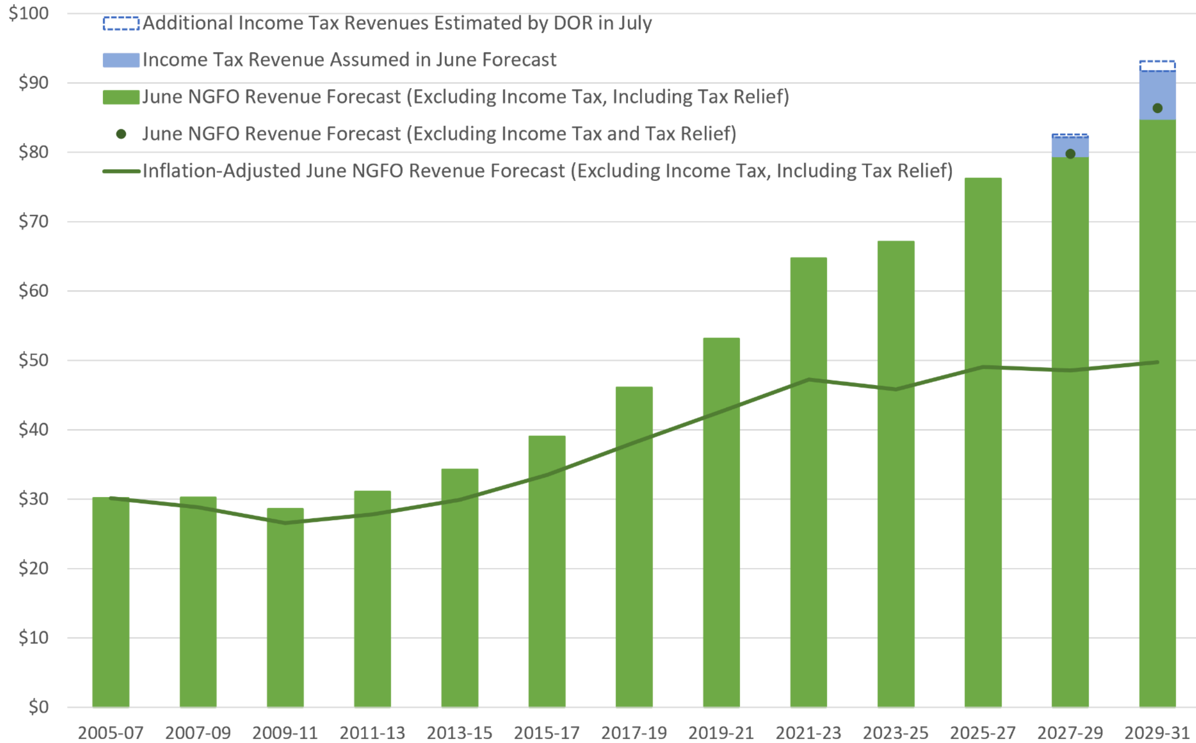
NGFO revenues in the current biennium, 2025–27, are estimated to be $76.237 billion. The June NGFO revenue forecast includes $2.698 billion in income tax revenues in 2027–29 and $6.899 billion in 2029–31. Excluding the income tax, but including the tax relief provisions of ESSB 6346, NGFO revenues would total $79.466 billion in 2027–29 and $84.840 billion in 2029–31. In other words, revenues are expected to continue to increase from one biennium to the next, even if the tax relief remains in place and the income tax is repealed. (The fiscal note for ESSB 6346 estimated that the tax relief provisions that are effective Jan. 1, 2029 would reduce NGFO revenues by $304.4 million in 2027–29 and $1.520 billion in 2029–31.)

Generally, the fiscal estimates for I-645 and ESSB 6346 should be treated with some skepticism. First, the income tax is not yet being collected, so there is no history in which to ground a forecast. Second, it is not known how taxpayers will react to the income tax, which is layered on top of an already uncompetitive tax structure (WRC 2026a). Third, income taxes are generally volatile, particularly when targeted at high earners (WRC 2026c). These factors make forecasting difficult.

CHART

NGFO Revenues

(Dollars in Billions)



Sources: ERFC, OFM

Washington Research Council

Budget Realignment Will be Required Regardless of the Results of I-645

Because the income tax is not yet being collected, no current appropriations rely on the revenues. The outlook for the current operating budget assumes $2.698 billion in income tax revenues in 2027–29, and the 2026 supplemental to the 2025–27 budget officially balances over four years due, in part, to those revenues.

In 2027, the Legislature will adopt a budget for 2027–29 that must balance through 2029–31. By that time, legislators will know whether voters have repealed the income tax and will make budget choices accordingly. There is no way to know how the Legislature would respond to the loss of anticipated income tax revenues. (Notably, though, Sen. Robinson, chair of the Senate Ways & Means Committee, told the Seattle Times Editorial Board, "I do not see any scenario where we could keep" the tax relief and workings family tax credit expansion that were part of ESSB 6346, in the event that I-645 is approved (STEB 2026).)

In the fiscal impact statement, OFM writes that I-645 "would reduce funding to the state general fund to support core government services, particularly public K-12 education, higher education (including universities and community colleges), and human services (primarily healthcare)" (OFM 2026). Similar language will appear on the ballot as well.

I-645 would indeed reduce state revenues relative to the current revenue forecast beginning in 2029. However, even if the initiative passes, state revenues will still be higher in 2029 than they are today. The Legislature would not necessarily respond by cutting (or reducing growth in) education or human services spending. It could reduce spending in other areas. It could also increase other taxes, or revenues could increase with economic growth.

That said, Washington has experienced budget shortfalls over the past two years (even though revenues have been increasing) because the Legislature chose to appropriate significantly more in 2023–25 than was expected in ongoing revenues (WRC 2024). The Legislature increased taxes in 2025 and 2026, but it also increased net appropriations. As a result, the gap between spending and ongoing revenues has increased (WRC 2026b). All else equal, income tax revenues will help make the gap smaller in the future than it would be without the income tax, but income tax revenues do not solve the problem on their own (Makings 2026). The Legislature will need to constrain spending growth to balance the budget within forecasted revenues.

Legal Risks and Tax Reform Possibilities

The income tax is also being challenged in court. Washington courts have long held that income is property, and so income taxes are subject to the state constitution's restrictions on property taxes. As such, an income tax like the one in ESSB 6346, which is not uniform on the same class of property and has a rate higher than 1%, has traditionally been considered unconstitutional.

If I-645 is rejected, the income tax could thus still be invalidated by the state Supreme Court. If, however, the state Supreme Court reverses precedent and rules that graduated income taxes are constitutional, that could open new avenues for tax reform in Washington. For example, it's possible that the $1 million standard deduction could be lowered and new tiered rates could be applied. It's also possible that the B&O tax could be replaced with a corporate income tax in the future.

Additionally, I-645 does not mention Washington's capital gains tax, which is styled as an excise tax. Nevertheless, capital gains are generally considered to be income and would seem to qualify as such under I-645's definition of income. If I-645 is approved, its prohibition on taxes measured by individual income could lead to legal challenges of Washington's capital gains tax.

Comment

I-645 would repeal the income tax before it is ever collected. This would make it more difficult for the state to close the persistent gap between spending and ongoing revenues, but maintaining the tax would not solve the problem on its own.

Even if I-645 is rejected, the Legislature will still need to grapple with budget uncertainty related to the constitutional challenge to the income tax. Further, if the income tax remains in effect, it will be the state's fourth-largest tax source. But the general volatility of income tax revenues and the uncertainty about how taxpayers will respond to the tax will make writing sustainable budgets more complicated.

References

Department of Revenue (DOR). 2026. "Department of Revenue Fiscal Note: 6346 ESSB PL." March 25.

Makings, Emily. 2026. "The income tax won't save the day for budget writers." WRC Blog. April 29.

Office of Financial Management (OFM). 2026. "Fiscal Impact Statement for Initiative 645." July.

Seattle Times Editorial Board (STEB). 2026. "Seattle Times recommends 'No' on I-645, 'millionaires tax' repeal." Seattle Times video. Sept. 6.

Washington Research Council (WRC). 2024. "Anatomy of the Projected State Budget Shortfall." PB 24–08. Oct. 23.

———. 2026a. "Washington Businesses Paid 50% of State and Local Taxes in 2024." PB 26–01. Jan. 28.

———. 2026b. "Band-Aid Budget Redux." PB 26–03. March 30.

———. 2026c. "With the Income Tax, Washington Adds a New, Volatile Layer of Taxation." PB 26–05. June 23.