

# HOUSE BILL REPORT

## HB 1406

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to improving the equity of Washington state's tax code by creating the Washington state wealth tax and taxing extraordinary financial intangible assets.

**Brief Description:** Improving the equity of Washington state's tax code by creating the Washington state wealth tax and taxing extraordinary financial intangible assets.

**Sponsors:** Representatives Frame, Sullivan, Ormsby, Ortiz-Self, Kirby, Davis, Bateman, Valdez, Kloba, Pollet, Walen, Dolan, Simmons, Cody, Ramel, Lekanoff, Duerr, Ryu, Berry, Peterson, Hackney, Chopp, Macri, Bergquist, Riccelli and Harris-Talley.

**Brief History:**

**Committee Activity:**

Finance: 2/2/21, 3/31/21 [DPS].

**Brief Summary of Substitute Bill**

- Establishes a 1 percent wealth tax on intangible financial assets of more than \$1 billion.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Frame, Chair; Walen, Vice Chair; Chopp, Harris-Talley, Morgan, Orwall, Ramel, Thai and Wylie.

**Minority Report:** Do not pass. Signed by 5 members: Representatives Orcutt, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Chase, Stokesbary and Vick.

**Minority Report:** Without recommendation. Signed by 2 members: Representatives Berg, Vice Chair; Springer.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

**Staff:** Rachelle Harris (786-7137).

**Background:**

Real and Personal Property.

Real and personal property is subject to property tax each year based on its value, unless a specific exemption is provided by law.

For the purposes of property taxation, real property is defined as land and all buildings, structures, fixtures permanently affixed to the land, or improvements thereon.

Personal property is defined as all goods, chattels, stocks, estates or moneys, etc. Personal property falls into two categories: tangible and intangible. Tangible personal property consists of things that have a physical existence. Intangible personal property consists of rights and privileges having a legal but not necessarily a physical existence.

Tangible Personal Property.

Examples of tangible personal property include:

- goods, inventories, farm machinery, lumber;
- motor vehicles, books, coin collections, tools, timber; and
- watercraft, engines and machinery used in manufacturing, etc.

Most tangible personal property owned by individuals is exempt from property taxation. However, tangible personal property used in a business is subject to personal property tax.

Intangible Personal Property.

Examples of intangible personal property include:

- moneys and credits, mortgages, notes, accounts, certificates of deposit, tax certificates, and judgments;
- state, county, and municipal bonds and warrants;
- bonds, stocks, or shares of private corporations; and
- trademarks, trade names, brand names, patents, copyrights, etc.

In statute, the state and local governments are prohibited from imposing a tax on intangible property.

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**Summary of Substitute Bill:**

Wealth Tax.

The statutory prohibition on imposing a tax on intangible property is limited to local governments. A state wealth tax is imposed on the worldwide wealth of Washington residents. The tax is 1 percent multiplied by a resident's taxable worldwide wealth.

Taxable worldwide wealth includes the fair market value of all intangible assets, excluding

any intangible assets that are exempt from the tax.

Financial intangible assets are subject to the 1 percent wealth tax, and include the following:

- cash and cash equivalents;
- financial instruments such as bonds, stocks, commodities contracts, pension funds, etc.;
- units of ownership in a subchapter K entity; and
- other similar intangible assets.

#### Exemptions from the Wealth Tax.

The following intangible assets are exempt from the 1 percent wealth tax:

- the first \$1 billion of a resident's financial intangible assets;
- all nonfinancial intangible assets;
- worldwide wealth of companies;
- debt obligations of the United States, such as United States treasury bonds;
- debt obligations of the State of Washington and local governments, such as municipal bonds;
- stock of federal reserve banks and other corporations created by the United States Congress; and
- any property that is subject to ad valorem property taxation.

Nonfinancial intangible assets are exempt from the tax; this exemption includes all intangible property other than financial intangible property, such as the following:

- trademarks, trade names, brand names, patents, copyrights; and
- licenses, permits, contracts, customer lists, patient lists, etc.

#### Wealth Tax Administration.

Anyone owing the wealth tax must file a return with the Department of Revenue (DOR) by April 15 each year, reporting their taxable worldwide wealth for the immediately preceding calendar year and paying the tax due. If the tax due is not paid by the due date, regular interest and penalties apply.

An additional penalty of 5 percent of the tax due is assessed for each month that a return remains unfiled. The total penalty assessed may not exceed 25 percent of the tax due.

A person subject to the wealth tax is allowed a credit against the tax equal to the amount of any similar wealth tax imposed on the person by another state within the same tax year on financial intangible assets.

If an individual owing the tax dies during a tax year, the tax applies to the individual's taxable worldwide wealth as of the date of the individual's death as a proportion of the days they were alive during the tax year. A spouse or domestic partner may petition the DOR for permission to file a separate return for good cause. An individual who is required to jointly file a return may petition the DOR for relief from joint and several liability for assessment

of taxes due if they can prove that there was an understatement of tax that they did not know about.

A substantial wealth tax valuation understatement penalty is imposed. If wealth valuation understatement is greater than 40 percent, then 50 percent of the portion of the underpayment is due. In all other cases, 30 percent of the portion of the underpayment is due.

The DOR must audit at least 10 percent of individuals who are registered to pay the wealth tax in calendar year 2024. In calendar year 2025, the DOR must audit 15 percent, and in 2026 and beyond they must audit 20 percent.

The wealth tax is imposed beginning January 1, 2022, for taxes due in 2023.

Washington Tax Justice and Equity Fund.

The Washington Tax Justice and Equity Fund (WTJE) is created. Moneys in the fund must first be used to offset reductions in revenue from the anti-displacement property tax exemption program and may be used after that to offset reductions in revenue due to implementation of a variety of other tax policies.

All revenues from the wealth tax, including penalties and interest, are to be deposited into the WTJE fund.

**Substitute Bill Compared to Original Bill:**

The substitute bill changes the filing due date from October 15 to April 15. The substitute bill creates the WJTE fund and directs revenues from the wealth tax to be deposited into that fund. In addition, the substitute bill adds several administrative and enforcement provisions:

- provides a framework for determining the amount of tax due for an individual who dies before December 31 of the tax year;
- clarifies the application of the tax to property held in trust or gifted to family members who are under the age of 18;
- allows spouses and state registered domestic partners to petition the DOR for permission to file a separate return for good cause;
- allows an innocent spouse or state registered domestic partner to petition the DOR for relief from joint and several liability;
- imposes a wealth tax valuation understatement penalty; and
- requires the DOR to annually initiate audits of a specified percentage of taxpayers.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) This state has the most regressive tax system. The lowest income individuals pay six times more as a share of their income than the wealthiest. This is largely driven by an overreliance on sales tax. By taxing financial intangible property, equity will be brought to the state tax code. The strongest part of most people's wealth is their home. In contrast, the primary location of wealth for the most wealthy people is in financial intangible property, which is currently not taxed at all. Taxing this enormous source of wealth is much more fair than taxing the lowest income families who are struggling. This would affect very few people and would be a good step forward to improving our tax code. The state's current tax system is neither fair nor equitable. This bill will help level the system and provide desperately needed revenue. People who have made money hand over fist during the COVID-19 pandemic should have room to hold individuals who are being left behind. Taking extreme wealth from those who have far too much and redistributing it is a crucial step to improve equity and opportunity. During this pandemic, billionaires have increased their wealth without increasing their share of taxes paid to the state. The free market will not take care of this issue, so government must act. Individuals must not allow a more inequitable future to happen. This is a reasonable progressive tax. Small businesses pay taxes to support infrastructure and community services, and the burden to do that should be shared by wealthy individuals. It is important to tax wealth to put a brake on democracy distorting concentrations of wealth and power that are increasing in this country. Washington's billionaires had \$293 billion as of two years ago; today they have \$474 billion. This increase in wealth during the pandemic is especially concerning. Billionaires should be proud to have the privilege to contribute to communities in this way. Those individuals in the richest 1 percent are accumulating an ever-growing slice of wealth, and this wealth gap must be addressed through progressive tax policy. Minimum wage and other public services have not grown at the same pace as wealth for the most well off. This bill could completely fund the Working Families Tax Credit and a large business and occupation tax credit which will help both individuals and businesses. This 1 percent tax is very modest, and it would make sense to lower the threshold for the exemption to be lower. The need for support for housing and rent assistance is staggering and is best addressed by taxing enormous wealth of billionaires. Tax policy is not what drives people to make residence choices. This money could be put to good use in public schools. This state will remain in perpetual austerity until steps like this are taken to adjust the structural deficit in the budget and tax system.

(Opposed) Washington already imposes the highest estate tax in the nation. There is no need to impose additional taxes. This sets an extremely poor precedent. Boeing should provide a good example as to why there should not be increased taxes but should cut spending. There will be expensive legal fights as a result of passing this bill. The fiscal note does not reflect the real costs of auditors and attorneys. Individuals who are subject to

this tax will simply move; they will not want to pay a billion dollars a year to do so for the privilege of living in Washington. This will result in a giant hole in the budget and will lead to more tax increases going forward.

**Persons Testifying:** (In support) Representative Frame, prime sponsor; Satwinder Kaur; Scott Alspach; Summer Stinson; Ruth Lipscomb; Chris Petzold; Maggie Humphreys, MomsRising and Mamás Con Poder; Consuelo Echeverria; Jessa Lewis, Alliance for a Healthy Washington; Julia Buck; Ned Friend; Cynthia Stewart, League of Women Voters of Washington; Jesse French; James Fulop, Seattle Democratic Socialists of America; Robert Cruickshank, Washington's Paramount Duty; Dennis Eagle, Washington Federation of State Employees; Dan Price, Gravity Payments; Emmanuel Saez, University of California, Berkeley; Patricia Ibarra; Bryan Kirschner, Tech4Recovery; Mary Curry, Pathways Enrichment Academy; Chuck Collins, Institute for Policy Studies; Michael Tamayo and John Burbank, Economic Opportunity Institute; Ned Friend; Ruth Lipscomb; and Matthew Lang, Transit Riders Union.

(Opposed) Tim Eyman, Permanent Offense; Jeff Pack; and Jim King, Independent Business Association.

**Persons Signed In To Testify But Not Testifying:** Erin Crismore, DSA; Madeline Goodwin; Michael Wilmarth; BJ Last, Borro Bay Bakery; Pat Holland; John Alder, Peace and Justice Action League of Spokane; April Frazier; Lorrell Noahr, Washington Education Association; Mindi Lee, Transit Riders Union and Puget Sound Advocates for Retirement Action; Louise Chadez, FAN and Working Washington; Carl Olson; David Gamage, Indiana University Maurer School of Law; Dan Ryan; Darrell Johnson; Elena Rumiantseva; Katja Janelle; Nora Gunning; Joe Kendo, Washington State Labor Council, American Federation of Labor and Congress of Industrial Organizations; Frank Clemente, Americans for Tax Fairness; Kshama Sawant, Seattle City Council; Emily Myers, United Auto Workers 4121; and Emily Murphy, Children's Alliance and NARAL Pro-Choice Washington.