
Finance Committee

HB 1406

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.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Establishes a 1 percent wealth tax on intangible financial assets of more than \$1 billion.

Hearing Date: 2/2/21

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.

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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.

Summary of 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 U.S. 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 October 15th 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.

The wealth tax is imposed beginning January 1, 2022 for taxes due in 2023. All revenue collected from the wealth tax is deposited into the state general fund.

Appropriation: None.

Fiscal Note: Requested on January 26, 2021.

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