

# SENATE BILL REPORT

## SB 5486

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As of March 3, 2023

**Title:** An act relating to investing in Washington families and creating a more fair tax system by enacting a narrowly tailored property tax on extreme wealth derived from the ownership of stocks, bonds, and other financial intangible property.

**Brief Description:** Investing in Washington families and creating a more fair tax system by enacting a narrowly tailored property tax on extreme wealth derived from the ownership of stocks, bonds, and other financial intangible property.

**Sponsors:** Senators Frame, Nguyen, Robinson, Wellman, Hunt, Dhingra, Saldaña, Van De Wege, Wilson, C., Kuderer, Trudeau, Keiser, Stanford, Conway, Lovelett, Lovick, Hasegawa, Valdez and Cleveland.

**Brief History:**

**Committee Activity:** Ways & Means: 3/09/23.

<p style="text-align: center;"><b>Brief Summary of Bill</b></p> <ul style="list-style-type: none"><li>• Establishes a 1 percent tax on financial intangible assets in excess of \$250 million.</li></ul>
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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Jeffrey Mitchell (786-7438)

**Background:** Real and Personal Property. All 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, etcetera.

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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.*

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, etcetera.

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, etcetera.

Intangible personal property is exempt from state and local property taxation.

Education Legacy Trust Account and Washington Housing Trust Fund. The Education Legacy Trust Account is an account in the state treasury. Expenditures from this account are used exclusively to support common schools, higher education, early learning and childcare programs, and other educational improvement efforts. The account is funded through various revenue collections including estate tax, real estate excise tax, public utility tax, and so on.

The Washington Housing Trust Fund (Fund) is an account in the state treasury. The Fund is used to provide loans and grants to support affordable housing projects through annual competitive application cycles. It is funded through capital budget appropriations.

**Summary of Bill:** Intangible Personal Property Tax Imposed. *General structure.* The property tax exemption for intangible property is limited to local governments. A state-level tax is imposed on some intangible personal property 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 tax, and include the following:

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

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

- the first \$250 million 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, etcetera.

The tax applies to the taxable worldwide wealth of the Washington resident as of December 31st of the tax year.

*Administration.* Anyone owing the tax on financial intangible assets must file a return with the Department of Revenue (DOR) by April 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. Generally speaking, spouses and state registered domestic partners must jointly file tax returns. A spouse or domestic partner may petition DOR for permission to file a separate return for good cause. An individual who is required to jointly file a return may petition 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.

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 tax on financial intangible property is allowed a credit against the tax equal to the amount of any similar tax imposed on the person by another state within the same tax year on financial intangible assets. The credit may not exceed the amount of tax due and may not be carried forward to another tax year.

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 substantial wealth tax valuation understatement penalty is imposed. If the 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.

DOR must audit certain percentages of individuals who are registered to pay the tax.

The tax on intangible financial property is imposed beginning January 1, 2025, for taxes due in 2026.

Revenue Distribution. All revenues collected from the tax on intangible personal property, including penalties and interest, must be equally distributed between the Disabilities Care Trust Account, the Education Legacy Trust Account, the Washington Housing Trust Fund, and the Taxpayer Justice Account.

The Disabilities Care Trust Account is created in the state treasury. Expenditures from the account may be used only for persons with disabilities.

The Taxpayer Justice Account is created in the state treasury. Expenditures from the account may be used only for providing credits against taxes paid by Washington residents.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.