

SENATE BILL REPORT

SB 5797

As of March 31, 2025

Title: An act relating to enacting a tax on stocks, bonds, and other financial intangible assets for the benefit of public schools.

Brief Description: Enacting a tax on stocks, bonds, and other financial intangible assets for the benefit of public schools.

Sponsors: Senators Frame, Dhingra, Alvarado, Bateman, Hasegawa, Lovelett, Nobles, Pedersen, Ramos, Riccelli, Stanford, Trudeau, Valdez, Wellman and Wilson, C..

Brief History:

Committee Activity: Ways & Means: 3/31/25.

Brief Summary of Bill

- Establishes a tax on certain financial intangible assets at a rate of \$10 per \$1,000 of the true and fair value of the assets if the assets are owned by a Washington resident with financial intangible assets in excess of \$50 million.

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, and so on. Personal property falls into two categories—tangible and intangible. Tangible personal

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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, and so on.

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, and so on.

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

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 \$10 per \$1,000 of the true and fair value of a resident's taxable worldwide intangible assets. Taxable worldwide intangible assets include publicly traded bonds, publicly traded stocks, exchange traded funds, and mutual funds.

The following intangible assets are exempt:

- financial intangible assets owned by a Washington resident who owns financial intangible assets with a combined true and fair value of less than \$50 million;
- all nonfinancial intangible assets such as trademarks, trade names, brand names, patents, copyrights, licenses, permits, contracts, customer lists, patient lists, and so on;
- cash and cash equivalents;
- financial investments such as annuities, publicly traded options, futures contracts, commodities contracts, put and call options, certificates of interest in gold and other precious metals, and other similar investments except publicly traded stock, publicly traded bonds, mutual funds, and exchange traded funds;
- ownership interests in LLCs and partnerships;
- retirement accounts;
- tuition savings accounts, prepaid tuition plans, and Coverdell education savings accounts;
- 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.

In addition to the exemptions above, financial intangible assets are exempt if the assets are subject to a similar tax legally imposed on the property and paid by the taxpayer to another state. The exemption is not available if the taxpayer was domiciled in Washington for a greater amount of time than in the other state for the tax year. A similar tax does not include an estate tax, inheritance tax, gift tax, net income tax, business activity tax, or other similar taxes.

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

Tax collections are deposited in the state general fund for the support of common schools.

Administration. The tax on intangible financial property is imposed beginning January 1, 2026, for taxes due in 2027.

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.

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 is authorized to disregard arrangements where the taxpayer attempts to avoid the tax through intentional deception, such as by concealing assets or evidence of the location of the taxpayer's domicile in this state; by transferring assets prior to December 31st when the taxpayer effectively retained control of the assets; or by effectively converting taxable

assets into nontaxable assets prior to December 31st when the taxpayer engages in a substantially offsetting transaction.

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.