SENATE BILL REPORT
SB 5797

As Reported by Senate Committee On:
Ways & Means, April 18, 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, 4/18/25 [DPS, DNP, w/oRec].

Brief Summary of First Substitute Bill

- Establishes a tax at a rate of $0.34 per $1,000 of the true and fair value on certain financial intangible assets on the portion of assets owned by a Washington resident in excess of $50 million.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5797 be substituted therefor, and the substitute bill do pass.
Signed by Senators Robinson, Chair; Stanford, Vice Chair, Operating; Trudeau, Vice Chair, Capital; Frame, Vice Chair, Finance; Cleveland, Conway, Dhingra, Hasegawa, Pedersen, Riccelli, Saldaña, Wellman and Wilson, C..

Minority Report: Do not pass.
Signed by Senators Gildon, Ranking Member, Operating; Torres, Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Dozier, Assistant Ranking Member, Capital; Boehnke, Braun, Hansen, Muzzall, Wagoner and Warnick.

Minority Report: That it be referred without recommendation.
Signed by Senator Kauffman.

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 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 (First Substitute): 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 $0.34 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:
- up to $50,000,000 of a taxpayer's financial intangible assets;
- 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 apples 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.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Reduces the tax rate from $10 per $1,000 of the true and fair value of the financial intangible assets to $0.34 per $1,000.
- Redirects tax revenues to the Education Legacy Trust Account instead of the general fund.
- Changes the exemption structure so it exempts the first $50 million of value of financial intangible assets.
- Modifies the intent language and some terminology.

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.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: The bill would impose a modest tax on the richest residents in Washington to provide funding for essential public services including public education and health care. Washington voters have upheld the capital gains tax and resident support taxing the wealthy. There should not be a concern about capital leaving Washington due to the tax. Working families should not be asked to bail out the budget. Washington has the second most regressive tax system in the nation. The wealthy are paying the lowest tax rates, with lower and middle income residents paying a higher percent. There are only 4300 wealthy residents that would pay the tax. This is a modest tax on the ultra wealthy to support housing. The literature on the wealth tax shows that the effects are positive, with successful examples in Switzerland and Spain. Washington State is 48th in state and local tax burden. With per capita income rising, those in the best position to afford it can help balance the budget. Housing, nutrition, health care, good public schools and safe communities are needed. The approach moves our upside down tax code in the right direction. Budget cuts in schools are impacting students learning and safety. As a wealthy resident that would pay the tax, it is needed to support essential services. Schools are underfunded and cannot support teachers and programs. Multi-millionaires can afford a 1 percent tax and it is needed to support those in need. Life-long wealthy residents of Washington would gladly pay the tax to support public schools. Revenue can be used to support child care. Caregivers are needed to care for the needy and they save lives. Immigrants and refugees pay taxes, and they are ineligible to benefit from those programs. Youth development programs are being reduced in the budget. The current tax system is unsustainable. This progressive tax is needed to avoid an all cuts budget. Thank you for funding food security. Those who have the least are struggling the most and least able to pay.

CON: This is an envy bill that is not a tax on income, but on what you have. The bill would take money from people that have earned money and already paid taxes on it and give it to those that have not. This approach is predatory and class warfare. Once this tax is established, the threshold will be lowered. This is a tax on unrealized gains. This tax will drive wealthy job providers to other states. This tax along with the other tax proposals is a hostile business environment. Robbery and tax are the same, and this bill will steal $20 billion over six years. This approach creates a whole new category of taxation, on value, not income. Other states are providing open doors, and money will fly out of the state. This is the wrong solution at the wrong time. The IRS doesn't consider this taxable income. World wide taxable income is not known. This will impact the tech industry. Government needs to learn to live within a budget. There are reductions that can be made to preserve important services.

OTHER: While this will increase funding by $3 billion, that is not sufficient to fully fund K-12 education. The funding should be fully dedicated to education. This approach is a disincentive and will impact investments in startups.

Persons Testifying: PRO: Emma Scalzo, Balance Our Tax Code; jerome curry; priscilla Jacobsen, Real change; Jacob Vigdor, University of Washington Faculty/Council of Faculty; Councilmember Lindsey Schromen-Wawrin, City of Port Angeles; Kathleen Kershner; Linda Garcia, Washington State Community Action Partnership; Rian Watt; Manousos Kouidis; Stephan Blanford; David Gamage; Bronti Lemke; Bryan Kirschner; Charles Mayer MD MPH; Jessica Olsen; Sam McVeety; Odessa Paule; Blanca Gutierrez; Phyllis Hatfield; Soumyo Lahiri-Gupta, OneAmerica; Radu Smintina, School's Out Washington; Cathy Habib; Sandra Sanchez; Joe Colón; Natacia Louvier; Kathleen Swaney; Katie Wilson, Transit Riders Union; Matthew Lang, National Organization for Women - WA; Myle Tang, Stand for Children WA; Kristin Ang, Faith Action Network (FAN); Aaron Czyzewski, Food Lifeline; Lisa Smith, Washington State Microenterprise Association.

CON: Tim Eyman, Initiative Activist; Jeff Pack, Washington Citizens Against Unfair Taxes; Laurie Layne; Dakota Manley, Washington State Young Republicans; Gregor Doerr, Washington State Young Republicans; Barbara Kuehne; William Hole; Sharon Hanek; Cody Ruscheinsky, Washington State Young Republicans; Rebecca Faust; Kelly Fukai, Washington Technology Industry Association; Kylo B.

OTHER: Nate Bloch; Laura Ruderman, Technology Alliance.

Persons Signed In To Testify But Not Testifying: No one.