

# SENATE BILL REPORT

## SB 5426

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As of January 31, 2022

**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:** Senators Hunt, Conway, Das, Dhingra, Hasegawa, Keiser, Kuderer, Lovelett, Nguyen, Saldaña, Stanford and Wilson, C..

**Brief History:**

**Committee Activity:** Ways & Means: 2/01/22.

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

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

**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, and so forth. 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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*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.*

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 forth.

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 forth.

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

**Summary of Bill: Wealth Tax.** 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 as noted below.

A natural person is considered a Washington resident if the person:

- is domiciled in this state at any time during the tax year, unless that person:
  - maintained no permanent place of abode in this state during the entire tax year;
  - maintained a permanent place of abode outside of this state during the entire tax year; and
  - spent in the aggregate not more than 30 days of the tax year in this state; or
- who is not domiciled in this state during the tax year, but maintained a place of abode and was physically present in this state for more than 183 days during the tax year.

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

- cash and cash equivalents;
- financial instruments such as annuities, bonds, treasury bills, stocks, and mutual funds;
- units of ownership in a partnership and limited liability company; 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 such as trademarks, trade names, brand names,

- patents, and copyrights;
- worldwide wealth of business entities;
- 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 the federal reserve banks and other corporations created by the United States Congress; and
- any property that is subject to ad valorem property taxation.

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 pay 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. DOR may waive the penalties in certain circumstances.

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.

DOR is authorized to disregard arrangements through which a taxpayer attempts to avoid the wealth tax through intentional deception.

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:** Available.

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

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