

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 1406 HB	<b>Title:</b> Wealth tax	<b>Agency:</b> 140-Department of Revenue
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## Part I: Estimates

No Fiscal Impact

### Estimated Cash Receipts to:

Account	FY 2022	FY 2023	2021-23	2023-25	2025-27
GF-STATE-State 00 - 00 -				4,949,000,000	4,830,000,000
<b>Total \$</b>				4,949,000,000	4,830,000,000

### Estimated Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	8.7	8.7	8.7	5.3	4.3
<b>Account</b>					
GF-STATE-State 001-1	1,671,200	2,577,400	4,248,600	4,308,700	2,049,100
<b>Total \$</b>	1,671,200	2,577,400	4,248,600	4,308,700	2,049,100

### Estimated Capital Budget Impact:

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

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Request # 1406-1-1

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Note: This fiscal note reflects language in HB 1406, 2021 Legislative Session.

#### CURRENT LAW:

Washington has an estate tax, which applies to tangible and intangible wealth at death. Washington also has a property tax, but intangible property is exempt from the tax. No recurring tax similar to the wealth tax proposed in HB 1406 exists in Washington State.

#### PROPOSED LAW:

Beginning January 1, 2022, for taxes due in 2023, a wealth tax of 1 percent is imposed on the taxable worldwide wealth of individuals who reside in Washington and whose taxable worldwide wealth is over \$1 billion.

Taxable worldwide wealth means the fair market value of all of an individual's financial intangible assets as of December 31st of the tax year.

Financial intangible assets include:

- Cash and cash equivalents,
- Financial investments such as:
  - Annuities;
  - Bonds;
  - Treasury bills;
  - Mutual funds or index funds;
  - Stocks;
  - Publicly traded options;
  - Futures contracts;
  - Commodities contracts;
  - Put and call options;
  - Pension funds;
  - Mortgage and liabilities secured by real property; and
  - Certificates of interest in gold and other precious metals or gems and other similar investments;
- Units of ownership in a subchapter K entity; and
- Similar intangible assets.

Taxable worldwide wealth does not include:

- Obligations or evidences of debt of the United States and United States government agencies and corporations exempt from state taxation;
- Obligations or evidences of debt of the state of Washington, its political subdivisions, agencies, and instrumentalities, including municipal bonds;
- Stock of the Federal Reserve Bank, the Government National Mortgage Association, the Federal National Mortgage Association, and other corporations and associations established by acts of the Congress of the United States; and
- Any property subject to Washington State property taxes.

A credit is provided for any similar wealth tax paid to another state on the same financial intangible assets. However, the credit may not exceed the tax due or be carried forward, and is not refundable. For purposes of this credit, a similar wealth tax does not include an estate tax, inheritance tax, net income tax, gross receipts tax, or other business activity tax.

Individuals subject to the wealth tax must file a return and pay any tax due by October 15th each year. Spouse and domestic partners must file joint returns.

Taxpayers who do not file tax returns by the due date are subject to a penalty of 5 percent of the tax due for each month of delinquency, not to exceed 25 percent of the tax due. This penalty is in addition to any applicable penalties and interest imposed under current law (Chapter 82.32 RCW) for delinquent tax payments.

Tax avoidance provisions of RCW 82.32.655 are amended to allow the Department to disregard arrangements by which a taxpayer attempts to avoid the wealth tax by intentional deception, such as by:

- Concealing assets.
- Transferring assets prior to December 31, but effectively retaining control of the assets.
- Converting taxable assets into nontaxable assets and engaging in a substantially offsetting transaction.
- Concealing evidence of the taxpayer's domicile.

The administrative provisions of Chapter 82.32 RCW apply to the administration of the wealth tax, and the Department may adopt administrative rules as necessary to administer the tax.

The property tax provisions in Title 84 RCW do not apply to the wealth tax.

The tax preference provisions of RCW 82.32.805 and 82.32.808 do not apply to this bill.

#### EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session in which it is enacted.

#### **II. B - Cash receipts Impact**

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

#### ASSUMPTIONS:

- This legislation takes effect by July 23, 2021.
- This proposal will impact fewer than 100 taxpayers. The number of taxpayers impacted may vary significantly from year to year.
- There is some litigation risk that the courts would invalidate the wealth tax on the grounds that it is a property tax that conflicts with the uniformity provisions of Article VII, Section 1 of the Washington Constitution. However, for purposes of this fiscal note, the estimates assume that collection of the tax would not be delayed during the course of any legal challenges and that the tax would ultimately survive any legal challenges.
- The distribution of wealth among taxpayers subject to the wealth tax is heavily skewed toward the top. Revenues would be significantly impacted if one or more of these taxpayers were to move out-of-state or take other actions to reduce their wealth tax liability.
- This revenue estimate assumes that no taxpayers move out of state or take other actions to reduce their liability under the tax.
- The growth rate for the number of filers is based on projections for Washington's number of returns in the Internal Revenue Service / Statistics of Income - Publication 6149 (2018 December).
- Wealth taxes paid are subtracted from taxpayers' wealth in subsequent years.
- There are currently no similar wealth taxes in other states.
- First tax payments are due on October 15, 2023, for Tax Year 2022.
- Compliance is assumed to be as follows:
  - 90 percent revenue collections in Fiscal Year 2024, and
  - 95 percent revenue collections in Fiscal Year 2025 and thereafter.
- To conform to IRS disclosure rules, asset components are estimated using linear regression models and aggregation.

**DATA SOURCES:**

- Internal Revenue Service - Personal income tax returns data, Federal Tax Year 2017, source for adjusted gross income and out-of-state taxes paid.
- Economic & Revenue Forecast Council's November 2020 forecast for growth rates used to grow wages and other income components.
- Internal Revenue Service / Statistics of Income - Publication 6149 (2018 December).
- US Federal Reserve - Survey of Consumer Finances 2019.

**REVENUE ESTIMATES:**

This bill increases state revenues by an estimated \$5 billion in the 2023-25 Biennium.

**TOTAL REVENUE IMPACT:**

State Government (cash basis, \$000):

FY 2022 -	\$	0
FY 2023 -	\$	0
FY 2024 -	\$	2,424,000
FY 2025 -	\$	2,525,000
FY 2026 -	\$	2,451,000
FY 2027 -	\$	2,379,000

**LOCAL GOVERNMENT IMPACT:**

There is no local impact.

**II. C - Expenditures**

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

**ASSUMPTIONS:**

- This legislation will impact fewer than 100 individual taxpayers.
- Taxpayers will not be required to make estimated payments.

**FIRST YEAR COSTS:**

The Department will incur total costs of \$1,671,200 in Fiscal Year 2022. These costs include:

Labor Costs - Time and effort equates to 8.74 FTEs.

- Provide technical advice, interpretation and analysis during the implementation process.
- Test and verify computer systems to accept taxpayer returns and other required information and process reporting information for collection, audit, and refund purposes.
- Create hard copy and online educational and informational materials.
- Respond to tax ruling requests and email inquiries.
- Hear additional administrative reviews.
- Adopt two new administrative rules.

Object Costs - \$540,000.

- Contract computer system programming.
- Purchase additional server equipment.

**SECOND YEAR COSTS:**

The Department will incur total costs of \$2,577,400 in Fiscal Year 2023. These costs include:

Labor Costs - Time and effort equates to 8.7 FTEs.

- Provide technical advice and interpretation services.
- Ongoing programming and testing of computer systems.
- Create returns and design and develop new templates and forms.
- Create hard copy and online educational and informational materials.
- Respond to tax ruling requests and email inquiries.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Hear additional administrative reviews.

Object Costs - \$1,506,000.

- Contract computer system programming.
- Purchase additional server equipment.

**ONGOING COSTS:**

**THIRD YEAR COSTS:**

The Department will incur total costs of \$2,665,700 in Fiscal Year 2024. These costs include:

Labor Costs - Time and effort equates to 5.4 FTEs.

- Provide technical advice and interpretation services.
- Ongoing programming and testing of computer systems.
- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Hear additional administrative reviews.

Object Costs - \$2,006,000.

- Contract computer system programming.
- Purchase additional server equipment.

Ongoing costs for Fiscal Year 2025 equal \$1,643,000 and include similar activities described in the third year costs. Time and effort equates to 5.2 FTEs.

**Part III: Expenditure Detail**

**III. A - Expenditures by Object Or Purpose**

	<b>FY 2022</b>	<b>FY 2023</b>	<b>2021-23</b>	<b>2023-25</b>	<b>2025-27</b>
FTE Staff Years	8.7	8.7	8.7	5.3	4.3
A-Salaries and Wages	704,400	702,300	1,406,700	856,400	685,100
B-Employee Benefits	253,600	252,800	506,400	308,300	246,600
C-Professional Service Contracts	500,000	1,500,000	2,000,000	3,000,000	1,000,000
E-Goods and Other Services	111,700	99,500	211,200	118,600	95,300
G-Travel	400		400		
J-Capital Outlays	101,100	22,800	123,900	25,400	22,100
<b>Total \$</b>	<b>\$1,671,200</b>	<b>\$2,577,400</b>	<b>\$4,248,600</b>	<b>\$4,308,700</b>	<b>\$2,049,100</b>

**III. B - Detail:** List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
EMS BAND 4	119,061	0.0		0.0		
EMS BAND 5	139,090	0.0		0.0		
EXCISE TAX EX 3	59,688	0.1	0.1	0.1	0.1	0.1
FISCAL ANALYST 3	55,524				0.1	0.1
IT APP DEV-JOURNEY	85,644	1.0	1.0	1.0	0.5	0.5
IT B A-JOURNEY	85,644	0.5	0.5	0.5	0.3	0.3
IT PROJ MGT-JOURNEY	89,916	1.0	1.0	1.0	0.5	0.5
IT QA-JOURNEY	85,644	1.5	1.5	1.5	0.8	0.8
MGMT ANALYST4	70,956	2.1	2.1	2.1	1.2	1.1
MGMT ANALYST5	78,408	0.2	0.5	0.4	0.3	0.2
RECORDS MGMT SUPV	67,560		0.2	0.1		
TAX INFO SPEC 4	64,332	0.5	0.2	0.4		
TAX POLICY SP 2	72,756	0.0		0.0		
TAX POLICY SP 3	82,344	1.3	1.1	1.2	1.1	0.5
TAX POLICY SP 4	88,644	0.3	0.3	0.3	0.3	0.1
WMS BAND 2	89,018	0.1	0.2	0.2	0.1	0.1
WMS BAND 3	101,257	0.0		0.0		
<b>Total FTEs</b>		8.7	8.7	8.7	5.3	4.3

**III. C - Expenditures By Program (optional)**

NONE

**Part IV: Capital Budget Impact**

**IV. A - Capital Budget Expenditures**

NONE

**IV. B - Expenditures by Object Or Purpose**

NONE

**IV. C - Capital Budget Breakout**

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

None.

**Part V: New Rule Making Required**

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will adopt two new rules under 458-20 WAC, one using the complex process and one using the standard process. Persons affected by this rule making would include state tax practitioners and individuals meeting the threshold for reporting and/or paying the new wealth tax.