

Department of Revenue Fiscal Note

Bill Number: 5426 SB	Title: Wealth tax	Agency: 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 -				1,796,000,000	3,253,000,000
Total \$				1,796,000,000	3,253,000,000

Estimated Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		13.1	6.6	11.5	10.3
Account					
GF-STATE-State 001-1		6,784,900	6,784,900	9,007,500	3,936,000
Total \$		6,784,900	6,784,900	9,007,500	3,936,000

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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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.

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 this bill exists in Washington.

PROPOSED LAW:

Beginning January 1, 2022, for taxes due in 2023, a wealth tax of 1% 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 31 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 evidence of debt of the United States and United States government agencies and corporations exempt from state taxation;
- Obligations or evidence 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.

Should an individual die during a tax year and the individual is not a spouse or state-registered domestic partner the taxable worldwide wealth is measured as of the day of the individual's death. The amount of tax due is prorated for the number of days the individual was alive during the tax year.

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.

Wealth tax returns must be filed and any tax due paid by October 15 each year.

Spouses 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 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.

This bill was initially introduced during the 2021 Legislative Session. It is assumed that the implementation of the tax would be moved by one year, to be imposed starting January 1, 2023, with the first payments due in 2024.

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:

- First tax payments are due on October 15, 2024, for wealth as of December 31, 2023.
- This proposal will affect around 100 taxpayers. The number of taxpayers may vary from year to year.
- The analysis evaluates wealth at the tax-unit level. All spouses and domestic partners file a joint return.
- No taxpayers subject to the wealth tax die during the tax year and no new taxpayers become subject to the tax.
- There is 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 estimates assume increasing behavioral responses by taxpayers over time in a manner that reduces their tax liability.
- The behavioral responses capture taxpayer behavior, implementation, and administrative efforts related to this new tax and range from 44% in Fiscal Year 2025 to 50% in Fiscal Year 2027.
- The distribution of wealth among taxpayers subject to the wealth tax is heavily skewed toward the top.
- Growth rates rely on November 2021 projections provided by ERFC.
- Taxes paid under this tax are subtracted from taxpayers' taxable wealth in subsequent years.

- All revenues generated from the wealth tax are deposited to the general fund.
- Compliance is assumed to be 95 percent of revenue collections in Fiscal Year 2025 and thereafter.
- This legislation is effective 90 days after the end of the session in which it passes. The Department will require 18 months to implement this legislation.

DATA SOURCES:

- Internal Revenue Service - Personal income tax returns data, Federal Tax Year 2019.
- Economic & Revenue Forecast Council's November 2021 forecasts.
- Saez, E., & Zucman, G. (2019). Progressive Wealth Taxation. Brookings Papers on Economic Activity 2019 (2), 437-533. doi:10.1353/eca.2019.0017.
- Smith, M., Zidar, O. M., & Zwick, E. (2021). Top Wealth in America: New Estimates and Implications for Taxing the Rich. National Bureau of Economic Research, <https://www.nber.org/papers/w29374>
- Advani, A., & Tarrant, H. (2021). Behavioural Responses to a Wealth Tax. Fiscal Studies. DOI :10.1111/1475-5890.12283

TOTAL REVENUE IMPACT:

State Government, if applicable (cash basis, \$000):

FY 2022 -	\$ 0
FY 2023 -	\$ 0
FY 2024 -	\$ 0
FY 2025 -	\$ 1,796,000
FY 2026 -	\$ 1,666,000
FY 2027 -	\$ 1,587,000

LOCAL GOVERNMENT IMPACT: None

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

ASSUMPTIONS:

This legislation will affect 100 taxpayers.

FIRST YEAR COSTS:

The Department will not incur any costs in Fiscal Year 2022.

SECOND YEAR COSTS:

The Department will incur total costs of \$6,784,900 in Fiscal Year 2023. These costs include :

Labor Costs - Time and effort equate to 13.14 FTEs.

- Assist in rule making process and evaluate review requests.
- Provide administrative support.
- Computer system testing, monitoring, and maintenance.
- Review reports, scrutinize data, examine accounts, and make corrections as necessary.
 - Process tax return work items; assist taxpayers with reporting questions; and respond to inquiries via email, web message, and paper correspondence.
 - Answer additional phone calls and counter inquiries on tax questions and tax return preparation from businesses, individuals, and accountants.
 - Create a special notice and identify publications and information that needs to be created or updated on the Department's website.
 - Respond to letter ruling requests, email inquiries, and phone calls.

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- Update web pages, publications, and forms for the reporting change.
- Perform field audits.

Object Costs - \$5,045,300.

- Outside consulting.
- Contract computer system programming.
- Office equipment.
- Federal background checks.

ONGOING COSTS:

Ongoing costs for the 2023-25 Biennium equal \$9,007,500 and include similar activities described in the second-year costs. Time and effort equate to 11.5 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		13.1	6.6	11.5	10.3
A-Salaries and Wages		1,084,600	1,084,600	1,854,600	1,613,100
B-Employee Benefits		390,700	390,700	667,700	580,700
C-Professional Service Contracts		5,000,000	5,000,000	5,750,000	1,000,000
E-Goods and Other Services		169,700	169,700	653,700	648,700
G-Travel		7,200	7,200	20,100	40,000
J-Capital Outlays		132,700	132,700	61,400	53,500
Total \$		\$6,784,900	\$6,784,900	\$9,007,500	\$3,936,000

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
ADM ASST 3	43,392				0.1	0.1
EMS BAND 4	122,633		0.0	0.0		
EMS BAND 5	143,263		0.0	0.0		
EXCISE TAX EX 4	65,928		0.5	0.3	0.5	0.5
FISCAL ANALYST 3	55,524				0.1	0.1
IT APP DEV-JOURNEY	85,644		1.0	0.5	1.0	1.0
IT B A-JOURNEY	85,644		1.5	0.8	0.6	0.1
IT PROJ MGT-JOURNEY	89,916		1.0	0.5	0.8	0.5
IT QA-JOURNEY	85,644		4.0	2.0	2.5	1.0
MGMT ANALYST4	70,956		1.1	0.6	1.2	0.6
MGMT ANALYST5	78,408		0.2	0.1	0.4	0.3
PROPERTY AND ACQUISITION SI	70,956		0.5	0.3	1.0	2.0
RECORDS MGMT SUPV	67,560		0.2	0.1		
REVENUE AUDITOR 3	65,928					1.0
REVENUE AUDITOR 4	82,344				0.3	1.0
REVENUE AUDITOR SUPV	88,644		0.5	0.3	0.8	1.0
TAX INFO SPEC 4	64,332		0.2	0.1	0.3	
TAX POLICY SP 2	72,756		0.0	0.0		
TAX POLICY SP 3	82,344		1.8	0.9	1.8	1.0
TAX POLICY SP 4	88,644		0.4	0.2	0.4	0.2
WMS BAND 2	91,689		0.1	0.1		
WMS BAND 3	104,295		0.0	0.0		
Total FTEs			13.1	6.6	11.5	10.3

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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 use the standard process to adopt WAC 458-20-Rule, titled: "Wealth tax on individuals" and 458-20-Rule, titled: "Wealth tax on individuals-Administration." Persons affected by this rulemaking would include individuals meeting the threshold for reporting and /or paying the new wealth tax.