

Multiple Agency Fiscal Note Summary

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|-----------------------------|-----------------------------------|
| Bill Number: 5486 SB | Title: Wealth/property tax |
|-----------------------------|-----------------------------------|

Estimated Cash Receipts

| Agency Name | 2023-25 | | | 2025-27 | | | 2027-29 | | |
|---------------------------|--|-------------|----------|----------|----------------------|----------------------|----------|----------------------|----------------------|
| | GF-State | NGF-Outlook | Total | GF-State | NGF-Outlook | Total | GF-State | NGF-Outlook | Total |
| Office of State Treasurer | Non-zero but indeterminate cost and/or savings. Please see discussion. | | | | | | | | |
| Department of Revenue | 0 | 0 | 0 | 0 | 1,608,250,000 | 6,433,000,000 | 0 | 1,566,750,000 | 6,267,000,000 |
| Total \$ | 0 | 0 | 0 | 0 | 1,608,250,000 | 6,433,000,000 | 0 | 1,566,750,000 | 6,267,000,000 |

| Agency Name | 2023-25 | | 2025-27 | | 2027-29 | |
|---------------------|------------------|-------|-----------|-------|-----------|-------|
| | GF- State | Total | GF- State | Total | GF- State | Total |
| Local Gov. Courts | | | | | | |
| Loc School dist-SPI | | | | | | |
| Local Gov. Other | No fiscal impact | | | | | |
| Local Gov. Total | | | | | | |

Estimated Operating Expenditures

| Agency Name | 2023-25 | | | | 2025-27 | | | | 2027-29 | | | |
|---------------------------|-------------|-------------------|-------------------|-------------------|-------------|------------------|------------------|------------------|-------------|------------------|------------------|------------------|
| | FTEs | GF-State | NGF-Outlook | Total | FTEs | GF-State | NGF-Outlook | Total | FTEs | GF-State | NGF-Outlook | Total |
| Office of State Treasurer | .0 | 0 | 0 | 0 | .0 | 0 | 0 | 0 | .0 | 0 | 0 | 0 |
| Department of Revenue | 20.2 | 15,725,700 | 15,725,700 | 15,725,700 | 19.7 | 5,408,800 | 5,408,800 | 5,408,800 | 18.1 | 4,930,800 | 4,930,800 | 4,930,800 |
| Total \$ | 20.2 | 15,725,700 | 15,725,700 | 15,725,700 | 19.7 | 5,408,800 | 5,408,800 | 5,408,800 | 18.1 | 4,930,800 | 4,930,800 | 4,930,800 |

| Agency Name | 2023-25 | | | 2025-27 | | | 2027-29 | | |
|---------------------|------------------|----------|-------|---------|----------|-------|---------|----------|-------|
| | FTEs | GF-State | Total | FTEs | GF-State | Total | FTEs | GF-State | Total |
| Local Gov. Courts | | | | | | | | | |
| Loc School dist-SPI | | | | | | | | | |
| Local Gov. Other | No fiscal impact | | | | | | | | |
| Local Gov. Total | | | | | | | | | |

Estimated Capital Budget Expenditures

| Agency Name | 2023-25 | | | 2025-27 | | | 2027-29 | | |
|---------------------------|------------|----------|----------|------------|----------|----------|------------|----------|----------|
| | FTEs | Bonds | Total | FTEs | Bonds | Total | FTEs | Bonds | Total |
| Office of State Treasurer | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| Department of Revenue | .0 | 0 | 0 | .0 | 0 | 0 | .0 | 0 | 0 |
| Total \$ | 0.0 | 0 | 0 | 0.0 | 0 | 0 | 0.0 | 0 | 0 |

| Agency Name | 2023-25 | | | 2025-27 | | | 2027-29 | | |
|---------------------|------------------|----------|-------|---------|----------|-------|---------|----------|-------|
| | FTEs | GF-State | Total | FTEs | GF-State | Total | FTEs | GF-State | Total |
| Local Gov. Courts | | | | | | | | | |
| Loc School dist-SPI | | | | | | | | | |
| Local Gov. Other | No fiscal impact | | | | | | | | |
| Local Gov. Total | | | | | | | | | |

Estimated Capital Budget Breakout

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|---------------------------------------|---------------------------------|---------------------------------|
| Prepared by: Cheri Keller, OFM | Phone: (360) 584-2207 | Date Published: Final |
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Individual State Agency Fiscal Note

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|-----------------------------|-----------------------------------|--|
| Bill Number: 5486 SB | Title: Wealth/property tax | Agency: 090-Office of State Treasurer |
|-----------------------------|-----------------------------------|--|

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Operating Expenditures from:

NONE

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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|-------------------------------|-----------------------|------------------|
| Legislative Contact: | Phone: | Date: 01/25/2023 |
| Agency Preparation: Dan Mason | Phone: (360) 902-8990 | Date: 01/27/2023 |
| Agency Approval: Dan Mason | Phone: (360) 902-8990 | Date: 01/27/2023 |
| OFM Review: Amy Hatfield | Phone: (360) 280-7584 | Date: 01/27/2023 |

Part II: Narrative Explanation

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

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

SB 5486 creates the disabilities care trust account and the taxpayer justice account, coupled with the general fund as the recipient of the earnings from investments under RCW 43.84.092(4).

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

Under section 12, taxes collected must be equally distributed between the disabilities care trust account, education legacy trust account, Washington housing trust fund, and the taxpayer justice account.

Projected cash flows are currently unavailable; therefore, estimated earnings from investments are indeterminable.

There may be an impact on the debt service limitation calculation. Changes to the earnings credited to the general fund impacts, by an equal amount, general state revenues.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - 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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

| | | |
|-----------------------------|-----------------------------------|--|
| Bill Number: 5486 SB | Title: Wealth/property tax | Agency: 140-Department of Revenue |
|-----------------------------|-----------------------------------|--|

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

| Account | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|---|---------|---------|---------|---------------|---------------|
| Education Legacy Trust Account-State 00 - 00 - | | | | 1,608,250,000 | 1,566,750,000 |
| Washington Housing Trust Fund Account-State 00 - 00 - | | | | 1,608,250,000 | 1,566,750,000 |
| NEW2-State 00 - 00 - | | | | 1,608,250,000 | 1,566,750,000 |
| NEW-State 00 - 00 - | | | | 1,608,250,000 | 1,566,750,000 |
| Total \$ | | | | 6,433,000,000 | 6,267,000,000 |

Estimated Expenditures from:

| Account | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|----------------------|-----------|-----------|------------|-----------|-----------|
| FTE Staff Years | 18.4 | 22.0 | 20.2 | 19.7 | 18.1 |
| GF-STATE-State 001-1 | 7,616,600 | 8,109,100 | 15,725,700 | 5,408,800 | 4,930,800 |
| Total \$ | 7,616,600 | 8,109,100 | 15,725,700 | 5,408,800 | 4,930,800 |

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.

| | | |
|-----------------------------------|-----------------------|------------------|
| Legislative Contact: | Phone: | Date: 01/25/2023 |
| Agency Preparation: Melissa Howes | Phone: (60) 534-1518 | Date: 01/31/2023 |
| Agency Approval: Valerie Torres | Phone: (60) 534-1521 | Date: 01/31/2023 |
| OFM Review: Cheri Keller | Phone: (360) 584-2207 | Date: 01/31/2023 |

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Part II: Narrative Explanation

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

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

There is no wealth tax in Washington similar to the one proposed in this bill. 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 that tax. Washington also has a new capital gains tax, the fate of which will be determined by the Washington Supreme Court.

PROPOSAL:

Beginning January 1, 2025, for taxes due in 2026, individuals who reside in Washington are subject to a wealth tax equal to 1% of their taxable worldwide wealth over \$250 million.

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

If an individual dies during a tax year, and they are not a spouse or state-registered domestic partner, taxable worldwide wealth is valued as of the day of their death. The tax due is prorated for the number of days the individual was alive during 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, and
 - Certificates of interest in gold and other precious metals or gems and other similar investments.
- Units of ownership in a subchapter K entity
- Units of ownership and stock in a subchapter S entity; and
- Similar intangible assets.

Exemptions from the tax include:

- Nonfinancial intangible assets,
- Obligations or evidence of debt of the United States and United States government agencies and corporations established by the Congress of the United States, to the extent that the state is preempted from taxing this property,
- 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 that is already subject to property taxation.

A credit is available for any similar wealth tax paid to another state on the same financial intangible assets. The credit may

not exceed the tax due, may not 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.

Taxpayers must file the wealth tax return with the Department of Revenue (department) and pay the tax due by April 15 each year.

Spouses and domestic partners must file joint returns but may request permission from the department to file separate returns.

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

The department may 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.

A penalty of up to 50% of the tax underpayment may apply if any financial intangible assets on which wealth tax is owed are found to be substantially underreported.

Provided that the Legislature appropriates funds for the department to audit taxpayers subject to the wealth tax, the department must initiate the following number of audits of individuals registered to pay the wealth tax:

- 10% in 2025,
- 15% in 2026, and
- 20% in 2027 and thereafter.

The department's existing administrative and enforcement authority applies to the administration of the wealth tax. The department may adopt rules as necessary to administer the wealth tax.

The provisions of the Property Tax Code do not apply to the wealth tax.

The tax preference provisions do not apply to the wealth tax.

This bill creates the disabilities care trust account and the taxpayer justice account in the state treasury. Monies from the disabilities care trust account are only to be used for persons with disabilities. Monies from the taxpayer justice account are only be used to provide credits against taxes paid by Washington State residents.

Amounts collected under this bill are deposited equally into the following accounts:

- Disabilities care trust account,
- Education legacy trust account,
- Washington housing trust fund, and
- Taxpayer justice account.

EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- Taxpayers subject to the wealth tax pay their first taxes on April 15, 2026, based on their taxable worldwide wealth as of December 31, 2025.
- This bill will affect around 700 taxpayers. The number of taxpayers may vary from year to year.
- The analysis evaluates wealth at the tax-unit level and assumes 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.
- No taxpayers sell or dispose of their financial intangible assets.
- Wealth tax paid for a calendar year is subtracted from taxpayers' taxable wealth in the subsequent year.
- The distribution of wealth among taxpayers subject to the wealth tax is heavily skewed toward the top.
- This estimate assumes 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.
- Growth rates rely on November 2022 projections provided by the Economic and Revenue Forecast Council.
- The estimate assumes increasing and variable behavioral responses by taxpayers over time in a manner that reduces their tax liability. This estimate adjusts potential revenues to reflect behavioral responses, including tax planning and taxpayer mobility, tax enforcement, and taxpayer reporting compliance. The combined result is revenue collections of:
 - 48% in fiscal year 2026,
 - 51% in fiscal year 2027,
 - 48% in fiscal year 2028, and
 - 45% in fiscal year 2029 and thereafter.
- The NEW funds in the table above correspond to the following:
 - NEW - Disabilities Care Trust Account
 - NEW2 - Taxpayer Justice Account
- This legislation is effective 90 days after the end of the session in which it passes. The department requires 18 months to implement this legislation.

DATA SOURCES:

- Internal Revenue Service personal income tax returns data, federal tax year 2019
- Economic and Revenue Forecast Council November 2022 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

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$6.4 billion in the 2025-27 biennium.

TOTAL REVENUE IMPACT:

| | |
|---------------------------------------|--------------|
| State Government (cash basis, \$000): | |
| FY 2024 - | \$ 0 |
| FY 2025 - | \$ 0 |
| FY 2026 - | \$ 3,197,000 |
| FY 2027 - | \$ 3,236,000 |
| FY 2028 - | \$ 3,155,000 |

FY 2029 - \$ 3,112,000

Local Government, if applicable (cash basis, \$000): None

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- This legislation will affect approximately 700 taxpayers.
- The first tax returns are not due until April 2026; therefore, audit activity will not be expected to start until 2027.

FIRST YEAR COSTS:

The department will incur total costs of \$7,483,500 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 17.27 FTEs.

- Adopt six new administrative rules.
- Set up, program, and test computer system changes.
- Provide technical advice, interpretation, and analysis of new laws for internal use during the implementation process.
- Assist in rule making efforts and evaluate review requests.
- Provide administrative support.
- Computer system testing, monitoring, configuration, and maintenance.
- Interdivisional coordination of system support and change management.
- Answer additional phone calls and counter inquiries on tax questions and tax return preparation from individuals and tax professionals.
- Create a special notice and identify publications and information the department may need to create or update.
- Respond to letter ruling requests, email inquiries, and phone calls.
- Provide data and fiscal analysis related to implementation, administration, and potential legislation.

Object Costs - \$5,151,800.

- Outside consulting.
- Contract computer system programming.
- Federal background checks.
- Attorney General's Office.

SECOND YEAR COSTS:

The department will incur total costs of \$8,516,300 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 24.9 FTEs.

- Continued work on six new administrative rules.
- Hire and train field audit staff and financial examiners.
- Assist taxpayers with reporting questions; and respond to inquiries via email, web message, and paper correspondence.
- Assist in rulemaking efforts and evaluate review requests.
- Provide administrative support.
- Computer system testing, monitoring, and maintenance.
- Interdivisional coordination of system support and change management.
- Review reports, scrutinize data, examine accounts, and make corrections as necessary.
- Answer additional phone calls and counter inquiries on tax questions and tax return preparation from individuals and tax professionals.
- Create a special notice and identify publications and information the department may need to create or update.

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- Respond to letter ruling requests, email inquiries, and phone calls.
- Update web pages, publications, and forms for the reporting change.
- Provide data and fiscal analysis related to implementation, administration, and potential legislation.

Object Costs - around \$5,379,600.

- Outside consulting.
- Contract computer system programming.
- Office equipment.
- Attorney General's Office.

THIRD YEAR COSTS:

The department will incur total costs of \$2,486,700 in fiscal year 2026. These costs include:

Labor Costs - Time and effort equate to 17.9 FTEs.

- Perform tax discovery work.
- Conduct additional administrative reviews of notices and assessments.
- Provide administrative support.
- Review reports, scrutinize data, examine accounts, and make corrections as necessary.
- Interdivisional coordination of system support and change management.
 - 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 individuals and tax professionals.
- Respond to letter ruling requests, email inquiries, and phone calls.
- Provide data and fiscal analysis related to implementation, administration, and potential legislation.

Object Costs - \$298,700.

- Outside consulting.
- Contract computer system programming.
- Printing and postage.

FOURTH YEAR COSTS:

The department will incur total costs of \$2,728,400 in fiscal year 2027. These costs include:

Labor Costs - Time and effort equate to 20.0 FTEs.

- Address large, complex tax cases.
- Perform tax discovery work and field audits.
- Evaluate review requests.
- Provide administrative support.
- 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 individuals and tax professionals.
- Respond to letter ruling requests, email inquiries, and phone calls.

- Provide data and fiscal analysis related to administration and potential legislation.

Object Costs - \$298,700

- Outside consulting.
- Continue systems maintenance.
- Printing and postage.

Ongoing costs for the 2027-29 biennium equal \$4,930,800 and include similar activities described in the fourth-year costs. Time and effort equate to 18.1 FTEs per year.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

| | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|----------------------------------|-------------|-------------|--------------|-------------|-------------|
| FTE Staff Years | 18.4 | 22.0 | 20.2 | 19.7 | 18.1 |
| A-Salaries and Wages | 1,539,600 | 1,776,900 | 3,316,500 | 3,124,600 | 2,839,000 |
| B-Employee Benefits | 508,100 | 586,400 | 1,094,500 | 1,031,100 | 936,800 |
| C-Professional Service Contracts | 5,000,000 | 5,250,000 | 10,250,000 | 500,000 | 500,000 |
| E-Goods and Other Services | 433,300 | 387,800 | 821,100 | 546,300 | 480,400 |
| G-Travel | 6,100 | 17,400 | 23,500 | 56,100 | 62,200 |
| J-Capital Outlays | 129,500 | 90,600 | 220,100 | 150,700 | 112,400 |
| Total \$ | \$7,616,600 | \$8,109,100 | \$15,725,700 | \$5,408,800 | \$4,930,800 |

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

| Job Classification | Salary | FY 2024 | FY 2025 | 2023-25 | 2025-27 | 2027-29 |
|-----------------------------|---------|---------|---------|---------|---------|---------|
| EMS BAND 4 | 126,619 | 0.0 | | 0.0 | | |
| EMS BAND 5 | 147,919 | 0.0 | | 0.0 | | |
| EXCISE TAX EX 3 | 61,632 | | 1.0 | 0.5 | 1.0 | 1.0 |
| EXCISE TAX EX 4 | 68,076 | | 0.2 | 0.1 | 0.2 | 0.1 |
| FINANCIAL EX 3 | 85,020 | | | | 3.0 | 3.0 |
| IT B A-JOURNEY | 88,428 | 1.5 | 1.0 | 1.3 | 0.1 | 0.1 |
| IT PROJ MGT-JOURNEY | 92,844 | 1.0 | 1.0 | 1.0 | 0.5 | 0.5 |
| IT QA-JOURNEY | 88,428 | 4.0 | 4.0 | 4.0 | 1.0 | 1.0 |
| MGMT ANALYST4 | 73,260 | 4.8 | 5.7 | 5.2 | 3.0 | 2.3 |
| MGMT ANALYST5 | 80,952 | 0.2 | 0.1 | 0.2 | 0.1 | |
| PROPERTY AND ACQUISITION SI | 73,260 | 0.5 | 1.0 | 0.8 | 1.5 | 2.0 |
| REVENUE AUDITOR 3 | 68,076 | | 1.3 | 0.7 | 3.1 | 3.6 |
| REVENUE AUDITOR 4 | 85,020 | 0.5 | 1.0 | 0.8 | 1.0 | 1.0 |
| TAX POLICY SP 2 | 75,120 | 0.3 | 0.5 | 0.4 | 0.2 | 0.2 |
| TAX POLICY SP 3 | 85,020 | 3.9 | 3.5 | 3.7 | 3.5 | 2.0 |
| TAX POLICY SP 4 | 91,524 | 0.7 | 0.6 | 0.7 | 0.6 | 0.3 |
| WMS BAND 2 | 94,669 | 1.0 | 1.1 | 1.1 | 1.0 | 1.0 |
| WMS BAND 3 | 107,685 | 0.0 | | 0.0 | | |
| Total FTEs | | 18.4 | 22.0 | 20.2 | 19.7 | 18.1 |

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

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the complex process to adopt WAC 458-20-. . ., titled: "Wealth tax on individuals." The department will use the standard process to adopt four new rules for wealth tax and one new rule for tax avoidance under chapter 458-20- WAC. Persons affected by this rulemaking would include individuals meeting the threshold for reporting and/or paying the new wealth tax.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5486 SB

Title: Wealth/property tax

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- Cities:
 Counties:
 Special Districts:
 Specific jurisdictions only:
 Variance occurs due to:

Part II: Estimates

- No fiscal impacts.
 Expenditures represent one-time costs:
 Legislation provides local option:
 Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

| | | |
|---------------------------------|-----------------------|------------------|
| Fiscal Note Analyst: Angie Hong | Phone: 360-725-5041 | Date: 01/30/2023 |
| Leg. Committee Contact: | Phone: | Date: 01/25/2023 |
| Agency Approval: Allan Johnson | Phone: 360-725-5033 | Date: 01/30/2023 |
| OFM Review: Cheri Keller | Phone: (360) 584-2207 | Date: 01/31/2023 |

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

This bill will not impact local governments.

Section 1 describes legislative intent.

Section 2 provides applicable definitions.

Section 3 adds a new chapter (TAXES IMPOSED) to title 84 RCW [Property Tax] to tax wealthy residents. The chapter describes: the tax rate, a start date, taxes due at death, applicability of trusts, how intangible assets transferred to family members must be treated.

Section 4 adds a new chapter (WHEN TAXES AND TAX RETURNS ARE DUE) to title 84 RCW [Property Tax] to describe: when wealthy person's taxes are due, when spouses and domestic partners must jointly file returns, the requirement for wealthy residents to file a return with the Dept. of Revenue without assessment, notice, or demand, a penalty fee of five percent of taxes due for taxes not filed on time, conditions when a penalty waiver is acceptable.

Section 5 adds a new chapter (ADMINISTRATIVE PROVISIONS) to title 84 RCW [Property Tax] to specify when administrative provisions apply and allows the Dept. of Revenue to adopt rules.

Section 6 adds a new chapter (EXEMPTIONS) to title 84 RCW [Property Tax] to describe exemptions to the wealthy residents tax.

Section 7 adds a new chapter (CREDIT FOR SIMILAR WEALTH TAX PAID TO ANOTHER STATE) to title 84 RCW [Property Tax] to describe the conditions for when a credit against the tax otherwise due may be applied.

Section 8 adds a new chapter (INNOCENT SPOUSE RELIEF) to title 84 RCW [Property Tax] to describe when wealthy tax relief may be made available.

Section 9 amends RCW 82.32.160 [Correction of tax – Determination by Dept.] to describe procedures for a petition due to the denial of a relief request.

Section 10 adds a new chapter (SUBSTANTIAL WEALTH TAX VALUATION UNDERSTATEMENT PENALTY IMPOSED) to title 84 RCW [Property Tax] to specify if any portion of an underpayment of tax due under this chapter is due to a substantial wealth tax valuation understatement, there must be added to the tax certain amounts.

Section 11 adds a new chapter (ENFORCEMENT) to title 84 RCW [Property Tax] to REQUIRE THE Dept. of Revenue to perform regular audits for the wealth tax.

Section 12 adds a new chapter (DISTRIBUTION OF TAX REVENUE) to title 84 RCW [Property Tax] to distribute tax revenues to: the Disabilities Care Trust Account, the Education Legacy Trust Account, the Washington Housing Trust Fund, and the Taxpayer Justice Account.

Section 13 adds a new chapter (RULES OF CONSTRUCTION) to title 84 RCW [Property Tax] to specify the legislature's intent for a court of competent jurisdiction or administrative agency struggling with ambiguity construe these provisions in favor of application of the tax.

Section 14 states the property tax title does not apply.

Section 15 amends RCW 43.135.034 [Tax legislation—Two-thirds approval—Taxes on intangible property] to allow the

state to impose a tax on intangible property.

Section 16 amends RCW 82.32.655 [Tax avoidance] to specify arrangements through which a taxpayer attempts to avoid taxes do not apply to substantial wealth tax valuation understatements subject to the penalty of this act.

Section 17 and 18 create the Disabilities Care Trust Account and the Taxpayer Justice Account.

Section 19-22 address: exemptions from certain laws, severability, codification direction, and states that this act is necessary.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

This bill will not impact local government expenditures.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

This bill will not impact local government revenues.

This bill will result in a significant revenue increase for the state: approximately \$3.1 billion dollars each fiscal year beginning in FY 2026. Revenue will be deposited into four accounts:

- Disabilities care trust account,
- Education legacy trust account,
- Washington housing trust fund, and
- Taxpayer justice account.

Distributions from these accounts are considered indirect impacts of this legislation and are not considered in the analysis of impact to local governments.

SOURCES

Dept. of Revenue Fiscal Note Draft



Multiple Agency Ten-Year Analysis Summary

| | |
|-------------------------------|-------------------------------------|
| Bill Number 5486 SB | Title Wealth/property tax |
|-------------------------------|-------------------------------------|

This ten-year analysis is limited to the estimated cash receipts associated with the proposed tax or fee increases.

Estimated Cash Receipts

| | Fiscal Year 2024 | Fiscal Year 2025 | Fiscal Year 2026 | Fiscal Year 2027 | Fiscal Year 2028 | Fiscal Year 2029 | Fiscal Year 2030 | Fiscal Year 2031 | Fiscal Year 2032 | Fiscal Year 2033 | 2024-33 TOTAL |
|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------|
| Office of State Treasurer | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Department of Revenue | 0 | 0 | 3,197,000,000 | 3,236,000,000 | 3,155,000,000 | 3,112,000,000 | 3,212,000,000 | 3,332,000,000 | 3,466,000,000 | 3,612,000,000 | 26,322,000,000 |
| Total | 0 | 0 | 3,197,000,000 | 3,236,000,000 | 3,155,000,000 | 3,112,000,000 | 3,212,000,000 | 3,332,000,000 | 3,466,000,000 | 3,612,000,000 | 26,322,000,000 |



Ten-Year Analysis

| | | |
|-------------------------------|-------------------------------------|--|
| Bill Number 5486 SB | Title Wealth/property tax | Agency 090 Office of State Treasurer |
|-------------------------------|-------------------------------------|--|

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

No Cash Receipts **Partially Indeterminate Cash Receipts** **Indeterminate Cash Receipts**

| | | | | | | | | | | | | | |
|---------------------------|------------------|--|--|--|--|--|--|--|--|--|--|--|--|
| Name of Tax or Fee | Acct Code | | | | | | | | | | | | |
|---------------------------|------------------|--|--|--|--|--|--|--|--|--|--|--|--|

| | | |
|-------------------------------|-----------------------|-----------------------------|
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| Agency Approval: Dan Mason | Phone: (360) 902-8990 | Date: 1/27/2023 10:47:53 an |
| OFM Review: | Phone: | Date: |



Ten-Year Analysis

| | | |
|-------------------------------|-------------------------------------|--|
| Bill Number 5486 SB | Title Wealth/property tax | Agency 140 Department of Revenue |
|-------------------------------|-------------------------------------|--|

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

No Cash Receipts

 Partially Indeterminate Cash Receipts

 Indeterminate Cash Receipts

Estimated Cash Receipts

| Name of Tax or Fee | Acct Code | Fiscal Year 2024 | Fiscal Year 2025 | Fiscal Year 2026 | Fiscal Year 2027 | Fiscal Year 2028 | Fiscal Year 2029 | Fiscal Year 2030 | Fiscal Year 2031 | Fiscal Year 2032 | Fiscal Year 2033 | 2024-33 TOTAL |
|------------------------|-----------|------------------|------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|-----------------------|
| Wealth/property tax | 08A | | | 799,250,000 | 809,000,000 | 788,750,000 | 778,000,000 | 803,000,000 | 833,000,000 | 866,500,000 | 903,000,000 | 6,580,500,000 |
| Wealth/property tax | 532 | | | 799,250,000 | 809,000,000 | 788,750,000 | 778,000,000 | 803,000,000 | 833,000,000 | 866,500,000 | 903,000,000 | 6,580,500,000 |
| Wealth/property tax | N02 | | | 799,250,000 | 809,000,000 | 788,750,000 | 778,000,000 | 803,000,000 | 833,000,000 | 866,500,000 | 903,000,000 | 6,580,500,000 |
| Wealth/property tax | NEW | | | 799,250,000 | 809,000,000 | 788,750,000 | 778,000,000 | 803,000,000 | 833,000,000 | 866,500,000 | 903,000,000 | 6,580,500,000 |
| Total | | | | 3,197,000,000 | 3,236,000,000 | 3,155,000,000 | 3,112,000,000 | 3,212,000,000 | 3,332,000,000 | 3,466,000,000 | 3,612,000,000 | 26,322,000,000 |
| Biennial Totals | | | | 6,433,000,000 | 6,267,000,000 | 6,544,000,000 | 7,078,000,000 | 26,322,000,000 | | | | |

Narrative Explanation (Required for Indeterminate Cash Receipts)

CURRENT LAW:
 There is no wealth tax in Washington similar to the one proposed in this bill. 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 that tax. Washington also has a new capital gains tax, the fate of which will be determined by the Washington Supreme Court.

PROPOSAL:
 Beginning January 1, 2025, for taxes due in 2026, individuals who reside in Washington are subject to a wealth tax equal to 1% of their taxable worldwide wealth over \$2 million.

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



Ten-Year Analysis

| Bill Number | Title | Agency |
|-------------|---------------------|---------------------------|
| 5486 SB | Wealth/property tax | 140 Department of Revenue |

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

If an individual dies during a tax year, and they are not a spouse or state-registered domestic partner, taxable worldwide wealth is valued as of the day of their death. The due is prorated for the number of days the individual was alive during 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, and
 - Certificates of interest in gold and other precious metals or gems and other similar investments.
- Units of ownership in a subchapter K entity
- Units of ownership and stock in a subchapter S entity; and
- Similar intangible assets.

Exemptions from the tax include:

- Nonfinancial intangible assets,
- Obligations or evidence of debt of the United States and United States government agencies and corporations established by the Congress of the United States, to the extent that the state is preempted from taxing this property,
- 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 that is already subject to property taxation.

A credit is available for any similar wealth tax paid to another state on the same financial intangible assets. The credit may not exceed the tax due, may not be carried



Ten-Year Analysis

| Bill Number | Title | Agency |
|-------------|---------------------|---------------------------|
| 5486 SB | Wealth/property tax | 140 Department of Revenue |

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

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.

Taxpayers must file the wealth tax return with the Department of Revenue (department) and pay the tax due by April 15 each year.

Spouses and domestic partners must file joint returns but may request permission from the department to file separate returns.

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

The department may 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.

A penalty of up to 50% of the tax underpayment may apply if any financial intangible assets on which wealth tax is owed are found to be substantially underreported.

Provided that the Legislature appropriates funds for the department to audit taxpayers subject to the wealth tax, the department must initiate the following number of audits of individuals registered to pay the wealth tax:

- 10% in 2025,
- 15% in 2026, and
- 20% in 2027 and thereafter.

The department's existing administrative and enforcement authority applies to the administration of the wealth tax. The department may adopt rules as necessary to administer the wealth tax.

The provisions of the Property Tax Code do not apply to the wealth tax.

The tax preference provisions do not apply to the wealth tax.



Ten-Year Analysis

| Bill Number | Title | Agency |
|-------------|---------------------|---------------------------|
| 5486 SB | Wealth/property tax | 140 Department of Revenue |

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

This bill creates the disabilities care trust account and the taxpayer justice account in the state treasury. Monies from the disabilities care trust account are only to be used for persons with disabilities. Monies from the taxpayer justice account are only be used to provide credits against taxes paid by Washington State residents.

Amounts collected under this bill are deposited equally into the following accounts:

- Disabilities care trust account,
- Education legacy trust account,
- Washington housing trust fund, and
- Taxpayer justice account.

EFFECTIVE DATE:

The bill takes effect 90 days after final adjournment of the session.

ASSUMPTIONS:

- Taxpayers subject to the wealth tax pay their first taxes on April 15, 2026, based on their taxable worldwide wealth as of December 31, 2025.
- This bill will affect around 700 taxpayers. The number of taxpayers may vary from year to year.
- The analysis evaluates wealth at the tax-unit level and assumes 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.
- No taxpayers sell or dispose of their financial intangible assets.
- Wealth tax paid for a calendar year is subtracted from taxpayers' taxable wealth in the subsequent year.
- The distribution of wealth among taxpayers subject to the wealth tax is heavily skewed toward the top.
- This estimate assumes 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.
- Growth rates rely on November 2022 projections provided by the Economic and Revenue Forecast Council.
- The estimate assumes increasing and variable behavioral responses by taxpayers over time in a manner that reduces their tax liability. This estimate adjusts potential revenues to reflect behavioral responses, including tax planning and taxpayer mobility, tax enforcement, and taxpayer reporting compliance. The combined result is rever collections of:
 - 48% in fiscal year 2026,
 - 51% in fiscal year 2027,
 - 48% in fiscal year 2028, and



Ten-Year Analysis

| Bill Number | Title | Agency |
|-------------|---------------------|---------------------------|
| 5486 SB | Wealth/property tax | 140 Department of Revenue |

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

- 45% in fiscal year 2029 and thereafter.
- The NEW funds in the table above correspond to the following:
 - NEW - Disabilities Care Trust Account
 - NEW2 - Taxpayer Justice Account
- This legislation is effective 90 days after the end of the session in which it passes. The department requires 18 months to implement this legislation.

DATA SOURCES:

- Internal Revenue Service personal income tax returns data, federal tax year 2019
- Economic and Revenue Forecast Council November 2022 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

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$6.4 billion in the 2025-27 biennium.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

| | | |
|-----------|----|-----------|
| FY 2024 - | \$ | 0 |
| FY 2025 - | \$ | 0 |
| FY 2026 - | \$ | 3,197,000 |
| FY 2027 - | \$ | 3,236,000 |
| FY 2028 - | \$ | 3,155,000 |
| FY 2029 - | \$ | 3,112,000 |

Local Government, if applicable (cash basis, \$000): None



Ten-Year Analysis

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|-------------------------------|-------------------------------------|--|
| Bill Number 5486 SB | Title Wealth/property tax | Agency 140 Department of Revenue |
|-------------------------------|-------------------------------------|--|

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|-----------------------------------|---------------------|----------------------------|
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