

Tax Structure Work Group

Wealth Tax @ 1% with \$100/\$250/\$500 million exemption

Current Law There is no similar tax in Washington state. 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.

Proposal This proposal would impose a wealth tax on each Washington resident. The wealth tax equals 1% multiplied by a Washington resident's taxable worldwide wealth over a set exemption amount - \$100 million, \$250 million, or \$500 million. Taxable worldwide wealth means the fair market value of all of a person's financial intangible assets as of December 31 of the tax year.

Financial intangible assets mean the following intangible assets:

- 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, mortgages and liabilities secured by real property, 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.

Exemptions from the tax include:

- Nonfinancial intangible assets;
 - Obligations of the United States and United States government agencies and corporations exempt from state taxation;
 - Obligations 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.
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Effective Date This proposal takes effect on January 1, 2024, with the first payments due in 2025.

Revenue Estimate The table below shows the revenue estimated at each exemption level and assumes all revenues are deposited into the state general fund:

Exemption Level	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
\$100 million	0	0	4,319,000,000	4,259,000,000	4,067,000,000	4,106,000,000
\$250 million	0	0	3,296,000,000	3,244,000,000	3,096,000,000	3,127,000,000
\$500 million	0	0	2,615,000,000	2,572,000,000	2,455,000,000	2,480,000,000

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Revenue Assumptions

- First tax payments are due on October 15, 2025, for wealth as of December 31, 2024.
 - This proposal will affect between 300 to 2,000 taxpayers depending upon the exemption amount. 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.
 - 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, 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 September 2022 projections provided by the Economic and Revenue Forecast Council (ERFC).
 - The estimate assumes increasing and variable behavioral responses by taxpayers over time in a manner that reduces their tax liability. Adjustments have been made to the potential revenues to reflect behavioral responses, including tax planning and taxpayer mobility, tax enforcement, and taxpayer reporting compliance. The result is assumed revenue collections of:
 - 52% in Fiscal Year 2026,
 - 53% in Fiscal Year 2027,
 - 50% in Fiscal Year 2028, and
 - 48% in Fiscal Year 2029 and thereafter.
 - All revenues generated from the wealth tax are deposited into the general fund.
 - 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.
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Data Sources

- Internal Revenue Service, personal income tax returns data, Federal Tax Year 2019
 - Economic & Revenue Forecast Council, September 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
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First Year Costs

The Department will incur total costs between \$7,000,000 and \$7,200,000 in Fiscal Year 2024. These costs include:

Labor Costs - Time and effort equate to between 15 and 16 FTEs.

- Assist in rulemaking 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.
- 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.
- Update web pages, publications, and forms for the reporting change.

Object Costs - around \$5,100,000.

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

The Department will incur total costs between \$7,200,000 and \$7,900,000 in Fiscal Year 2025. These costs include:

Labor Costs - Time and effort equate to between 16 and 22 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.
- 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.
- Update web pages, publications, and forms for the reporting change.

Object Costs - around \$5,300,000.

- Outside consulting.
 - Contract computer system programming.
 - Office equipment.
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Ongoing Costs

THIRD YEAR COSTS:

The Department will incur total costs between \$1,100,000 and \$1,900,000 in Fiscal Year 2026. These costs include:

Labor Costs - Time and effort equate to between 7 and 13 FTEs.

- Assist in rule making process and 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 businesses, individuals, and accountants.
- Respond to letter ruling requests, email inquiries, and phone calls.
- Perform field audits.

Object Costs - between \$300,000 and \$500,000.

- Outside consulting.
- Continue systems maintenance.
- Attorney General Office.

FOURTH YEAR COSTS:

The Department will incur total costs between \$1,300,000 and \$2,100,000 in Fiscal Year 2027. These costs include:

Labor Costs - Time and effort equate to between 8 and 15 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.
- Respond to letter ruling requests, email inquiries, and phone calls.
- Perform field audits.

Object Costs - between \$400,000 and \$500,000.

- Outside consulting.
- Continue systems maintenance.
- Attorney General Office.

Ongoing costs for the 2027-29 Biennium equal between \$2,500,000 and \$4,000,000 and include similar activities described in the fourth-year costs. Time and effort equate to between 7 and 14 FTEs per year.

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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.

Note

Please note that our review, comments, and any estimates provided are not intended to reflect a policy position by the Department and are solely to assist you in exploring options under development.

Further Information

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