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# Mega-Rich and Plans to Tax Them Abound in Washington State

- Democrats push for action to address equity
- Opponents say proposals are premature

By Laura Mahoney / March 4, 2021 04:46AM ET / Bloomberg Law

Washington state — home to some of the wealthiest people in the world — is a hotbed of proposals to impose higher taxes on the wealthy.

Bills to impose a capital gains tax, a wealth tax on billionaires, or a more progressive estate tax are all circulating in the Democrat-controlled Legislature this session. Proposals to fund and expand tax credits for low-income people are also in the works. The push from Gov. Jay Inslee (D), particularly on a capital gains tax, is giving proponents momentum.

The renewed interest in higher taxes on the wealthy stems from watching fortunes grow while the state scrambles to help businesses and lower-income residents who have lost income during the pandemic. Lawmakers in California, New Jersey, and New York have floated wealth taxes in recent months, with mixed success, and the idea is gaining traction in other countries as well.

“In the midst of this Covid-19 pandemic and economic downturn, we’ve got to ask ourselves who is going to pay for economic recovery,” Rep. Noel Frame (D), chair of the House Finance Committee and author of the wealth tax bill, said.

The bills face opposition from Republicans and business groups who say the state’s finances are solid enough, with Inslee estimating reserves of at least $1 billion through 2023. They say Democrats are improperly jumping ahead of a bipartisan effort to update the state’s regressive tax structure in 2023 and are on shaky legal ground.

“No one can really claim that these bills are necessary for the current budget or the budget we’re about to write,” Rep. Ed Orcutt (R) said.

If enacted, the capital gains and billionaires taxes are likely to face legal challenges that hinge on 1930s state Supreme Court rulings prohibiting income taxes unless they are uniform. Proponents argue the proposals would withstand scrutiny: The capital gains measure is structured as an excise tax and the wealth tax is structured as a property tax with flat rates and broad exemptions that are similar to existing state taxes.

**Washington Billionaires Could Face Higher Taxes Soon**

Several state residents rank high on the Bloomberg Billionaires Index

| Name and rank | Estimated worth | Change year-to-date |
|---|---|---|
| 1. Jeff Bezos | $181.7 billion | -$8.6 billion |
| 3. Bill Gates | $136.4 billion | +$4.7 billion |
| 9. Steve Ballmer | $84.4 billion | +$4 billion |
| 22. MacKenzie Scott | $55.4 billion | -$3.1 billion |

Source: Bloomberg Billionaires Index

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## 'Most Regressive' Tax System

The state's regressive tax system, which stems from lack of an income tax and other factors, is largely unchanged since it was established in the 1930s. Almost half of revenue comes from sales tax, and 17% comes from a business and occupations tax levied on business gross receipts. Other taxes, including a statewide property tax, make up the rest.

According to a Dec. 31 report from the bipartisan Tax Structure Work Group, the state's system creates average tax burdens at 8.2% of total income for households with income between $17,000 and $30,000 a year, but the burden drops as incomes rise and is only 1.8% for households making more than $208,000. The Institute for Taxation and Economic Policy has repeatedly ranked Washington as the state with the country's "most regressive" tax system.

Inslee's 2021-23 budget initially called for a 9% tax on capital gains earnings. Sen. June Robinson (D) amended S.B. 5096 to reduce the tax rate to 7%, exclude gains below $250,000, and broaden exclusions to apply to all real estate and other types of businesses. The proposal would apply to fewer than 60,000 Washington taxpayers and bring in more than $1 billion a year starting in 2023. It passed the Senate Ways and Means Committee on Feb. 16.

Inslee spokesman Mike Faulk said the governor is open to compromise with the bill and "supports measures that would change our state's regressive tax system."

A bill (H.B. 1496) to impose a 7% tax on real property capital gains and 9.9% on gains from other long-term assets has been introduced but hasn't moved out of its first committee.

Frame's bill (H.B. 1406) would impose a 1% tax on financial intangible assets including cash, stocks, and non-government bonds of more than $1 billion. It would apply beginning Jan. 1, 2022, to fewer than 100 Washington residents and generate about $2.5 billion a year.

Rep. Tina Orwall (D) has proposed a bill (H.B. 1465) to raise rates in existing estate tax brackets, with the top rate increasing from 20% to 40% for estates valued at $1 billion or more. The changes would start Aug. 1, 2021, and bring in about $3 million a year.

Committees are debating the bills and final action on any of them is likely to come late in the legislative session, which ends April 25, Frame said.

Frame, who co-chairs the Tax Structure Work Group formed in 2019, said her wealth tax proposal and other ideas being considered this year are worth enacting separately from the work group, which will propose changes to be enacted in 2023. This year's bills won't fix the state's tax system by themselves, she said.

## Equity Issues

Wealth tax proposals highlight the disparate economic impacts of the pandemic at the same time they address the long-term lack of progressivity, said Andy Nicholas, senior fellow at the think tank Washington State Budget and Policy Center.

"The tech sector, CEOs, and investors are doing really well while lower income people are suffering," he said. A tax on capital gains "would be the most equitable change to the tax code in 90 years."

If Democrats enact the tax increases, lawmakers should reduce other taxes, like the sales tax, at the same time, Orcutt and other opponents said.

"If you want the system to be less regressive, where are the adjustments to the more regressive taxes that already exist, like sin taxes?" said Tommy Gantz, government affairs director for the lobby group Association of Washington Business.

Democrats are instead considering how the new revenue could be spent to help low-income Washingtonians. Inslee and lawmakers from both parties may finally fund the state's version of the federal Earned Income Tax Credit, called the Working Families Tax Credit.

Lawmakers created that credit in 2008 but never funded it. Inslee included funding in his proposed budget, and a bill (H.B. 1297) to expand it beyond the 2008 version is on the legislative agenda.

Despite the state's relative fiscal health during the pandemic, the state is still behind its pre-pandemic revenue forecasts and needs new revenue to fund initiatives like the Working Families Tax Credit, Nicholas said. "There's not room for anything extra," he said.

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