



2021 SESSION REVIEW

Taxes

Key changes

- Democrats passed an unnecessary, unpopular, unreliable, and unconstitutional capital gains income tax.
- There was bipartisan support for an expansion of the Working Families Tax Exemption.
- Bipartisan bills responding to the COVID-19 related economic shock included a B&O tax exemption for funds received as emergency assistance, and the ability to defer 2021 property taxes.
- Republican bills to provide tax relief that passed included a bill to expand eligibility for the senior citizen and disabled veteran property tax relief program and a bill to eliminate penalties and reduce interest on delinquent property taxes for residential parcels with four or fewer units.

Background

The session will be remembered for passage of the capital gains income tax and funding of an expanded eligibility and remittance structure for the Working Families Tax Credit. New regressive taxes include the new tax on phone lines, and impact to fuel and energy costs through environmental policy (See Session Review "Climate"). A great resource for general state tax statistics can be found [here](#).

Bills

- ✓ [Senate Bill 5096](#) (Robinson) – **Capital Gains Income Tax**. Imposes a seven percent tax on the amount of capital gains reported on an individual's federal income tax return. There is a standard exclusion of \$250,000 per year, and a list of exclusions from the state capital gains tax that includes all real estate, assets held in a retirement account, livestock related to farming or ranching, timber, commercial fishing privileges, and goodwill received from the sale of a franchised auto dealership. There is a deduction for gain from the sale of a qualified family-owned small business. *Passed House 52-44-2. Signed by Governor. Tax is effective January 1, 2022.*
- ✓ [House Bill 1297](#) (Thai/Stokesbary) – **Working Families Tax Exemption (WTFE)**. Expands eligibility for the WTFE to include filers who do not have a social security number, but instead use an individual taxpayer identification number. The bill also expands the base remittance amount and establishes phaseout rates for the remittance. The base remittance is \$300 for eligible persons with no children and goes up to \$1,200 for persons with three or more qualifying children. Note: The WTFE was passed in 2008, but has never been funded until this session in the 2021-23 operating budget. *Passed House 93-3-2. Signed by Governor. Effective July 25, 2021.*
- ✓ [House Bill 1095](#) (Walen/Boehnke) – **Taxation of Governmental Financial Assistance**. Provides a business and occupation tax, a public utilities tax, and a retail sales tax exemption for a qualifying grant received by a taxpayer related to a national or state emergency proclamation. *Passed House 98-0. Signed by Governor. Effective February 19, 2021.*
- ✓ [House Bill 1332](#) (Sullivan) – **Property Tax Deferral During the COVID-19 Pandemic**. Requires county treasurers to grant a deferral of 2021 property tax payments for certain businesses that can demonstrate a loss of at least 25 percent of revenue for calendar year 2020 compared to calendar year 2019 via establishment of a payment plan. *Passed House 97-0-1. Signed by Governor. Effective April 16, 2021.*
- ✓ [House Bill 1438](#) (Orcutt) – **Modifying Income Thresholds for Eligibility of Property Tax Exemptions**. The expenses that are deducted when determining combined disposable income for eligibility are expanded to include such things

as the cost of long-term care insurance and Medicare supplemental insurance policies, medically prescribed oxygen, and insulin. *Passed House 98-0. Signed by Governor. Effective July 25, 2021.*

- ✓ [House Bill 1410](#) (Volz) – **Protecting Taxpayers from Home Foreclosure.** The bill eliminates penalties of three percent and eight percent on delinquent property taxes for residential parcels with four or fewer units and reduces the interest on delinquent property taxes for the same parcels from 12 percent to nine percent. *Passed House 97-0-1. Signed by Governor. Effective January 1, 2022.*

Budget information

The Department of Revenue (DOR) was appropriated \$6.7M to administer the capital gains income tax. DOR expects to need 24 full-time equivalent (FTE) personnel to administer the tax by FY 2023. The four-year revenue impact is now \$1.255B (\$415M in FY '21 and \$840M in '21-23) and is reflected in the resources page in the conference budget report (p. 47 of the [summary](#)); this is revised down from the last fiscal note of April 21. DOR was appropriated \$19M for administering the Working Families Tax Exemption (WFTE) program and will need 29 FTE. Payments to 420,000 recipients of the WFTE will cost \$242M in FY '21-23 (first payments issued in Fiscal Year 2023), and \$518M in FY '23-25.

Other Tax Proposals

2021 Session Democrat Tax Increase Proposals 2021 Session (As Introduced)				
Bill	Tax	\$M FY 2021-23	\$M FY 2023-25	Status
1406	Wealth Tax (1%)	4900	4900	FIN (9-7). In APP
1496	Income Tax on Capital Gains (9.9%)	470	1014	Hearing in FIN. House passed Senate Bill 5096 (7%). 52-44-2.
1201	Health Insurance Tax for public health (\$3.25/month)	205	343	In FIN; No Hearing.
1465	Estate Tax (doubling top rate to 40%)	106	169	Hearing in FIN.
1365	Devices Tax (\$2-5 per "smart" device)	62	79	Tax removed in EDUCATION.
1477	Telephone /Wireless line tax for 988 Crisis Line (\$.30-\$.75 per line)	98	166	Tax reduced to \$.24-\$.40 in Senate. Passed. 71-25-2.
1460	Internet Subscription and Telephone Tax \$.25/month for Digital Equity	47	57	Tax removed in FIN. In Rules.
1069	Local Gov't Fiscal Flexibility - removes current law exemption for new and leased vehicles from .3% local option sales tax for criminal justice.	2	2	Tax on cars removed in FIN. Passed. 56-42.
5371	New state sweetened beverage tax for public health \$0.0175 per fluid ounce.	359	478	Hearing in Senate Health & Long-Term Care
Total		\$6.249B	\$7.208B	

Also of note, Democrats proposed [SJR 8204](#), which would amend the Washington Constitution to allow school district bond measures to pass at 55-percent approval rather than 60-percent. And this brief does not address [House \\$0.18 gas tax proposal](#) or indirect gas tax from climate bills (low carbon fuel standard, and cap-and-trade).