Eight States Introduce Legislation Aimed to Tax the Wealthy

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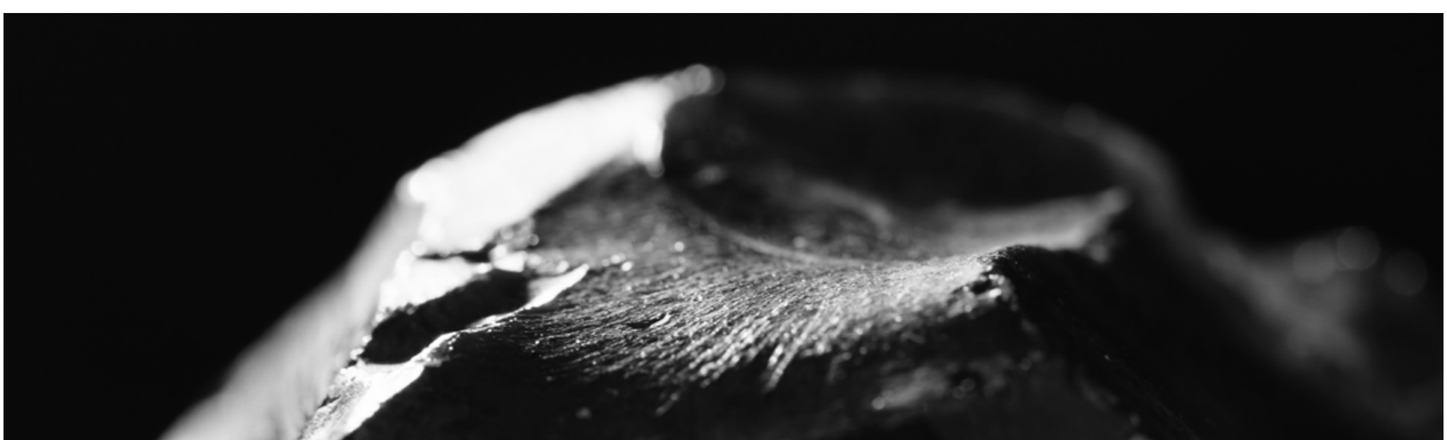
On Thursday, January 19, 2023, lawmakers from eight states joined together to introduce tax legislation targeting wealthy residents as a part of the "Fund Our Future" campaign. While coordinated, the proposals vary from state to state. The proposals in California, Illinois, Hawaii, New York, and Washington resemble some form of the "wealth tax" that Senator Elizabeth Warren (D) pitched during her 2020 presidential campaign. This more controversial tax would force taxpayers to pay taxes annually on the assessed value of the assets that they own, rather than just their income that year. Additional measures in both New York and Hawaii, as well as proposals in three other states, Connecticut, Maryland, and Minnesota, aim to increase capital gains taxes or make changes to the current estate taxes.

In California, Assemblyman Alex Lee (D) introduced a bill that imposes a 1% excise tax for every resident with a worldwide net worth in excess of $50 million and a 1.5% excise tax for residents with a worldwide net worth in excess of $1 billion. This California bill would also require taxpayers with illiquid assets to file annual reports with the California Franchise Tax Board and eventually pay the tax, even if they move out of state.

Illinois State Representative Will Guzzardi (D) shared that his bill would require taxpayers with a net worth of at least $1 billion to recognize a 4.95% flat tax on any unrealized gains. Hawaii state Senator Karl Rhoads (D) also introduced a bill that includes a 1% wealth tax on individual taxpayers' net worth in excess of $20 million in assets. Two other bills in Hawaii include proposals that would tax capital gains at the same rate as ordinary income and amend the applicable exclusion amount used when calculating Hawaii's estate tax.

In New York, State Senator Gustavo Rivera (D) introduced a bill that proposes a mark-to-market tax on residents with net assets worth $1 billion or more at the end of each year. The gain or loss would be recognized as if each asset owned by an individual were sold for its fair market value on December 31, 2022. A second bill introduced aims to close the gap between the tax rate on capital gains and the tax rate on regular income. This bill would impose an additional 7.5% tax on capital gains for New York married couples with income above $550,000, and 15% for couples with incomes above $1.1 million. Finally, the third bill, which was introduced in January 2021, proposes creating separate taxes on inheritance and gift income, amending the computation of the estate tax, and creating a gift tax.

The Washington State Legislature intends to create a wealth tax on financial intangible assets that includes stocks and bonds, publicly traded options, and futures contracts for households. Households' first $250 million of assessed value would be exempt from this tax.



Two separate bills were introduced in Connecticut. One aims to increase the highest and second highest marginal personal income tax rates to 7.49% and 7.20% and establish a 1% and a 0.75% surcharge on the net gain from the sale of capital assets for such taxpayers. The other proposes creating a 5% surtax for taxpayers in the highest income bracket on capital gains and additional marginal tax rates for individuals with Connecticut taxable income over $1 million (9.55%), $10 million (10.25%), and $25 million (10.65%).

In Maryland, Delegate Julie Palakovich Carr (D) introduced one bill that proposes an extra 1% tax on top of the state income tax rate on certain capital gains in Maryland. A second bill includes a proposal that would lower the applicable exclusion amount for Maryland's estate tax from $5 million to $1 million. Meanwhile in Minnesota, Governor Tim Waltz (D) would like to tax the non-taxed capital gains that exceed $1 million at the taxpayer's date of death.

So why not just leave the state? It is certainly possible that the richest residents in these states could move to lower-tax states to avoid the new wealth levies. However, it is important to recognize that some states, most notably California, may try to still impose contractual claims tied to the assets of taxpayers.

While many of these bills may not be enacted into law, we anticipate more states may begin to join this coalition. At this early stage, it is best to take a wait-and-see approach. As new information unfolds, your NewEdge Wealth team will continue to monitor and update you.

Sources

Fund Our Future, Washington Post, Bloomberg Tax, Wall Street Journal

Important Disclosures

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