
Finance Committee

HB 1484

Brief Description: Enacting an excise tax on capital gains to improve the fairness of Washington's tax system and provide funding for the education legacy trust account.

Sponsors: Representatives Jinkins, S. Hunt, Tharinger, Robinson, Fitzgibbon, Wylie, Pollet, Reykdal, Farrell, Ryu, Van De Wege, Kagi, Ormsby, Clibborn, Appleton, Bergquist, Walkinshaw, McBride and Tarleton; by request of Office of Financial Management.

Brief Summary of Bill

- Imposes a 7 percent tax on capital gains to fund the Education Legacy Trust Account.

Hearing Date: 5/13/15

Staff: Jeffrey Mitchell (786-7139).

Background:

A capital gains tax (CGT) is a tax on the profit realized on the sale of non-inventory assets that are purchased at a lower price than the sales price. The most common capital gains are realized from the sale of stocks, bonds, and real estate.

Under the federal tax code, individuals and corporations pay income tax on the net total of all their capital gains just as they do on other sorts of income. The amount of federal CGT depends on both the tax bracket of the individual and the amount of time the capital asset was held before being sold. Short-term capital gains are taxed at the individual's ordinary income tax rate, and are defined as capital assets held for a year or less before being sold. Currently, long-term capital gains are generally taxed at a preferential rate in comparison to ordinary income for federal income tax purposes. The long-term capital gains tax rates for 2014 are: 0 percent for taxpayers in the 10 or 15 percent marginal income tax brackets; 15 percent for taxpayers in the 25, 28, 33, or 35 percent marginal income tax brackets; and 20 percent for taxpayers in the 39.6 percent top bracket

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In addition to the federal tax, capital gains are often subject to state income taxes. Most states do not have separate capital gains tax rates. Instead, most states tax capital gains as ordinary income subject to the state's income tax rates.

Summary of Bill:

Beginning January 1, 2016, an annual state net capital gains tax (CGT) is imposed on the sale or other voluntary exchange of long-term capital assets by individuals. The tax rate is 7 percent. Generally, the tax rate is applied to the capital gains amount reported on the individual's federal income tax return. For resident individuals, all capital gains from the sale or exchange of intangible personal property, such as stock, are allocated to Washington. Capital gains from real estate transactions are allocated to Washington if the real property is located in Washington. Generally, capital gains from the sale or exchange of tangible personal property are allocated to Washington if the property was located in Washington at the time of the transaction.

All taxpayers must file with the state Department of Revenue (Department), a CGT return for each taxable year; however, a person with no tax liability is not required to file a tax return. The due date of the state CGT return is the due date for the federal income tax return, unless otherwise required by the Department. The first state CGT returns are due in 2017.

For taxpayers filing joint federal tax returns, the first \$50,000 in long-term capital gains is excluded from the state CGT. For taxpayers filing other returns, a \$25,000 exclusion is provided.

Sales or exchanges of the following capital assets are explicitly excluded from the CGT:

- principal residences excluded from tax under federal law or a principal residence used by a taxpayer as a principal residence for periods totaling at least 10 years in the 20 year period ending on the date of sale or exchange of the property;
- assets held in a retirement accounts;
- assets transferred as part of a condemnation proceeding;
- livestock related to farming or ranching;
- certain types of property used in a trade or business such as machinery and equipment that have been immediately expensed; and
- timber.

All capital gains tax revenues are deposited into the Education Legacy Trust Account to be used for K-12 and higher education.

Appropriation: None.

Fiscal Note: Available

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.