

HOUSE BILL REPORT

HB 1376

As Reported by House Committee On:
Finance

Title: An act relating to the prepayment of capital gains taxes six months prior to the due date.

Brief Description: Concerning the prepayment of capital gains taxes six months prior to the due date.

Sponsors: Representatives Orcutt, Klicker, Jacobsen, Ley and Barkis.

Brief History:

Committee Activity:

Finance: 2/18/25, 2/26/25 [DP].

Brief Summary of Bill

- Authorizes taxpayers realizing a long-term capital gain to prepay their capital gains tax liability up to six months prior to the due date.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 15 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell, Chase, Mena, Parshley, Penner, Ramel, Santos, Scott, Springer, Walen and Wylie.

Staff: Tracey Taylor (786-7152).

Background:

Capital Gains.

Most property owned by an individual for personal purposes is considered a capital asset, including houses, furniture, cars, stocks, and bonds. The sale of these items may result in a

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capital loss or a capital gain. Short-term capital gains or losses are gains or losses from assets held for one year or less. Long-term capital gains or losses are gains or losses from assets held for more than one year. These capital gains and losses may have federal and state tax implications for an individual.

The state imposes a 7 percent excise tax on the adjusted capital gains of an individual for the privilege of selling or exchanging long-term capital assets less a standard deduction of \$250,000 for all filers, whether filing as an individual or jointly. The standard deduction is adjusted annually for inflation.

The tax applies only to those capital gains allocated to Washington, which means the long-term capital assets for the taxpayer must have certain ties to Washington.

For intangible personal property, the state capital gains tax will apply if the taxpayer was domiciled in Washington at the time of the sale or exchange. A "resident" is a person:

- domiciled in Washington during the entire taxable year; or
- not domiciled in Washington during the taxable year but who maintained a place of abode and was physically present in Washington for more than 183 days during the taxable year. Such a person will be a resident for that portion of the year in which they were domiciled or maintained a place of abode.

If a person maintained no permanent place of abode in this state during the entire taxable year, maintained a permanent place of abode outside of Washington for an entire taxable year, and spent an aggregate of no more than 30 days in Washington, the person is considered a nonresident.

The state capital gains tax applies to tangible personal property if:

- the property was located in Washington at the time of the sale or exchange; or
- the property was located in Washington at any time during the current or immediately preceding taxable year; the taxpayer was a Washington resident at the time of the sale or exchange; and the sale was not subject to income or excise tax on the adjusted capital gain by another taxing jurisdiction.

The sale or exchange of certain assets is exempt from the state capital gains tax, including, real estate, common types of retirement assets, and timberlands.

There are credits and deductions available to reduce or eliminate a person's tax liability, including a deduction for qualified charitable donations.

Capital gains taxes are due and payable on April 15 for long-term capital gains realized during the immediately preceding calendar year.

Summary of Bill:

Taxpayers may make capital gains tax payments up to six months before the due date. Interest may not be assessed for the prepayment period if it is later determined that the taxpayer overpaid the taxes owed for that tax period and receive a remittance.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) When someone sells long-term capital assets and files their federal return, they can deduct state and local taxes for the year they were incurred. Due to a timing issue, a taxpayer will not pay any Washington capital gains tax until the following tax year.

Therefore, they lose the ability to deduct these taxes on their federal return. This bill simply allows for a prepayment of the Washington capital gains tax so taxpayers can take advantage of the federal deduction. The are safeguards in the bill to prevent taxpayers using the state to earn interest on an overpayment. This small fix will help out taxpayers.

(Opposed) None.

(Other) There is still some programmatic work to be done to allow for prepayments. There may be some limited utility for the bill due to systems work on federal "My File" programs that are done during this same time period. This ultimately may hamper some attempts to prepay their taxes. However, the DOR is happy to work within its own system to accommodate prepayments.

Persons Testifying: (In support) Representative Ed Orcutt, prime sponsor.

(Other) Steve Ewing, Dept. of Revenue.

Persons Signed In To Testify But Not Testifying: None.