SENATE BILL REPORT
SB 6229

As of January 26, 2026

Title: An act relating to taxation of a long-term capital gain of a section 1202 small business stock.

Brief Description: Concerning taxation of a long-term capital gain of a section 1202 small business stock.

Sponsors: Senator Frame.

Brief History:
Committee Activity: Ways & Means: 1/27/26.

Brief Summary of Bill

- Expands the capital gains tax to the gains from the sale of small business stock, to the extent such a gain was excluded in calculating federal net long-term capital gain.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Tianyi Lan (786-7432)

Background: Capital Gains Tax. Washington State imposes a capital gains tax (CGT) on the sale or other voluntary exchange of long-term capital assets by individuals. Beginning with tax year 2025 and tax collection in calendar year 2026, the tax rate is 7 percent for the first $1 million in taxable Washington capital gain and 9.9 percent for an individual's Washington capital gain in excess of $1 million.

Washington capital gain means federal net long-term capital gains allocated to Washington and adjusted for applicable exemptions and deductions. Federal net long-term capital gain means the net long-term capital gain reportable for federal income tax purposes. For resident individuals, all capital gains from the sale or exchange of intangible personal

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property, such as stock, are allocated to Washington State. 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.

The first $278,000 of Washington capital gain are excluded from the state CGT for the 2025 tax year. The threshold is adjusted each year for inflation.

All taxpayers must file with the state Department of Revenue (DOR), 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 DOR.

Section 1202 Small Business Stock. For federal income tax purposes, section 1202 of the Internal Revenue Code provides that a taxpayer may exclude up to 100 percent of capital gains from the sale of Qualified Small Business Stock (QSBS) held at least three years.

QSBS means stocks issued by a U.S. C-corporation with gross assets of up to $75 million at issuance, used in an active trade or business, and held for at least three years. For stocks issued before July 4, 2025, the gross assets threshold is $50 million, and the holding period requirement is five years.

Summary of Bill: This bill expands the capital gains tax by requiring taxpayers to add the exclusion for the sale of small business stock to their federal net long-term capital gain when computing the taxable Washington capital gain.

This act applies to capital gains earned on or after January 1, 2026.

Appropriation: None.

Fiscal Note: Requested on January 19, 2026.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.