SENATE BILL REPORT
SB 6229

As of January 27, 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.

Staff Summary of Public Testimony: PRO: Research has shown that the QSBS exemption benefits the millionaires and billionaire venture capitalists more than small business owners that it was intended to benefit. This makes the exemption highly regressive, and Washington already has the second most regressive tax code in the country. Closing the QSBS exemption would be a step in the right direction towards balancing the state tax code.

CON: The bill weakens the qualified Small Business stock exemption, one of the most important sentence for founders and early employees. The state chose to support innovation

from start to scale to staying here so that Washington has long been a place where people take creative risks. QSBS recognizes the risks of building a technology company and rewards its long-term commitment. The bill breaks the promise the Legislature made to protect QSBS when the capital gains tax was passed. It sends a clear signal that Washington is not a place to build and hire as it increases the tax burden at the exact moment when founders and early employees finally succeed.

The bill raises approximately $1 million per year for the state but disincentivizes job creators from doing businesses in Washington state. It's indeterminate how many small technology startups looking for venture capital and how many potential investors are going to be dissuaded to coming to Washington because of the 10 percent tax on the capital gains.

The bill is a job destruction bill. The bill disincentivizes venture capital where funds raised directly go to jobs in our state. The bill does not impact big technology companies and small businesses who seldom sell their companies or hand out to other family members.

All tax revenues are derived from private employers where originates from entrepreneurs willing to take a risk of starting companies. Most small companies fail long before they scale to become the Boeing, Microsoft, and Amazon that now power our reginal economy. QSBS was created as a national program to give citizens a reason beyond love and hope to support entrepreneurs. The anticipated gains of the bill cannot compare with its impact on the employment rate and tax base after the bill shifted entrepreneurial activity away to other states.

Persons Testifying: PRO: Mia Shigemura, Washington State Budget & Policy Center.

CON: Laurie Layne; Patrick Connor, NFIB; Aviel Ginzburg; Emily Choi-Greene, Clearly AI; Nicole Doyle; Dave Parker, DKParker, LLC; Amy Harris, Washington Technology Industry Association; Matt Shobe.

Persons Signed In To Testify But Not Testifying: No one.