

7.9 Percent Capital Gains Tax on Individuals

Description

This proposal imposes a tax on individuals for the privilege of selling or exchanging capital assets. The tax is equal to 7.9 percent multiplied by a person's Washington capital gains for each taxable year.

The following threshold exemptions are allowed in determining the tax:

- \$25,000 or
- \$50,000 for individuals filing joint returns.

The capital gains tax does not apply to any of the following:

- The gain on the sale of all single family residential real property.
- Capital gains received from retirement accounts.
- Capital gains from the sale or exchange of assets subject to eminent domain or sold or exchanged under imminent threat of eminent domain.
- The sale or exchange of cattle, horses or breeding livestock held for more than 12 months by farmers.
- The sale of agricultural land that meets the criteria under IRC section 469(h) for the 10 years prior to the date of the sale.
- The sale of tangible personal property used in a business and that would qualify for an income tax deduction under IRC sections 167 or 179.
- The sale of timber for which the taxpayer makes an election under IRC section 631(a) or (b).

Individuals are allowed a credit equal to the amount of tax paid to another taxing jurisdiction on capital gains derived from sources within the other taxing jurisdiction to the extent the capital gains are included in the measure of the Washington capital gains tax.

A business and occupation (B&O) tax deduction is created to avoid taxing the same amounts under both the B&O and capital gains taxes.

Washington capital gains tax returns and payments are due at the same time that the taxpayer's federal income tax return for the taxable year is due. Individuals receiving a federal tax filing extension also qualify for a state capital gains tax filing extension, but the tax is still due on the original filing date.

A statutory deduction is provided for amounts that the state is prohibited from taxing under federal law or the constitutions of the United States or state of Washington.

Continued on next page

7.9 Percent Capital Gains Tax on Individuals

Current Law There is no capital gains tax on individuals in current law.

Revenue Impact This proposal affects approximately 48,000 taxpayers and has the following State General Fund impacts:

	FY 2018	FY 2019	FY 2020	FY 2021
Capital Gains Tax	\$0	\$850,000,000	\$933,000,000	\$981,000,000
B&O Tax	\$0	(\$29,000,000)	(\$32,000,000)	(\$34,000,000)
Fiscal Year Total	\$0	\$821,000,000	\$901,000,000	\$947,000,000
Biennial Total	\$0	\$821,000,000		\$1,848,000,000

- *Estimates assume a January 1, 2018, effective date, with the first annual returns due in April 2019.*
 - *Estimates reflect the November 2016 Economic and Revenue Forecast Council forecast.*
-