Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Ways & Means Committee

HB 2563

Brief Description: Establishing a state tax on capital gains.

Sponsors: Representatives Jinkins, Hasegawa, Ladenburg, Tharinger, Wylie, Ryu, Reykdal, Fitzgibbon, Billig, Appleton, Kagi, Ormsby, Pedersen, Eddy, McCoy, Hunt, Pollet, Kenney, Roberts, Dickerson, Darneille, Cody, Liias, Haigh, Green, Moeller and Santos.

Brief Summary of Bill

- Imposes a 5 percent state tax on the voluntary exchange or transfer of capital assets.

Hearing Date: 2/29/12

Staff: Rick Peterson (786-7150).

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. Currently, capital gains are generally taxed at a preferential rate in comparison to ordinary 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. Long-term capital gains, which apply to assets held for more than one year, are taxed at a lower rate than short-term gains. For 2011, the maximum capital gains rate for most people is 15 percent. For lower-income individuals, the rate may be 0 percent on some or all of the net capital gain. Rates of 25 or 28 percent may apply to special types of net capital gain.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In addition to the federal CGT, capital gains are often subject to state income taxes. Many states do not have separate capital gains tax rates. Instead, most states tax capital gains as ordinary income subject to the state's income taxes rates. Washington has neither an income tax nor any specific excise tax on capital gains.

Summary of Bill:

Beginning January 1, 2013, an annual state net capital gains tax (CGT) is imposed on the sale or other voluntary exchange of capital assets by resident individuals, trusts, and estates during the year. The tax rate is five percent. The tax rate is applied to the capital gains amount reported on the federal income tax return. For resident individuals, all capital gains are apportioned to the state, regardless of the location of the asset.

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 2014.

For taxpayers filing joint federal tax returns, a $10,000 deduction is provided. For taxpayers filing other returns, a $5,000 deduction is allowed. The sale of a person's primary residence is not subject to CGT.

Appropriation: None.

Fiscal Note: Available.

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