

SENATE BILL REPORT

SJR 8206

As of April 22, 2015

Brief Description: Providing a constitutional limit on the dollar amount upon which capital gain tax may be imposed or measured.

Sponsors: Senators Ranker, Hargrove, Keiser, Kohl-Welles, Nelson and Hatfield.

Brief History:

Committee Activity: Ways & Means: 4/20/15.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Juliana Roe (786-7438)

Background: A capital gains tax (CGT) is a tax on the profit realized on the sale of noninventory 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. 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. Currently, long-term capital gains are generally taxed at a preferential rate in comparison to ordinary income for federal income tax purposes. The long-term capital gains tax rates for 2014 are: 0 percent for taxpayers in the 10 percent or 15 percent marginal income tax brackets; 15 percent for taxpayers in the 25 percent, 28 percent, 33 percent, or 35 percent marginal income tax brackets; and 20 percent for taxpayers in the 39.6 percent top bracket.

In addition to the federal CGT, capital gains are often subject to state income taxes. Most 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 rate. Washington has neither an income tax nor any specific excise tax on capital gains.

Summary of Bill: The state Constitution is amended to provide that any tax that is imposed on or measured by capital gains may only be imposed on annual capital gains in excess of \$500,000 for taxpayers filing joint returns or \$250,000 for all other taxpayers.

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.

Appropriation: None.

Fiscal Note: Requested on April 16, 2015.

Committee/Commission/Task Force Created: No.

Effective Date: The Joint Resolution takes effect upon ratification by the voters at the next general election

Staff Summary of Public Testimony: PRO: This is a good addition to the CGT because it builds parameters around the tax.

CON: There should be parameters around the percentage of tax allowed.

Persons Testifying: PRO: Mitch Denning, Alliance of Educational Associations; Nancy Moffatt, WA Assn. of School Business Officers.

CON: Amber Carter, Assn. of WA Business; John Ehrenreich, WA Forest Protection Assn.; Heather Hanson, WA Farm Forestry Assn.

Persons Signed in to Testify But Not Testifying: No one.