SUMMARY and FISCAL NOTE*

Department:	Dept. Contact:	CBO Contact:
Legislative	Tom Mikesell/ 4-8735	N/A

** Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

1. BILL SUMMARY

Legislation Title: AN ORDINANCE imposing an excise tax on the sale or exchange of certain capital assets in Seattle; adding a new Chapter 5.66 to the Seattle Municipal Code; and adding a new Section 5.45.050 to the Seattle Municipal Code.

Summary and Background of the Legislation: *Note: This tax is structured identically to the state's capital gains excise tax, which was affirmed to be a legal exercise of public taxing authority by the Washington State Supreme Court in Quinn v. State of Washington. This parallel structure would support ease of administration and taxpayer compliance and adheres to automatic inflationary adjustments included in the state law. As such, the stated thresholds included in the following description include both the 2023 tax year values included on the Department of Revenue website, as well as the original 2022 values when the law was passed.*

This council bill would impose a two percent excise tax on the annual gains to individuals from the sale of non-exempt capital assets (more commonly referred to as a capital gains tax).

The first $262,000 ($250,000 in 2022 dollars) of capital gains are excluded, and any gains from the following types of asset sales would be exempt:

- Real estate sales and/or exchanges;
- Retirement accounts;
- Condemnations;
- Livestock in the conduct of a farming and ranching business;
- Timber;
- Commercial fishing privileges; and,
- Goodwill from the sale of auto dealerships.

In addition to the $262,000 ($250,000 in 2022 dollars) standard deduction for each single or joint tax return, additional deductions would apply, including:

- Any amounts prohibited from taxation under the state or federal constitution;
- Gains from the sale of a qualified family-owned small business; and,
- Up to $105,000 ($100,000 in 2022 dollars) of charitable donations above a $262,000 ($250,000 in 2022 dollars) minimum qualifying charitable deduction.

The deductions, and other specified thresholds, are 2023 dollar amounts that will be annually for inflation, consistent with provisions in RCW 82.87.150, which adjusts the same thresholds for the state's capital gains excise tax.

The capital gains excise tax would be imposed beginning January 1, 2026, and, based on estimates developed by the City's Office of Economic and Revenue Forecasts (Forecast Office) using available state government data and forecasts, a two percent tax would generate from $16 million to $51 million per year. Additional details and caveats about this estimate are provided in Section 3.b.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project? **___ Yes _X_ No**

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation amend the Adopted Budget? **___ Yes _X_ No**

Expenditure Change ($); General Fund	**2024**	**2025 est.**	**2026 est.**	**2027 est.**	**2028 est.**
	$0	**$1,000,000**	**$800,000**	**$1,200,00**	**$1,200,000**
Expenditure Change ($); Other Funds	**2024**	**2025 est.**	**2026 est.**	**2027 est.**	**2028 est.**
	$0	**$0**	**$0**	**$0**	**$0**

Revenue Change ($); General Fund	**2024**	**2025 est.**	**2026 est.**	**2027 est.**	**2028 est.**
	$0	**$0**	**$0**	**$16M to $51M**	**$16M to $51M**
Revenue Change ($); Other Funds	**2024**	**2025 est.**	**2026 est.**	**2027 est.**	**2028 est.**
	$0	**$0**	**$0**	**$0**	**$0**

According to Department of Finance and Administrative Services (FAS)/Office of City Finance staff, implementing this tax would require one-time rulemaking, systems development work, taxpayer outreach and ongoing administration and auditing work in FAS that could take from 18 to 24 months to complete.

FAS projects onetime system implementation costs of $1 million. FAS also projects ongoing costs of $1.2 million, of which $500,000 would support maintaining a taxpayer registration and payment system, and $700,00 would support staffing, including three new Customer Service Representatives and two new Tax Auditors. FAS would require these ongoing staffing costs to begin in mid-2026 to support taxpayer outreach and training ahead of collections. These are merely initial estimates that will be better informed through future budget requests the Executive determines to be necessary to implement the tax.

Revenue changes are described in Section3.b, below.

Does the legislation have other financial impacts to The City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?
No.

Are there financial costs or other impacts of *not* implementing the legislation?
No.

If there are no changes to appropriations, revenues, or positions, please delete sections 3.a., 3.b., and 3.c. and answer the questions in Section 4.

3.a. Appropriations

___ This legislation adds, changes, or deletes appropriations.

3.b. Revenues/Reimbursements

_X_ This legislation adds, changes, or deletes revenues or reimbursements.

Anticipated Revenue/Reimbursement Resulting from This Legislation:

Fund Name and Number	Dept	Revenue Source	2024 Est.	2025 Est.	2026 Est.	2027 Est.	2027 Est.
General Fund 001000		Capital Gains Excise Tax	$0	$0	$0	$16M to $51M	$16M to $51M
		TOTAL	**$0**	**$0**	**$0**	**$16M to $51M**	**$16M to $51M**

Revenue/Reimbursement Notes:
The capital gains excise tax would be imposed January 1, 2026, and, based on estimates provided by the City's Office of Economic and Revenue Forecasts (Forecast Office), using state Department of Revenue (DOR) collections and forecast data, a two percent tax could generate from $16 million to $51 million per year, with potential moderate growth thereafter. This range includes assumptions about the percentage of potential Seattle taxpayers as a share of the state's total, taxpayer compliance and avoidance, and economic elasticities, as described in a November 8, 2024 memo from the Forecast Office, which is included as Attachment A to this summary.

It is important to note when understanding this range, particularly the low end, that any revenue from this tax would be collected from a small set of very wealthy households. This group is well-equipped with financial supports to enable financial planning strategies to minimize tax liabilities, including but limited to declaring a domicile outside of Seattle for purpose of the tax. While the stated range does include elasticity assumptions, which are estimates of taxpayer response to capital gains tax changes in general, it does not contemplate a more drastic scenario where all otherwise eligible taxpayers avoid the tax by way of declaring a domicile outside the City, but this is clearly a risk for a tax imposed at a municipal level.

Additional Considerations:
While 2024 tax returns data from the State's tax was not available for the purposes of this estimate, the Forecast Office's analysis of the DOR's state collections data from 2023 showed that 85 percent of the 2023 collections from Seattle taxpayers was from 163 taxpayers, which indicates an extremely concentrated tax base. Such a concentration likely also implies a high degree of year-to-year variance in tax payments, because a change in financial circumstances of relatively few individuals could have a significant impact on overall revenue collections.

The Forecast Office also notes that the approach used assumes that each of the taxpayers included as 'Seattle- based' in the DOR data would pay Seattle's tax. However, for taxpayers with multiple domiciles in Washington state, the Forecast Office indicates there may be cases where the taxpayer would not have Seattle tax liability due to not meeting the standard for having a domicile in Seattle, or purposefully shifting their domicile in response to imposition of the tax. In other words, a taxpayer who reported a Seattle address for the purposes of calculating their recent state tax liability, might choose an official domicile outside the City going forward. The proposed legislation establishes specific thresholds regarding how much time one must reside at a specific location to establish it as a domicile, but how effectively these issues can be enforced for individuals with multiple Washington residences is unclear. Though it is impossible to accurately quantify the potential impact this could have, it is important to note in understanding the revenue estimate.

In addition, the Forecast Office reviewed historical federal Internal Revenue Service (IRS) net capital gains data for insights into the stability of the tax. Though the IRS gains data includes real estate gains, which are explicitly exempt from the proposed tax, and is based on all capital gains, not just those above the $250,000 standard deduction in the proposed bill, the historical review showed high levels of tax base sensitivity to economic expansions and contractions, likely due to reliance on stock and bond sales in capital gains.

Given the concentration of the tax base to a very small number of taxpayers, the possibility of avoidance through tax planning and multiple in-state residences, and the tax base's sensitivity to cyclical economic trends, the annual revenue from the tax could fluctuate widely above and below the estimates provided. By way of additional insight to inform decisions about the use of potential proceeds from this tax, the Forecast Office has noted that there is an unusually high degree of uncertainty in this estimate, which is implied in the range of possible revenue outcomes.

3.c. Positions

___ **This legislation adds, changes, or deletes positions.**

4. OTHER IMPLICATIONS

a. Does this legislation affect any departments besides the originating department?
Yes, FAS will be responsible for the implementation and administration of the capital gains tax if this legislation is approved. This will require both one-time setup and ongoing administrative efforts. (See details on potential fiscal impacts in response to question 3 above).

b. Is a public hearing required for this legislation?
No.

c. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?
No.

d. Does this legislation affect a piece of property?
No.

e. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities? What is the Language Access plan for any communications to the public?
An excise tax on large financial gains from sales of assets, which, as noted above, would be paid from a very small number of residents, is at its core a progressive tax that does not impact disadvantaged communities.

f. Climate Change Implications

1. **Emissions: Is this legislation likely to increase or decrease carbon emissions in a material way?**
   No.

2. **Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.**
   No.

g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)?
This legislation does not implement a new program.

Summary Attachments (if any):

1. OERF Capital Gains Tax Memo