



SEATTLE CITY COUNCIL
CENTRAL STAFF

CB 120601 – Capital Gains Excise Tax

TOM MIKESELL, ANALYST

SELECT BUDGET COMMITTEE

NOVEMBER 27, 2023

Background

State capital gains excise tax :

- [Chapter 196, Laws of 2021](#) effective July 25, 2021
- 7 percent tax on the gains from sales of long-term assets above a \$250,000 standard deduction
- Tax proceeds deposited into Education Legacy trust Account and Common School Construction Account
- State Supreme Court upheld the tax in *Quinn v. State of Washington*
- State collected \$840 million in first of the tax.

CB 120601 – Capital Gains Excise Tax

- Same structure as the state tax, with different rate
- Two percent excise tax on gains from the sale of non-exempt capital assets
- Deductions include:
 - \$250,000 standard deduction for single and joint filers
 - Any amounts prohibited from taxation under the state or federal constitution
 - Gains from the sale of a qualified family-owned small business
 - Up to \$100,000 of charitable donations above a \$250,000 minimum qualifying charitable deduction
 - Values of deductions inflated by CPI each year

CB 120601 – Capital Gains Excise Tax

- Gains from transactions involving the following capital assets are exempt:
 - Real estate
 - Retirement accounts
 - Condemnations
 - Livestock, commercial fishing, timber
 - Goodwill from auto dealership
- Administrative cost to be determined through future budget request
 - Recent new taxes ranged from \$600,000 to
- Effective January 1, 2024, with first collections April 2025.

Example

Taxpayer 1: Sold \$1 million of stock in 2024 with original cost basis of \$700,000, for a total net capital gain of \$300,000.

Value of stock sold:	\$1,000,000
<u>Cost basis of stock sold:</u>	<u>\$700,000</u>
Net Capital Gain (2024):	\$300,000
<u>Less: Standard Deduction</u>	<u>(\$250,000)</u>
Taxable Capital Gain	\$50,000
Tax due April 2023@2% rate	\$1,000

Revenue Estimate

Office of Economic and Revenue Forecasts estimated revenues using state collections and forecast data:

- Of the total \$804 million received by the state in 2023, 15.84 percent was filed from Seattle addresses
- 15.84 percent, applied to the State Department of Revenue's forecast for the state capital gains tax, equates to \$19 million of revenue from each 1 percent of tax

Caveats and Risks

- Tax is paid by a very small number of taxpayers
 - State tax: 816 taxpayers had a Seattle address
 - 85 percent of the Seattle total was paid by 163 taxpayers
- Tax base largely consists of sales of equities, which are subject to stock market volatility
- Tax is based on where taxpayer is domiciled, making it avoidable by residents with multiple Washington addresses
- Forecast Office indicates an unusually high degree of uncertainty in the estimate
- Annual revenue from the tax could fluctuate widely above and below the estimates

Budget Considerations

- Assuming a January 1, 2024, effective date, first collections of tax would be April 2025
- 2025 Adopted/2026 Endorsed budget decisions will be finalized in fall 2024, with no additional clarity on revenue estimate
- Budget decisions that rely on this revenue source will be made in the context of this high level of uncertainty

Proposed Amendment

Amendment 1 sponsored by Councilmember Herbold:

- Increase tax rate from 2 percent to 3 percent, to generate revenue to offset portion of General Fund deficit in 2025 and beyond.

Questions?