WASHINGTON STATE BUDGET & POLICY CENTER

What you need to know about Washington state's new wealth tax on capital gains profits

Last year the Legislature passed a wealth tax on the capital gains profits of about 0.2 percent of Washington taxpayers. Revenue from the capital gains profits tax will fund new investments in childcare and early learning. The tax, and the investments it will fund, will stimulate Washington's economy, provide much-needed relief to working parents with young children, and make our notoriously upside-down state and local tax code a bit more equitable.

What will be taxed and when will it go into effect?

The new tax applies to capital gains profits from the sale of stocks, bonds, and other non-retirement assets exceeding $250,000 a year. The first returns for the new tax will be due in April 2023. Only 0.2 percent of Washington taxpayers see enough profits to pay this tax.

What is the tax rate?

The rate is 7% on all non-exempted profits above $250,000 per year. For example, a wealthy individual who reaps $400,000 in capital gains one year will pay 7% on $150,000 (the portion above $250,000). That person's total Washington state capital gains tax bill would be $10,500, which is only 2.6% of their total profit that year.

What is exempted from the tax?

In addition to excluding the first $250,000 in capital gains profits, lawmakers also exempted any profits from real estate, retirement accounts, the sale of family-owned small businesses, timber and timberlands, livestock, commercial fishing privileges, and goodwill received from the sale of an auto dealership. This ensures it almost exclusively applies to profits from the sale of stocks and similar assets among those at the very top in Washington – truly the wealthiest 0.2 percent of taxpayers.

Will donations to charity be taxed?

No. Any gifts of stock to a charity are exempt from the tax. Further, households will be able to deduct charitable contributions (up to $100,000 per year) from their annual capital gains tax bills.

Who will be impacted by the tax?

Less than 8,200 households will pay any additional taxes under the new law. Annual incomes among the few wealthy individuals who would be subject to the new tax average more than $2 million. Average tax bills among the wealthiest 1% of Washingtonians would rise by a mere 0.5% of annual income (see chart below) – a very small price to pay for the broadly-shared new investments in childcare and early learning funded by the new tax.

Do other states tax capital gains?

Yes, 41 other states tax capital gains. Washington's $250,000 exemption threshold is among the highest in the nation. Neighboring states – OR (9.9%), ID (6.93%), MT (6.9%), CA (13.3%), HI (11%) – tax capital gains at rates near or above the 7% rate that will be applied in Washington.

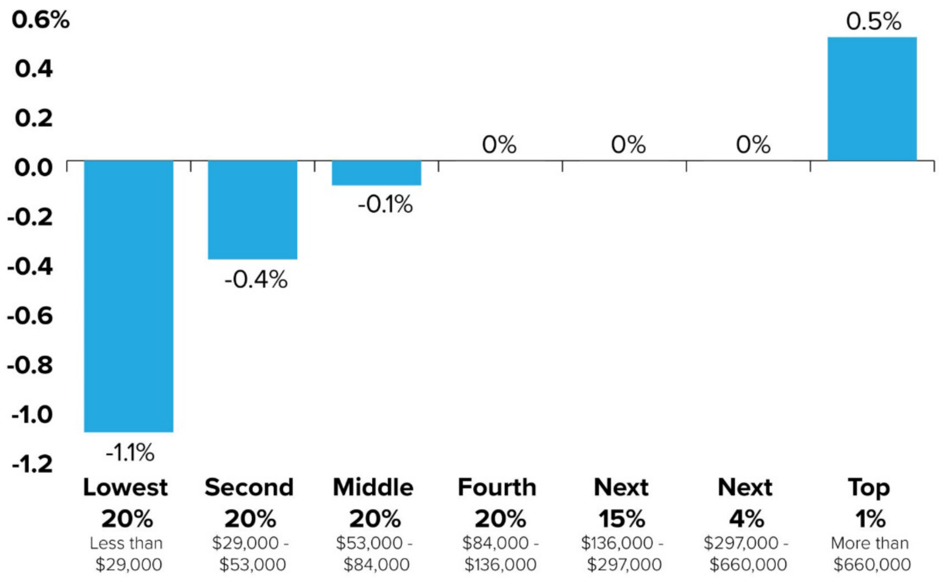
How will capital gains tax revenues be invested?

$500 million per year will support heightened funding for childcare, early learning, and other education services – investments that have repeatedly shown to be a boon for state and local economies and families' wellbeing. Any revenue above $500 million per year will be used to build new schools across Washington state.

Washington state has the most upside-down tax code in the nation, where our poorest families pay up to six times more of their income in taxes than the wealthiest 1 percent. The wealth tax on capital gains profits, paired with the Working Families Tax Credit lawmakers passed to reduce the tax burden on our lowest-income families, were an important step in the right direction.

Capital gains excise tax and Working Families Tax Credit will begin to balance Washington's upside-down tax code

Change in Washington state taxes as a share of annual household income by income group



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Source: Institute on Taxation and Economic Policy; preliminary estimates of Senate Bill 5096 and House Bill 1297; all Washington state residents, 2019 incomes.