



JUNE 23, 2015

## Washington Lawmakers Kill Capital Gains Tax Proposal

Paul Jones

Summary by **taxanalysts**

After weeks of negotiations, Washington state legislative Democrats have ended their push for a capital gains tax to fund education and have unveiled a scaled-back budget proposal that would instead roll back tax exemptions and preferences.

Full Text Published by **taxanalysts**

After weeks of negotiations, Washington state legislative Democrats have ended their push for a capital gains tax to fund education and have unveiled a scaled-back budget proposal that would instead roll back tax exemptions and preferences.

Gov. Jay Inslee (D), who announced at a June 19 news conference that the CGT proposal was dead, said new revenue attributable to the booming economy means that a tax increase isn't necessary. Inslee in December 2014 proposed creating a new 7 percent CGT.

"The negotiations are not about a capital gains tax -- it's not about a fight over any new tax," Inslee said. "That's in large part because the economy has helped us" with roughly \$700 million in new revenue since the beginning of the year.

Washington faces a court mandate to significantly increase spending on education. Republicans, who control the State Senate, argued that that can be done with little to no new revenue. But Democrats, who control the House, have pushed for a CGT, along with other proposals. On June 1 Democrats introduced a plan that restated their intent to pass a 5 percent CGT on profits over \$25,000 for individuals and \$50,000 for couples.

Now, instead of a CGT, Democrats have released a scaled-back budget proposal that would roll back tax exemptions and preferences, with the goal of generating approximately \$300 million to \$350 million in additional revenue.

Jaime Smith, Inslee's director of media relations, said the CGT "was something that came off a couple weeks ago" in order to gain Republican support for Democrats' spending goals.

If an operating budget isn't approved before July 1, the state will face a partial government shutdown.

Inslee didn't identify a list of specific tax exemptions he wants lawmakers to target but said he's open to whatever changes will generate the revenue.

The proposals in House Democrats' latest revenue plan, released June 22 , include eliminating a reduced business and occupation tax rate for prescription drug sellers, nixing a sales and use tax exemption for bottled water, and narrowing the availability of the state's real estate foreclosure exemption.

Notably, the new revenue plan keeps alive a proposal by Rep. Reuven Carlyle (D) to create click-through nexus and strengthen the state's ability to require online retailers to remit sales and use taxes.

Republicans haven't yet committed to backing the proposal to eliminate exemptions, but the death of the CGT proposal -- in addition to Democrats' retraction of an increased business and occupation tax surcharge proposal -- is a clear victory for them. Smith said it wasn't clear if the governor or legislative Democrats would again seek a CGT anytime soon.

Inslee still maintains that a CGT would improve the state's tax base. "It would address the issues of the very terrible unfairness of our tax system," he said. Legislative Democrats have argued that the state's tax base is the most regressive in the nation.

**Andy Nicholas** of the Washington State Budget and Policy Center, which backs a CGT, said his group is disappointed in the Democrats' decision. "Today the House put out a revenue bill to raise \$360 million in the coming biennium by eliminating tax breaks -- it remains to be seen how the Senate will react to that," he said. If Republicans balk, he said, it could revitalize Democrats' push for new taxes.

## Tax Analysts Information

**Jurisdiction:** [Washington](#)

**Subject Areas:** Capital gains and losses  
Tax policy  
Politics of taxation  
Legislation and lawmaking

**Author:** [Paul Jones](#)

**Institutional Author:** Tax Analysts

**Tax Analysts Document Number:** Doc 2015-14617

**Tax Analysts Electronic Citation:** 2015 STT 120-5