

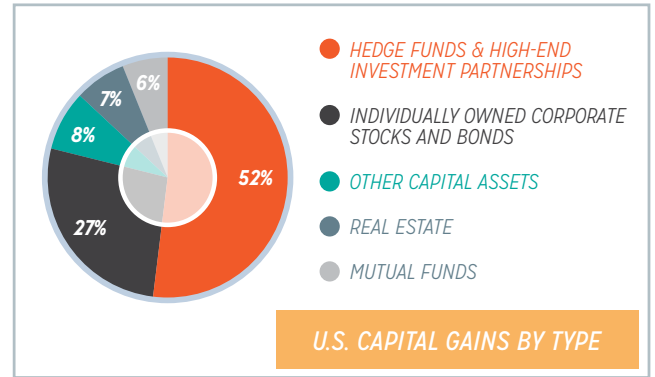
CLOSING THE TAX BREAK ON CAPITAL GAINS

To Build A Better Future For Our Children



WHAT ARE CAPITAL GAINS?

A capital gain is the profit an individual receives from the sale of a financial asset. Currently, Washingtonians receive a tax break on the profits they make from the sale of high-end capital assets. This tax break contributes to our state having the most upside-down tax code in the nation, in which people with low incomes pay seven times more as a share of their household incomes in state and local taxes than the wealthiest one percent. Removing the tax break on capital gains would help flip our tax code right-side up while providing our state with more revenue to pay for schools and other key priorities that help communities thrive.

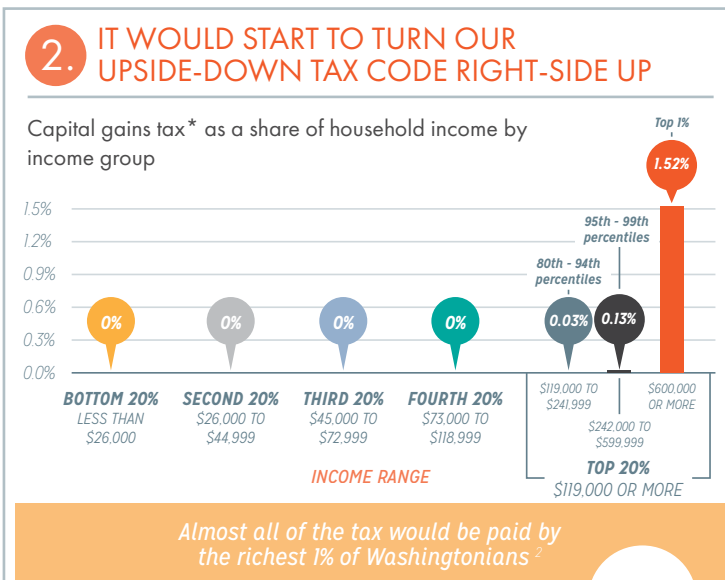


WHY REMOVE THE TAX BREAK ON CAPITAL GAINS?

1. A CAPITAL GAINS TAX COULD GENERATE

\$715 MILLION

IN REVENUE TO SPEND ON WASHINGTON SCHOOLS¹



3. IT WOULD CREATE A MORE STABLE & DEPENDABLE TAX CODE

Average annual growth in taxable retail sales and capital gains, Washington state, 2002-2007

Capital gains grow much faster than retail sales³

The additional revenue from a capital gains tax would create a more robust rainy day fund

4. IT WOULD ELIMINATE WASTEFUL TAX BREAKS ON FINANCIAL ASSETS⁴

- Sales tax exemption on gold bullion
- Business tax break on investment income
- Property tax exemption on stocks, bonds, and other financial assets
- Financial assets excluded from sales tax

*Excise tax of 7% on capital gains above \$25,000 for single filers or \$50,000 for married filers

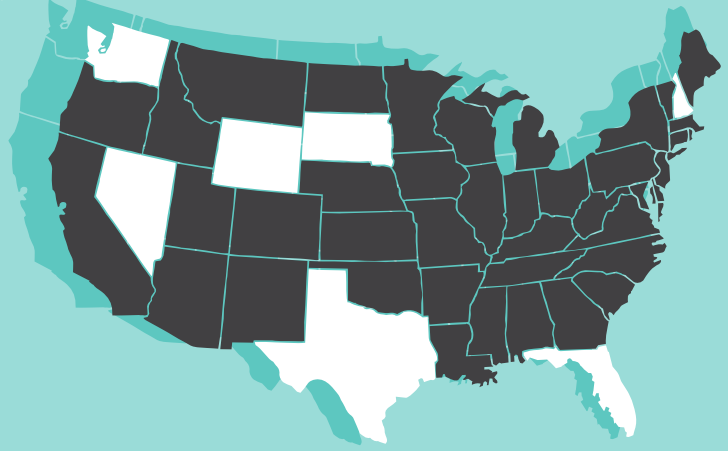
5. MOST STATES ALREADY TAX CAPITAL GAINS⁵

STATES THAT TAX CAPITAL GAINS

42

STATES THAT DON'T TAX CAPITAL GAINS

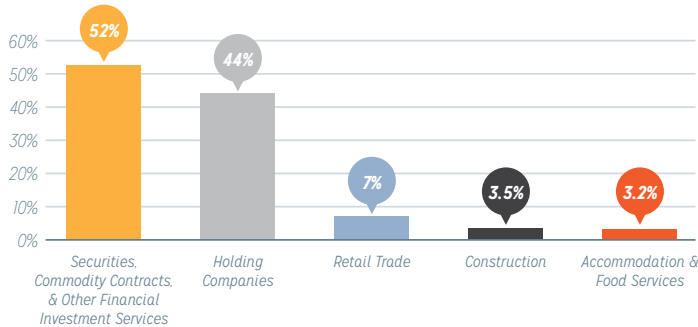
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THE TRUTH ABOUT ELIMINATING THE CAPITAL GAINS TAX BREAK

1. TAXING CAPITAL GAINS WON'T HARM REAL SMALL BUSINESSES

Share of capital gains received by partnerships in the United States by industry in 2014⁶



Wealthy partners in hedge funds, shell corporations, and elite investment clubs receive capital gains. Family-owned retail stores, gas stations, small farms, and other small businesses rarely receive capital gains.

2. WEALTHY WASHINGTONIANS WON'T MOVE TO AVOID THE TAX

The research shows that taxes don't significantly influence people's decisions to move out of state. Instead, people choose where to live based on these factors:



GOOD CLIMATE



HIGH-QUALITY SCHOOLS



LOWER HOUSING COSTS

3. THE TAX WOULD NOT APPLY TO MANY COMMON INVESTMENTS



FAMILY HOMES⁷



FARMLAND & EQUIPMENT⁸



RETIREMENT SAVINGS



BUSINESS PROPERTY



INHERITED ASSETS⁹



TIMBER



GIFTS OF STOCK TO CHARITIES¹⁰



COLLEGE SAVINGS

To find out more about this and other Washington State Budget & Policy Center proposals to clean up our state's tax code and better invest in our communities, visit budgetandpolicy.org or follow us on Facebook ([budgetandpolicy](https://www.facebook.com/budgetandpolicy)) or Twitter ([@budget_policy](https://twitter.com/budget_policy)).

SOURCES: 1. Office of Financial Management, fiscal note for House Bill 2186, 2017 legislative session 2. Institute on Taxation and Economic Policy Microsimulation Tax Model, April 2017. 3. Budget & Policy Center analysis; data from IRS and ERFC. 4. Washington State Department of Revenue, "2016 Tax Exemption Study". 5. Budget & Policy Center analysis of Federation of Tax Administrators data. 6. Budget & Policy Center calculations; data from the IRS, Statistics of Income, net long-term capital gains from partnerships available for allocation, 2014. 7. All capital gains from the sale of residential properties, including houses, condominiums, residential houseboats, duplexes, and triplexes would be exempt from taxation under the 2017 proposal from House Democrats. 8. House Democrats' 2017 proposal would exempt all gains from the sale of farmland owned for at least 10 years, along with agricultural equipment, timber, and depreciable business equipment and property. Gains from the sale of cattle and breeding livestock held for at least 12 months would also be exempt. 9. Under federal law, all capital gains taxes on unsold assets are forgiven at death. This provision would automatically carry over to the proposed state capital gains tax. Those who inherit financial assets would not owe any taxes until the assets were sold. And tax would only be assessed on gains in excess of \$50,000 (\$25,000 for singles) that occurred since the time when the assets were inherited. They would not be assessed on the full life of the assets. 10. Gifts of stock to a charity or nonprofit organization are not subject to federal capital gains taxes and wouldn't be subject to the Washington state capital gains tax either. Gifts of stock can be deducted from federal income taxes.