WASHINGTON STATE BUDGET & POLICY CENTER

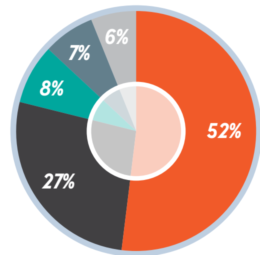
2019

CLOSING THE TAX BREAK ON CAPITAL GAINS

To Build A Better Future For Us All

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 six times more as a share of their household incomes in state and local taxes than the wealthiest 1 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 early learning and other key programs that help all our communities thrive.



U.S. CAPITAL GAINS BY TYPE

WHY REMOVE THE TAX BREAK ON CAPITAL GAINS?

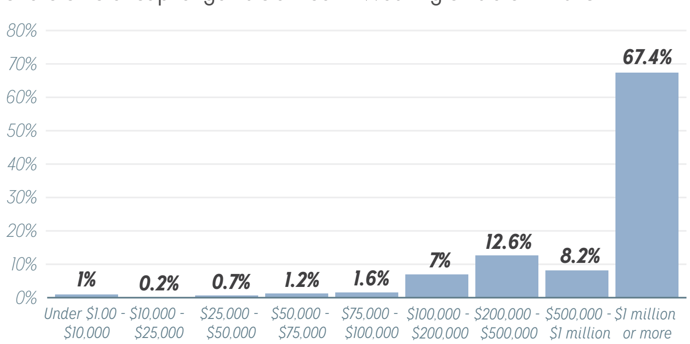
1. A CAPITAL GAINS TAX COULD GENERATE

$1 BILLION

In revenue to spend on **Community Investments**[1]

2. IT WOULD START TO TURN OUR UPSIDE-DOWN TAX CODE RIGHT-SIDE UP

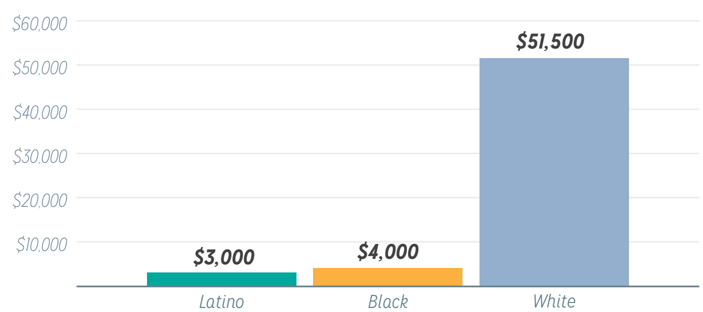
Share of total capital gains claimed in Washington state in 2016



The vast majority of the tax would be paid by millionaires and billionaires.[2]

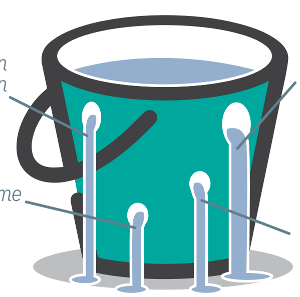
3. IT WOULD HELP ADDRESS RACIAL WEALTH INEQUITIES

Median value of financial assets in the U.S. in three racial categories[3]



This tax would start to redress the wealth inequity that exists for many people of color because of a legacy of racist economic policies.

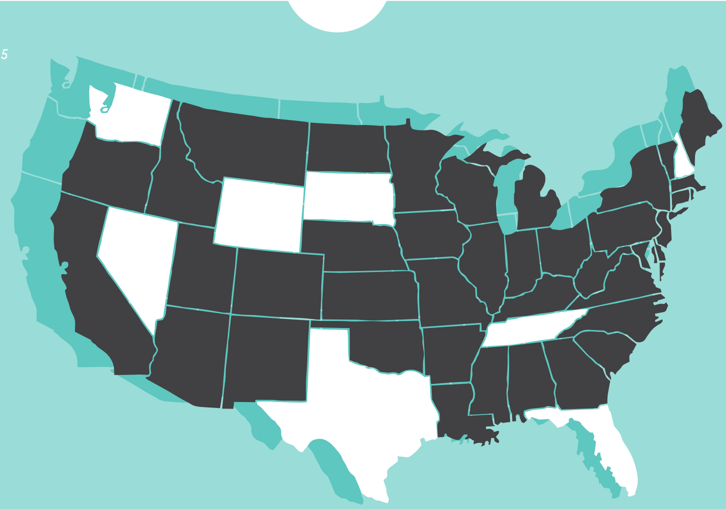
4. IT WOULD ELIMINATE WASTEFUL TAX BREAKS ON FINANCIAL ASSETS[4]



5. MOST STATES ALREADY TAX CAPITAL GAINS[5]

STATES THAT TAX CAPITAL GAINS — 41

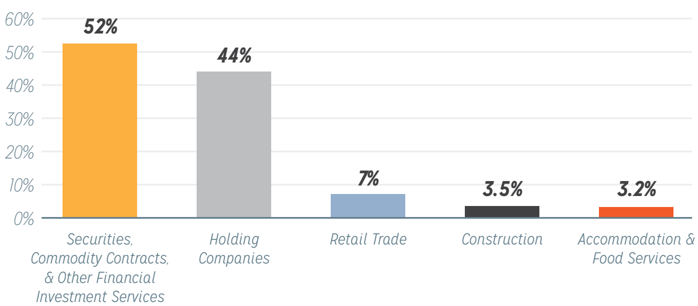
STATES THAT DON'T TAX CAPITAL GAINS — 9



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 2014[6]



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 HOMES[7]

FARMLAND & EQUIPMENT[8]

RETIREMENT SAVINGS

BUSINESS PROPERTY

INHERITED ASSETS[9]

TIMBER

GIFTS OF STOCK TO CHARITIES[10]

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) or Twitter (@budget_policy).

SOURCES: 1. Office of Financial Management, fiscal note for Senate Bill 5129, 2019 legislative session. 2. Washington State Budget & Policy Center calculations; data from the IRS. 3. Board of the Federal Reserve System, Survey of Consumer Finances, 2016. 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 a residential properties including single family homes, multi-family homes with three or fewer units, and residential houseboats, would be exempt from taxation under the proposal put forward by Governor Inslee in late 2018. 8. Governor Inslee's late 2018 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.