

Bloomberg Government

Washington State Rakes In Revenue From Capital Gains Tax

- \$838 million paid in first two days, eclipsing projections
- Group still considering appealing approval of the levy

By Laura Mahoney / April 27, 2023 12:28PM ET / Bloomberg Law

(Corrects agency source for revenue projections in second paragraph.)

Washington state's new capital gains tax has already exceeded expectations by bringing in \$838 million in two days.

Proceeds are more than three times what the state's Economic and Revenue Forecast Council projected in March, shortly before the first payments were due April 18. The Department of Revenue provided figures as of April 20 reflecting the first two days of payments and taxpayer filings, but cautioned the total will fluctuate until after the Oct. 16 deadline for taxpayers who have received extensions.

Proceeds from the controversial tax are flowing into state coffers less than a month after the Washington Supreme Court [upheld it as a permissible excise tax](#). The court rejected arguments from business groups that the tax is an illegal income tax. The Freedom Foundation, a conservative think tank that represented the plaintiffs, is considering an appeal to the US Supreme Court.

Payments came from 1,125 returns filed and 2,562 extensions requested, with 598 taxpayers not making a payment.

The council projected in March that revenue would be \$248 million in 2023, \$442 million in 2024, and more than \$700 million in each of the following three years. About 5,000 taxpayers could be subject to the tax, representing less than one-tenth of 1% of the state's 7.8 million population.

It's too early to tell why collections are exceeding projections, Department of Revenue spokesman Mikhail Carpenter said in an email. Department staff are examining the data to determine what information can be shared without violating taxpayer confidentiality.

The 7% excise tax applies to gains over \$250,000 per year, although gains from retirement account sales, real estate, and certain small businesses are excluded. The first \$500,000 in revenue goes into the state's education legacy trust account, which funds child care, special education, and other K-12 education programs. Amounts above that can be used for school construction projects.

It's encouraging that taxpayers have been able to file and pay successfully, and the strong revenue means more funding for school construction and urgently needed renovations to aging schools around the state, said Misha Werschkul, executive director of the Washington State Budget & Policy Center, which supports the tax.

"The small number of filers tracks what lawmakers and supporters of the tax have been saying all along—that it will only impact fewer than 1% of extremely wealthy households in Washington state," Werschkul said.

But state and local officials may see the strong revenue as the evidence they need to expand the state's tax or adopt similar measures at the local level, said Collin Hathaway, president of the Opportunity for All Coalition, a nonprofit that is focused on striking down the tax.

"Any municipality, city, or county can say 'that's fine, we'll do that too,'" he said.

The windfall is coming in at the same time Washington's tax revenue is already strong, and the tax will drive wealthy residents out of the state, he said.

To contact the reporter on this story: Laura Mahoney in Sacramento, Calif. at lmahoney@bloombergindustry.com

To contact the editors responsible for this story: Kimberly Wayne at kwayne@bgov.com; Kathy Larsen at klarsen@bloombergtax.com