

Impose 5% excise tax on capital gains

Description

This proposal would impose an excise tax of 5 percent on net capital gains income received by Washington residents and businesses. The tax would be in addition to the B&O tax paid by those engaged in banking, loan, and security activities who currently are not allowed to deduct capital gain income from B&O tax. The excise tax on capital gains would be due at the same time that federal income taxes are due. There are two exemption options:

- **Option 54** - \$5,000 exemption for single filers/\$10,000 for joint filers
- **Option 55** - \$10,000 exemption for single filers/\$20,000 for joint filers

Defining “net capital gain”

For the purposes of this proposal, “net capital gain” is the amount reported on line 13 (capital gain or loss) on the IRS Form 1040.

Implementation Factors

Because Washington does not have an income tax, most individuals are not registered to pay taxes to the Department. Administration of an excise tax on capital gains may require a substantial lead time.

The Department receives IRS reporting information for Washington residents approximately 18 months after it is reported to the IRS.

Current Law

Currently, a B&O tax deduction is allowed for interest, dividends, and capital gain income earned by businesses not engaged in banking, loan, or security activities.

Businesses with annual gross income of \$28,000 or less do not have to file a tax return if they would have otherwise reported only B&O tax. Businesses with at least 50% of their income subject to the additional B&O tax of 0.3% imposed in 2010, the filing threshold was increased from \$28,000 to \$46,667.

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Revenue Impact

General Fund Impacts (\$ millions):

Option	Fiscal Year 2012	Fiscal Year 2013	2011-2013 Biennium
54	\$0	\$727.5	\$727.5
55	\$0	\$698.0	\$698.0

Notes:

- Revenue from this proposal will greatly depend on fluctuations in the financial markets and can be expected to vary from the amounts presented here.
 - Estimates assume a July 1, 2012, effective date.
 - Estimates reflect the November 2011 Economic & Revenue Forecast Council revenue forecast.
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Expenditure Impact

Fiscal Year 2012	Fiscal Year 2013	2011-2013 Biennium
TBD	TBD	TBD

Note: Expenditures are in process and expected to exceed \$500,000 for implementation and ongoing administration.
