

Capital Gains Tax Administrative Improvements

AGENCY REQUEST LEGISLATION

Department of Revenue



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What the bill does

The bill makes several administrative changes to the capital gains tax statute that will aid the Department of Revenue's administration of the tax, and ease compliance for taxpayers.

Key changes include:

- Creates a waiver for late payment penalties, like the existing late filing waiver.
- Replaces the B&O tax credit for capital gains tax paid with a capital gains tax credit for B&O tax paid.
- Specifies that Section 1256 contracts (i.e., certain futures and options investments) are taxed differently than at the federal level due to our tax being based on actual, not deemed, transactions.
- Requires brokers and barbers to provide 1099-Bs for Washington residents.
- Limits what federal income tax information must be filed with DOR to only those documents related to capital gains.

The improvements in this bill are informed by experience gained from administering the capital gains tax for the past two years.

- While most of the provisions are neutral in their impact and purely technical, others will make it easier for taxpayers to comply with the tax.

Additional information

In the process of crafting this legislation, DOR consulted extensively with private sector stakeholders. It does not expand or in any other way significantly alter the character of the capital gains tax.

In 2021, the legislature created a 7% excise tax on the sale or exchange of long-term capital assets such as stocks, bonds, business interests, and other investments and tangible assets. The tax applies to individuals and individuals with ownership interest in a pass-through or disregarded entity that makes qualifying transactions. Revenue collected from the tax goes to the Education Legacy Trust Account and Common School Construction Account.

Exemptions, deductions, and credits are available. Notable ones include:

- A standard deduction on the first \$270,000 of capital gains, adjusted for inflation annually.
- Real estate.
- Assets held in certain retirement accounts.
- Qualified charitable donations in excess of \$270,000.
- The long-term gain from the sale of a qualified family-owned small business.