TAXING CAPITAL GAINS

TO BUILD A BETTER FUTUREFOR OUR CHILDREN:



FREQUENTLY ASKED QUESTIONS:

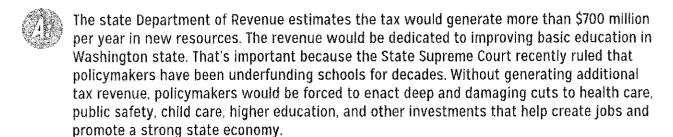
- Q: WHAT ARE CAPITAL GAINS?
- Capital gains are profits from the sale of corporate stocks, bonds, investment property (not primary residences), and other high-end financial assets.
- WOULD THE TAX APPLY TO ALL CAPITAL GAINS?
- No. The tax would only apply to capital gains in excess of \$20,000 per year for a married couple (\$10,000 for single filers).
- Q: WHO WOULD PAY THE TAX?
- Because corporate stocks and other financial assets are more heavily concentrated among those at the very top of the income scale, the tax would be paid almost exclusively by the very richest Washingtonians. Exempting the first \$20,000 in gains from taxation ensures that middle-class households with small portfolios or savings in mutual funds would pay no additional taxes.
- **Q:** HOW MANY PEOPLE WOULD BE SUBJECT TO THE TAX?
- Very few. The vast majority of the tax would be paid by the richest I percent of households in Washington state, those with incomes of at least \$470,000 per year. Among those households, state taxes would increase by 1.2 percent of annual household income, on average.





6.5 percent. That's the same rate as the state sales tax. Under current law, working Washingtonians pay 6.5 percent in state sales taxes when they buy a pair shoes, a bar of soap, and other household goods. Yet, millionaires pay nothing when they reap huge windfalls from exclusive Wall Street investment partnerships. A state capital gains tax would help to correct that fundamental imbalance.

HOW MUCH REVENUE WOULD THE TAX GENERATE AND HOW WOULD THOSE FUNDS BE SPENT?



Q: DO OTHER STATES HAVE CAPITAL GAINS TAXES?



Yes. Forty-two states tax capital gains – many at a higher rate than the 6.5 percent rate proposed for Washington state.

WOULD I PAY THE CAPITAL GAINS TAX WHEN I SELL MY HOUSE?



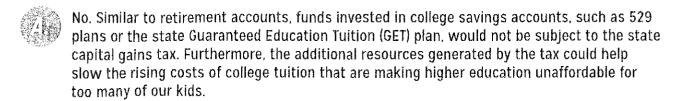
No. Washington state would exempt all sales of primary residences from the tax. Gains from sales of second homes (vacation homes) and investment properties would be taxed.

I HAVE A LOT OF STOCKS AND OTHER INVESTMENTS IN MY RETIREMENT PLAN. WOULD THE CAPITAL GAINS TAX APPLY TO MY RETIREMENT SAVINGS?



No. Per federal law, the tax would not apply to assets that are invested in a pension plan. a 40lK plan, an IRA or ROTH IRA, or other retirement plan that is recognized by the IRS for federal tax purposes. Nor would the tax apply when funds from those plans are drawn down during your retirement.





- WOULD I OWE CAPITAL GAINS TAXES UPON INHERITING A LARGE AMOUNT OF STOCK OR OTHER ASSETS?
- No. You wouldn't owe anything until you sell the inherited assets. Even then, you wouldn't owe taxes on gains that accrued before you inherited them. You would only pay taxes on gains (in excess of \$20,000) that accrued after you inherited the assets.
- WOULD A STATE CAPITAL GAINS TAX APPLY TO DIVIDEND PAYMENTS?
- No. Dividends, which are payments from corporations to shareholders, would not be taxed under the proposal. The tax would only apply to profits from the sale of corporate stocks and other financial assets that exceed \$20,000 per year for a married couple (\$10,000 for singles).
- Q: ISN'T THIS AN INCOME TAX?
- No. A capital gains tax is a form of "excise tax," or transactional tax under state law.

 Capital gains are much different than ordinary paycheck income. While wage and salary earners don't get to choose when they pay taxes on their paycheck incomes, millionaires do get to decide when they buy and sell stock and other financial assets.
- WOULD A CAPITAL GAINS TAX HARM WASHINGTON'S ECONOMY?
- No. The tax would help grow the state economy in the long run by providing new resources for schools, worker retraining, child care, health care, and other investments proven to create jobs and foster robust growth. There is no evidence linking higher taxes on capital gains to lower economic growth. Nor is there any credible evidence to support the argument that the wealthy families who would pay the tax would leave Washington state as a result.



WOULD A CAPITAL GAIN'S TAX HARM SMALL BUSINESSES?



No. The tax only applies to households, not businesses. Some extremely wealthy households own stock in a private partnerships, exclusive investment clubs, or private corporations. Sometimes these entities are able to avoid higher federal corporate taxes by passing windfall stock market profits through to the individual shareholders. Wealthy households would pay taxes on such windfalls to the extent they exceed \$20,000 per year for a married couple (\$10,000 for singles).

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WOULD THE TAX REQUIRE A COMPLICATED FILING PROCESS AND A NEW STATE BUREAUCRACY TO ADMINISTER THE PROGRAM?



No. For the few households that would pay the tax, all of the information needed to do so would be available on their federal tax returns. Holding to federal laws and definitions would make for a very simple return and filing process for taxpayers. This would also allow for a very simple and cost-effective administration process for the state Department of Revenue. The Department estimates administrative costs would average less than 0.2 percent of the total amount of revenue generated by the tax.

Q:

WOULDN'T A CAPITAL GAINS TAX BE A FORM OF "DOUBLE TAXATION?"



No. The tax would only apply to the gain in a stock's value since it was originally purchased. The tax wouldn't apply to the original purchase price of the stock, which, under the proposal would automatically be deducted along with any taxes paid at the time of its purchase. The gain, or profit from the sale of a stock would not have been taxed previously.

Q:

WOULD THE TAX BE DEDUCTIBLE FOR FEDERAL INCOME TAX PURPOSES?



Yes. The few who would pay the tax would be able to deduct those payments when calculating their federal income taxes. That means up to 40 percent of Washington state capital gains tax payments could be recouped in the form of lower federal tax payments.

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