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Gov. Jay Inslee signed the state's first capital gains tax into law on Tuesday. Although the tax is already facing a legal challenge, it is scheduled to go into effect at the start of next year.

Under the legislation, Washington residents must pay a 7% tax on the sale of stocks, bonds and other capital assets of over \$250,000. Real estate, assets in a retirement account, timber and certain other assets are exempt.

The Business Journal spoke with Seattle-area accounting experts who explained what residents should know about the new tax.

Individuals and married couples face the same capital gains threshold.

Married couples don't get double the capital gains limit, said [Andy Colson](#), tax partner at RSM US. A married couple selling stock, for example, would pay the 7% tax on sales of more than \$250,000, not \$500,000.

Get ready to grapple with terminology.

The capital gains tax will force state officials, businesses and individuals to clearly define terms like "residence" and "domicile," said [Lance Lamprecht](#) and [Michael Mashni](#) of Andersen, an accounting and financial consulting firm. Residents with homes out of state must figure out when the tax applies to them, while businesses must figure out how many of their employees are affected. Working through the confusion will be key.

"For Washington, we've really never had to define these terms before," Lamprecht said. "This is the first attempt for the state to try and make these meaningful terms of residence and domicile and that sort of thing. I think there's a ways to go in fleshing those issues out."

Don't be surprised if the timeline changes.

The Freedom Foundation, a conservative think tank, last week filed a challenge to the capital gains tax in concert with Seattle law firm Lane Powell. Although the final bill that passed excluded the option for a voter referendum on the tax, a prolonged legal fight over the tax could push the start date back. "There could be a delay. They could kick it down the road," Colson said.

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The tax is expected to bring in \$550 million per year starting in 2023, and Lamprecht doesn't expect proponents of the tax to back down. "The state is going to spend some money challenging this thing because it's a lot of money," he said. "They're going to try to send out the forces as well."