Initiative 2109 Repealing the Capital Gains Tax

2024

Understanding the impacts of I-2109

About the capital gains tax

Washington's capital gains tax is a 7% tax on the sale or exchange of long-term capital assets—such as stocks, bonds, business interests, or other investments and tangible assets—which is allocated to Washington state. The tax applies to sales over the exemption threshold for individuals, which was initially set at $250,000 in capital gains, and increases annually by inflation. The threshold is currently $262,000 for the 2023 tax year.

The capital gains tax does not apply to the following:

- Real estates
- Interests in a privately held entity, to the extent that the capital gain or loss from such sale or exchange is directly attributable to the real estate owned directly by such entity
- Assets held in certain retirement accounts
- Assets subject to condemnation, or sold or exchanged under imminent threat of condemnation
- Certain livestock related to farming or ranching. Assets used in a trade or business, to the extent that those assets are depreciable under Title 26 U.S.C. Sec. 167(a)(1) of the internal revenue code or qualify for expensing under Title 26 U.S.C. Sec. 179 of the internal revenue code
- Timber, timberlands, and dividends and distributions from real estate investment trusts derived from gains from the sale or exchange of timber or timberlands
- Commercial fishing privileges
- Goodwill received from the sale of a franchised auto dealership

The capital gains tax was passed by the Legislature in 2021 and went into effect in January 2022. The first returns for 2022 were due in April 2023.

The capital gains tax is administered by the state Department of Revenue, and the return is due at the same time as the individual's federal income tax return.

What Initiative 2109 does

Initiative 2109 (I-2109) is an initiative to the Legislature that was filed for consideration in 2024 and on which the Legislature did not act. It will be on the November general election ballot.

I-2109 would repeal provisions of Chapter 82.87, the state's capital gains tax, which would in turn impact state funding for education and school construction.

State funding impacts

Revenues are deposited in the education legacy trust account to be used for education including childcare and early learning, and excess funds are deposited in the common school construction account for school capital needs. When the tax was adopted, it directed the first $500 million to the education legacy trust account and any excess funds to the common school construction account. The $500 million is adjusted by inflation each year beginning in 2024.

If passed, the initiative would take effect on December 5, 2024, 30 days after the election.

I-2019 fiscal note estimates of state revenue impacts

Fiscal year	Revenue loss
2025	$424 million
2026	$398 million
2027	$422 million
2028	$447 million
2029	$472 million

In addition, state agency savings from administration are estimated to be $10.1 million over five years.

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