SUMMARY and FISCAL NOTE*

Department:	Dept. Contact:	CBO Contact:
Legislative	Tom Mikesell/ 4-8735	N/A

** Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

1. BILL SUMMARY

Legislation Title: AN ORDINANCE imposing an excise tax on the sale or exchange of certain capital assets in Seattle; adding a new Chapter 5.66 to the Seattle Municipal Code; and adding a new Section 5.45.050 to the Seattle Municipal Code.

Summary and Background of the Legislation: This council bill would impose a two percent excise tax on the annual gains to individuals from sale of non-exempt capital assets above $250,000 (the standard deduction specified in the bill). Gains from the following types of asset sales would be exempt, including:

- Real estate sales and/or exchanges;
- Retirement accounts;
- Condemnations;
- Livestock in the conduct of a farming and ranching business;
- Timber;
- Commercial fishing privileges; and,
- Goodwill from the sale of auto dealerships.

In addition to the $250,000 standard deduction for each single or joint tax return, additional deductions would apply, including:

- Any amounts prohibited from taxation under the state or federal constitutions;
- Gains from the sale of a qualified family-owned small business; and,
- Up to $100,000 of charitable donations above a $250,000 minimum qualifying charitable deduction.

The deductions, and other specified thresholds, are 2023 dollar amounts that will be adjusted in 2024, and annually thereafter, for inflation, consistent with provisions in RCW 82.87.150, which adjusts the same thresholds for the state's capital gains excise tax.

This tax is structured identically to the state's capital gains excise tax, which was affirmed to be a legal exercise of public taxing authority by the Washington State Supreme Court in Quinn v. State of Washington. This parallel structure would support ease of administration and taxpayer compliance.

The capital gains excise tax would be imposed January 1, 2024, and, based on estimates using available government data, a two percent tax would generate approximately $50 to $60 million per year. This is an initial range estimate that will be revised by the Office of

Economic and Revenue Forecasts (OERF) using collections and forecast data from the State's capital gains excise tax, and does not include any assumptions of future taxpayer avoidance of the tax, which is impossible to estimate. Further, given the volatility of the tax base, the annual revenue could fluctuate above and below the estimated range.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project? ___ Yes __X_ No

If yes, please fill out the table below and attach a new (if creating a project) or marked-up (if amending) CIP Page to the Council Bill. Please include the spending plan as part of the attached CIP Page. If no, please delete the table.

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation amend the Adopted Budget? ___ Yes _X_ No

If there are no changes to appropriations, revenues, or positions, please delete the table below.

Does the legislation have other financial impacts to The City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?

Implementing this council bill would require one-time rulemaking and systems development work, and ongoing administration and auditing work in the Department of Finance and Administrative Services (FAS). Based on a review of the last three taxes implemented by FAS, additional upfront costs could range from $800,000 to $1.6 million, though these are merely rough estimates that will be better informed through any budget requests the Executive determines to be necessary to implement the tax.

Revenue collections would begin in 2025, as described in Section 3.b. Initial estimates indicate potential annual collections of approximately $50 to $60 million per year from a two percent tax, though given the role of stock and bond sales in capital gains, and the small number of potential taxpayers, future revenue volatility should be expected, both above and below that range. Finally, the potential for taxpayer avoidance and the resulting impact on revenues, through relocation or tax planning, while impossible to estimate, should be considered in understanding this estimate.

Finally, using actual data from the first year of the State's capital gains excise tax, an updated revenue estimate is being developed by the Office of Economic and Revenue Forecasts (OERF).

Are there financial costs or other impacts of *not* implementing the legislation?

No.

If there are no changes to appropriations, revenues, or positions, please delete sections 3.a., 3.b., and 3.c. and answer the questions in Section 4.

3.a. Appropriations

___ **This legislation adds, changes, or deletes appropriations.**

3.b. Revenues/Reimbursements

_x__ **This legislation adds, changes, or deletes revenues or reimbursements.**

Anticipated Revenue/Reimbursement Resulting from This Legislation:

Fund Name and Number	Dept	Revenue Source	2023 Revenue	2024 Estimated Revenue
General Fund 001000		Capital Gains Excise Tax	$0	$0
		TOTAL	**$0**	**$0**

Revenue/Reimbursement Notes:

The first year of tax collections would be 2025. Based on estimates derived from data used in the deliberative process for Chapter 196, Laws 2001, which imposed the state capital gains excise tax, the tax would generate from $50 to $60 million per year.

As described in Section 3, using data from the first year of collections of the State's capital gains excise tax, this initial estimate is being revised by the OERF. This would be an ongoing increase in annual revenue, however, since stock sales contribute a large share of reported capital gains, the tax base is volatile, meaning that collections could vary widely from year to year. Further, preliminary information reported for the statewide tax, indicates a very small number of taxpayers, which increase the scope of revenue volatility. Finally, it is impossible to estimate the level of taxpayer avoidance, through relocation or tax planning, that may result from a higher capital gains excise tax rate only applied in Seattle compared to neighboring jurisdictions. Significant tax avoidance would greatly reduce revenue collected from this tax.

3.c. Positions

___ **This legislation adds, changes, or deletes positions.**

4. OTHER IMPLICATIONS

a. Does this legislation affect any departments besides the originating department?

Yes, this council bill would generate both one-time setup and ongoing administrative costs for the Department of Finance & Administrative Services. See 3 above.

b. Is a public hearing required for this legislation?

No.

c. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No.

d. Does this legislation affect a piece of property?

No.

e. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities? What is the Language Access plan for any communications to the public?

The revenues collected from this tax are intended to replace collections from the Water Utilities Tax as a General Fund (GF) revenue source, which would be repealed in CB_____. Under this approach, a tax on large gains from sales of assets, which would be paid from a very small number of residents, would replace a tax on a human necessity paid by all residents. This would result in a progressive tilt in the GF revenue portfolio, relieving a portion of the tax burden on all residents, with a disproportionate benefit to those residents for which water utility taxes represent a significant share of income.

If the tax is imposed without an accompanying decrease in the water utilities excise tax, the race and social justice benefits would be significantly diminished.

f. Climate Change Implications

1. **Emissions: Is this legislation likely to increase or decrease carbon emissions in a material way?**

   No.

2. **Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.**

   No.

g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)?

This legislation does not implement a new program.

Summary Attachments (if any):