

7.0% Capital Gains Tax on Individuals

Description

This proposal imposes a tax on individuals for the privilege of selling or exchanging capital assets. The tax is equal to 7.0 percent multiplied by a person's capital gains for each taxable year.

The following threshold exemptions are allowed in determining the tax:

- \$25,000 or
- \$50,000 for individuals filing joint returns.

The capital gains tax does not apply to the following:

- The gain on the sale of a long-term principal residence if used by a person as the person's principal residence for periods aggregating at least 10 years and owned by the person for at least the 20-year period ending on the date of the sale or exchange of the property; or
- For those not qualifying for the long-term principal residence exemption above, the exclusions provided under section 121 of the Internal Revenue Code would apply:
 - Up to \$250,000 on the gain of a sale of a primary residence for those filing single or married filing separately;
 - Up to \$500,000 on the gain of a sale of a primary residence for those married filing jointly. Under state law, state registered domestic partnerships are made eligible for the married filing jointly exclusion of up to \$500,000.
- Capital gains received from retirement accounts.
- The sale or exchange of cattle, horses or breeding livestock held for more than 12 months by farmers.
- The sale of agricultural land that meets the criteria under IRC section 469(h) for the 10 years prior to the date of the sale.
- The sale of tangible personal property used in a business and that would qualify for an income tax deduction under IRC sections 167 or 179.
- The sale of timber under IRC section 631 (a) and (b).

Individuals will file annually with the department all capital gains.

Individuals can take a credit equal to the amount of tax paid to another taxing jurisdiction on capital gains derived from sources within the other taxing jurisdiction.

This proposal would tax capital gains earned starting Jan. 1, 2016.

Current Law

There is no capital gains tax on individuals in current law.

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7.0% Capital Gains Tax on Individuals, Continued

Revenue Impact

General Fund Impacts (\$ millions)

# of Impacted Taxpayers	FY 2016	FY 2017	2015-17 Biennium	FY 2018	FY 2019	2017-19 Biennium
32,000		\$798.0	\$798.0	\$845.0	\$903.0	\$1,748.0

- *Estimates assume a January 1, 2016 effective date with the first annual returns due in April 2017.*
- *Estimates reflect the November 2014 Economic and Revenue Forecast Council revenue forecast.*