# SPECIAL REPORT

Marcus & Millichap

## WASHINGTON STATE PROPOSED CAPITAL GAINS TAX

AUGUST 2020

## State Proposes Capital Gains Tax on Real Estate; Enactment Could Influence Sales Activity

**Tax reconditioning would remove Washington from the list of seven U.S. states without a capital gains levy.** Gov. Jay Inslee has proposed a long-term capital gains tax of 9 percent on the sale of certain real estate, stocks and bonds. If approved by the House and Senate, this motion would rank the state as having the nation's sixth highest such tax. The current proposal resembles a similar request submitted last year that was voted down by the state's Senate. However, now Washington is facing a deficit of $4.5 billion for the 2019-2021 operating budget and a negative cash balance in its general fund. The potential implementation of this proposal would represent another recent change to how commercial property sales in the state are taxed. As of January 2020, sellers are subject to a graduated real estate excise tax rate that ranges from 1.1 percent for sub-$500,000 transactions to 3 percent for properties that trade for more than $3 million. This graduated rate, which generated a wave of sales activity prior to its enactment, replaced the previous flat state rate of 1.28 percent.

The current tax proposal applies only to long-term capital gains income above the threshold amount of:

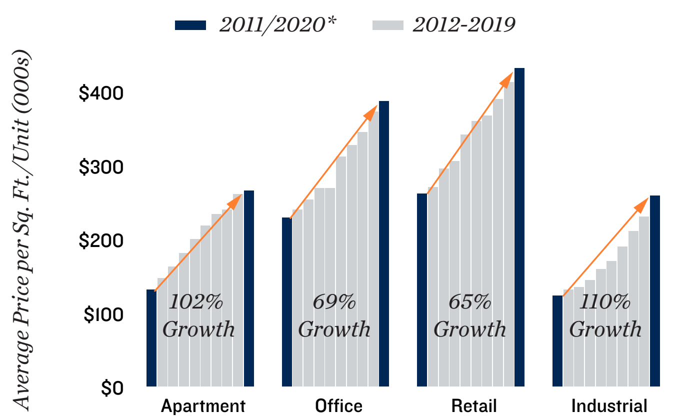
- $25,000 for single filers and $50,000 for married couples or state-registered domestic partners that are joint filers.
- Gains from home sales would be exempt from the tax, as would profit from retirement accounts, farms and forestry.

Additionally, pass-through real estate entities and investment trusts would not be taxed on capital gains retained from the sale of a property. Instead:

- LLC: Entity owner or owners taxed on capital gains rather than limited liability corporation.
- REIT: Distributed income subject to tax on individual beneficiary level.

**Proposal implementation would alter investors' strategies.** If it becomes clear that the motion will be instituted, statewide commercial real estate sales activity may accelerate in the short term as investors who were already considering selling assets and taking chips off the table liquidate ahead of tax enactment. While the health crisis has altered sellers' and buyers' pricing expectations, valuations have remained durable throughout the pandemic particularly for assets that have strong tenants and longer-term leases in place. Additionally, the pandemic has slowed new listings, further amplifying the opportunity for sellers to capitalize on the supply and demand imbalance that exists. Investors that sell in-state properties will have the opportunity to execute a 1031 tax-deferred exchange and migrate capital across state lines to Texas, Florida and other locales without a gains tax.

### Seattle Records Strong 10-Year Price Growth




*Trailing 12 months through second quarter


For information on national commercial real estate trends, contact:

**John Chang**
*Senior Vice President, National Director | Research Services Division*
*Tel: (602) 707-9700 | john.chang@marcusmillichap.com*

For more information, please contact:

**Joel Deis**
*Vice President, Regional Manager*
*Tel: (206) 826-5750 | joel.deis@marcusmillichap.com*

**Seattle Office:**
*601 Union Street*
*Suite 2710*
*Seattle, Washington 98101*




*Sources: Marcus & Millichap Research Services; Real Capital Analytics; CoStar Group, Inc.; Washington Office of Financial Management*