Washington House Democrats propose taxing capital gains, ignoring Supreme Court on K-12 school funding

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Washington House Democrats want to reduce new state property-tax hikes, partly with a capital-gains tax. But in their new budget proposal, they leave out the $1 billion suggested by the state Supreme Court to comply with the McCleary school-funding decision.

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OLYMPIA — Washington House Democrats want to take a big bite out of the new state property-tax increases — and they want a capital-gains tax to help fund it.

Lawmakers approved those property-tax hikes last year to pay for a plan to satisfy the state Supreme Court’s school-funding order known as the McCleary decision.

But in their budget plan released Tuesday, House Democrats decided to skip the $1 billion suggested by the court to fully bring the state into compliance on K-12 funding.

The court in November ruled that lawmakers’ 2017 schools plan was acceptable — but didn’t move fast enough to meet the September 2018 deadline for full state funding.

House Majority Leader Pat Sullivan, D-Covington, said it’s too difficult to put another $1 billion into schools by that deadline.

“Our focus has to be on school kids,” said Sullivan, pointing to other, smaller school-related funding increases in the proposed 2017-19 supplemental operating budget.

Instead, the proposal attempts to rein in property taxes.

The plan would take nearly $1 billion in budget reserves to accomplish a two-year temporary cut in property taxes.
That would cut property taxes by about 35 cents per $1,000 of assessed value in 2019, and by 40 cents in 2020.

The plan also includes a 7 percent tax on capital gains for investment income above $25,000 for an individual or $50,000 for a couple filing jointly. The revenue collected would be used for further property-tax relief in the future.

A capital-gains tax is believed to lack the votes to pass in the state Senate.

The new tax is necessary to help homeowners hit by the property-tax increases lawmakers approved to fund K-12 schools, said Rep. Kristine Lytton, D-Anacortes.

“I’ve heard that people will lose their homes over what we did,” said Lytton, chair of the House Finance Committee and sponsor of House Bill 2967, the capital-gains bill.

“Those 48,000 that are going to pay the excise tax on capital gains, I don’t believe any of them will lose their homes over this,” she added.

The budget proposal comes as lawmakers in Olympia struggle with the K-12 education-funding plan they passed last year.

That school-funding plan raised state property taxes for every homeowner in 2018 by about 80 cents per $1,000 in assessed valuation.

Then, it capped and lowered local property taxes collected by the state’s 295 school districts.

Many homeowners are expected to see an eventual overall decrease in taxes — but many in the Puget Sound region will face higher overall tax bills.

In a statement, Sen. John Braun, R-Centralia, said lawmakers should push for property-tax breaks this year, as opposed to 2019 or 2020.

Additionally, “I strongly disagree with the House’s plan to raise taxes when the state just received the largest revenue forecast increase in a decade,” said Braun, ranking Republican on the Senate Ways and Means Committee, in prepared remarks.

Democrats have proposed that tax for years to try to make Washington’s tax system less regressive.

Republicans have protested such proposals as a tax on income and a volatile source of revenue.

Now, House and Senate budget writers must reach an agreement on two very different approaches to taxes and school funding.
On Monday, Senate Democrats released their own proposed budget, which puts nearly $1 billion into school-worker salaries as suggested by the court.

That plan also uses $403 million in budget reserves for a one-time property-tax cut that would take effect in 2019.

Democrats hold slim majorities in both chambers, and using budget reserves requires a 60 percent vote in the Legislature.

So Democratic lawmakers will need some Republican support for the proposed property-tax cuts.

Gov. Jay Inslee appreciates the House capital-gains proposal, an approach the governor has previously proposed, said Inslee spokeswoman Tara Lee.

But, “I think he recognizes that politically it may be a tough sell,” Lee said.

As for the court’s request for an additional $1 billion in school funding, “He’s been pretty clear that we need to finish McCleary this year,” Lee said. “And certainly the Senate [proposal] does that.”

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