SENATE REPUBLICAN CAUCUS

A capital gains income tax would eventually hit all of us

Advocates of higher taxes and spending are pushing a “starter tax” on capital gains income. That’s bad news for the tech industry, small business and farmers. But this narrow income tax won’t end there, and the rest of us ought to worry, too. Once an income tax is on the books, it’s going to **grow and grow and grow**, no matter what anyone promises today.

A capital gains income tax means a wild roller coaster ride – *just ask Jerry Brown!*

You can’t count on steady returns when taxes target a handful of people. Income of high earners varies wildly from year to year. They rarely take capital gains when markets are down. We would see big gyrations in tax collections – even though government requires steady funding.

Former California Gov. Jerry Brown on ‘Unpredictable Capital Gains’:

> **“What goes up just as sharply goes down. It did it once, it did it again, and now – we’re not quite sure what it will do. But we know over time that zig-zag will follow us… The problem here is that if you make commitments to employees’ salaries, to programs that are ongoing, then when the revenue drops, you’re in a hole.”** (news conference, Jan. 9, 2014)

What happens in the next recession?

You can count on lawmakers to spend every dime they expect to collect. They would write budgets that assume income-tax collections will remain steady. They would find excuses not to save. They always do. **We would face an enormous shortfall next time there’s a recession.**

Next step is an income tax on the middle class

As tax collections plummet, lawmakers would be forced to make up hundreds of millions of dollars in lost revenue. The easiest way to do it would be to **expand the income tax** – eventually, to all of us.

It happens every time

America has a rich history of expanding income taxes once they are in place. The reason is simple. **The middle class is where the money is.** A few examples:

- **The federal income tax**, sold in 1913 as a tax on the rich, was expanded to the middle class during WWI. The lowest bracket started at 2% and rose to 22% by 1952.
- **Connecticut's income tax**, sold in 1991 as a tax on the rich, was extended to the middle class to reduce "volatility." Initially the tax provided 10% of state revenues. Today it pays for more than half the state budget. Nor has the income tax reduced other taxes, as promised. Connecticut is No. 2 for property taxes, and sales tax rates are rising.
- **New Jersey's income tax**, sold in 1976 as a modest levy of 2% to 2.5%, now ranges between 1.4% and 10.75%, and generates 40% of the state's tax collections. Yet no amount is ever enough, and New Jersey's finances are among the nation's worst.

Taxpayer protections are rejected

Washington's income-tax advocates **refuse to consider** the only mechanism that could prevent expansion of the income tax – a constitutional amendment. Without this protection, any future Legislature could easily expand the income tax to the middle class.

Mechanism for general income tax already in place

Broadening the capital gains income tax could be done with the flip of a switch. If this narrow income tax is imposed, Washington state's computers would **already** be linked with the IRS.

Promises from current lawmakers are meaningless

Advocates of higher taxes and spending want us to focus on their immediate proposal, and ignore what happens next. Surely they wouldn't tax the middle class. But no promise made today can bind future legislatures.

Washington Gov. Jay Inslee: "We ought to vote on the proposals we have, and not fear progress." (Jan. 10, 2019)

A capital gains income tax sets us up for a general income tax. Many in Olympia are hoping you won't notice.