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## **Washington Tax Alert: New WA Estate Tax Increases and New WA Capital Gains Surtax Just Passed**

DEAR CLIENTS:

Washington Senate Bill 5813 officially passed the house and senate on April 24, 2025, and was signed on May 20, 2025, by Governor Ferguson. The new law enacted significant changes to both Washington estate tax and Washington capital gains taxation. These changes will impact many Washington residents, especially those with appreciated estates over \$3 million.

### **Key Washington Estate Tax Changes:**

Effective July 1, 2025, the legislation increases the Washington estate tax exemption (the amount which can be transferred without any estate tax) from \$2.193 million to \$3 million per individual, with annual inflation adjustments going forward.

However, the law also significantly increases the top Washington estate tax rate from 20% to 35%, making Washington home to the highest state-level estate tax in the nation. For high-net-worth individuals whose estates are subject to both state and federal estate taxes, the combined rate could approach 61%.

### **Estate Tax Rate Comparison:**

**For decedents passing away between 2018 and June 30, 2025 (WA exclusion: \$2.193M per individual):**

<b>Taxable Estate Value</b>	<b>Initial Tax Amount</b>	<b>Tax Rate on Excess</b>	<b>Applies To Amount Over</b>
\$0 - \$1,000,000	\$0	10.00%	\$0
\$1,000,000 - \$2,000,000	\$100,000	14.00%	\$1,000,000
\$2,000,000 - \$3,000,000	\$240,000	15.00%	\$2,000,000
\$3,000,000 - \$4,000,000	\$390,000	16.00%	\$3,000,000
\$4,000,000 - \$6,000,000	\$550,000	18.00%	\$4,000,000
\$6,000,000 - \$7,000,000	\$910,000	19.00%	\$6,000,000
\$7,000,000 - \$9,000,000	\$1,100,000	19.50%	\$7,000,000
\$9,000,000 and up	\$1,490,000	20.00%	\$9,000,000



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**For decedents passing away on or after July 1, 2025 (WA exclusion: \$3M per individual):**

Taxable Estate Value	Initial Tax Amount	Tax Rate on Excess	Applies To Amount Over
\$0 - \$1,000,000	\$0	10.00%	\$0
\$1,000,000 - \$2,000,000	\$100,000	15.00%	\$1,000,000
\$2,000,000 - \$3,000,000	\$250,000	17.00%	\$2,000,000
\$3,000,000 - \$4,000,000	\$420,000	19.00%	\$3,000,000
\$4,000,000 - \$6,000,000	\$610,000	23.00%	\$4,000,000
\$6,000,000 - \$7,000,000	\$1,070,000	30.00%	\$6,000,000
\$7,000,000 - \$9,000,000	\$1,330,000	32.00%	\$7,000,000
\$9,000,000 and up	\$1,930,000	35.00%	\$9,000,000

The higher Washington estate tax exemption is a welcome change for many gross estates in the \$3-\$8 million range as the higher exemption decreases the estate tax liability slightly for these estates.

However, for larger estates, the significant increase in tax rates may result in a dramatically higher tax burden. The chart below illustrates the additional Washington estate tax that would be due under the new law compared to current rates for a single person estate:

Estate Value	WA Estate Tax (Death before July 1, 2025)	WA Estate Tax (Death on or after July 1, 2025)	Additional Tax Due to Change
\$10,000,000	\$1,257,365	\$1,330,000	+ \$72,635
\$20,000,000	\$3,251,400	\$4,730,000	+ \$1,478,600
\$30,000,000	\$5,251,400	\$8,230,000	+ \$2,978,600
\$50,000,000	\$9,251,400	\$15,230,000	+ \$5,978,600
\$100,000,000	\$19,251,400	\$32,730,000	+ \$13,478,600

**Note:** These calculations assume a gross taxable estate (i.e., no deductions) and apply the respective exemption amounts: (i) \$2.193 million for deaths before July 1, 2025, and; (ii) \$3 million for deaths on or after July 1, 2025. This chart ***does not*** reflect federal estate taxes, which would be in addition to the Washington estate tax. However, for federal estate tax purposes, there is a deduction for state estate taxes paid, which may slightly reduce the federal tax liability.



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### Key Takeaway:

While the higher exemption provides some relief for moderately sized estates, estates over \$10 million will face a dramatically higher tax burden. This underscores the importance of proactive estate planning for high-net-worth Washington residents. Gifting strategies, trust planning, and valuation discounts may be even more crucial under the new regime. Without timely and thoughtful planning, clients with larger estates risk forcing their heirs to liquidate cherished legacy assets to cover estate taxes due within nine (9) months of the decedent's date of death.

### Key Washington Capital Gains Tax Changes:

In 2021, the Washington State Legislature passed ESSB 5096 (RCW 82.87) which created a 7% tax on the sale or exchange of certain long-term capital assets such as stocks, bonds, business interests, or other investments and tangible assets. The tax applies only to gains exceeding an annual standard deduction, which is adjusted for inflation each year. For tax year 2024, the standard deduction is \$270,000 per individual (or per couple if filing jointly). This means the first \$270,000 of net long-term capital gains are exempt from the tax in 2024. Washington's capital gains tax law provides exceptions for some assets, including real estate and certain types of retirement accounts.

The new law passed this year expands Washington's capital gains tax by adding a 2.9% surtax on top of the original 7% tax to net long term capital gains, retroactively effective for sales occurring on or after January 1, 2025. This surtax applies to net long-term capital gains exceeding \$1 million per year (after the \$270,000 exemption).

### Tiered Capital Gains Tax Structure (Effective January 1, 2025- Retroactively):

Net Long-Term Capital Gains	Tax Rate
\$0 – \$270,000 (inflation-adjusted as of 2024)	Exempt (0%)
\$270,001 – \$1,270,000	7%
\$1,270,001 +	9.90%

### Next Steps:

These tax changes may affect your estate plan, planned gifts, or the timing of asset sales. If your estate exceeds \$3 million or you're considering selling appreciated securities or business interests, we encourage you to schedule a review to ensure your planning is aligned with the new law.

As always, we're here to help you navigate these changes and identify strategies that work best for your circumstances. For additional information, contact Attorney, Gurneet Takhar at [Gurneet@scarfflaw.com](mailto:Gurneet@scarfflaw.com).



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