

New Law in Washington State Impacts Washington Estate Tax and Capital Gains Tax

Executive Summary

On April 24, 2025, the Washington State Legislature passed Engrossed Substitute Senate Bill 5813 (ESSB 5813), a significant tax reform measure aimed at increasing funding for public education, childcare, early learning, and higher education. The bill introduces an increased capital gains tax rate and reforms the estate tax, both of which have direct implications for high-net-worth individuals, estate planners, and wealth managers with clients in Washington State.

Key Provisions of ESSA 5813

1. Capital Gains Tax Expansion

Effective January 1, 2025, ESSB 5813 introduces an additional excise tax of 2.9% on the portion of an individual's Washington long-term capital gains exceeding \$1,000,000. This is in addition to the existing 7% long-term capital gains tax on gains over \$270,000 (2024), bringing the total tax rate to 9.9% on qualifying gains above the \$1,000,000 threshold. The tax applies to long-term capital gains from assets allocated to Washington, with existing exemptions for real estate, retirement accounts, and other categories unchanged. Revenue from this tax continues to be deposited into the Education Legacy Trust Account (ELTA).

Recap:

- 7% on Washington capital gains above \$270,000
- An additional 2.9% on gains over \$1 million, for a combined effective rate of 9.9% on amounts exceeding that threshold

2. Estate Tax Reforms

The bill also makes substantial updates to Washington's estate tax, which is imposed on the value of taxable estates when a resident dies or when a non-resident dies owning property in the state:

- Increasing the Top Tier Rate: Rates increase in brackets, up to a maximum 35% marginal rate for amounts exceeding \$9 million
- Raising the Exclusion Amount as of July 1, 2025: The exclusion amount will be increased to \$3,000,000, up from the previous amount of \$2,193,000
- Resumes annual inflation adjustments to the exclusion amount beginning in 2026, using a consumer price index for the Seattle metropolitan area

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Implications for Wealth Management Clients

A. Impact on High-Net-Worth Individuals

The combined capital gains and estate tax reforms will primarily affect individuals with substantial investment portfolios and estates exceeding the new thresholds. Clients with significant holdings in stocks,

bonds, and other long-term capital assets should be aware of the increased tax liabilities and consider strategies to mitigate these impacts.

B. Estate Planning Considerations

With the increase in the estate tax exclusion amount, clients may have opportunities to transfer more wealth to heirs without incurring estate taxes. However, the higher top-tier estate tax rate necessitates careful planning to minimize potential tax burdens.

C. Investment Strategy Adjustments

The higher capital gains tax rate may influence investment strategies, particularly for clients planning to liquidate substantial positions. Strategies such as tax-loss harvesting, charitable giving, and the use of tax-advantaged accounts should be considered to manage taxable events effectively.

Strategic Considerations

- **Review Investment Portfolios:** Assess the potential impact of the new capital gains tax on current holdings and consider rebalancing portfolios to minimize taxable gains.
- **Update Estate Plans:** Consult with estate planning professionals to update wills, trusts, and beneficiary designations in light of the new estate tax provisions.
- **Explore Tax-Efficient Strategies:** Implement strategies such as charitable remainder trusts, donor-advised funds, and other philanthropic vehicles to offset taxable gains and reduce estate tax exposure.
- **Stay Informed:** Monitor any further legislative changes that may affect tax laws and adjust strategies accordingly.

Conclusion

ESSB 5813 represents a significant shift in Washington State's tax landscape, with direct implications for wealth management strategies. By proactively addressing these changes, wealth managers can help clients navigate the new tax environment and continue to achieve their financial goals.

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