Washington State Enacts Aggressive New Capital Gains & Estate Tax Laws

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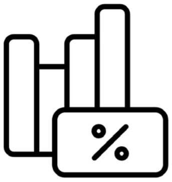
Dear Clients,

On May 20, 2025, Governor Bob Ferguson signed Senate Bill 5813 into law, triggering significant changes to Washington State's capital gains and estate tax regimes. These changes will affect many high-net-worth individuals beginning immediately, with some provisions applying retroactively to January 1, 2025.

As your financial advisory team, we want to ensure you are aware of these developments—and how they may impact your current planning strategies.

What's Changed?

New Top Capital Gains Tax: 9.9%



- Washington now imposes an additional 2.9% excise tax on long-term capital gains over $1 million, bringing the total state capital gains rate to 9.9%.
- This is in addition to the existing 7% tax on gains above the inflation-adjusted standard deduction ($270,000 in 2024).
- The new 2.9% tier is not inflation-adjusted, meaning more investors may cross the threshold in future years.
- Effective date: Applies to qualifying transactions on or after January 1, 2025.

Exemptions Still Apply

These assets remain exempt from the state capital gains tax:

- Real estate and entities holding real estate
- Qualified retirement accounts (e.g., 401(k), IRA)
- Qualified Family-Owned Small Businesses (under $10.79M in revenue for 2024)
- Qualified Small Business Stock (IRC §1202)
- Charitable contributions to Washington-based nonprofits (up to $108,000 in 2024)

Note: Washington does not recognize federal tax deferral on Qualified Opportunity Zone (QOZ) reinvestments.

Estate Tax Increases Also Coming

Effective July 1, 2025, the Washington estate tax exemption increases to $3 million, but marginal tax rates are also rising significantly:

Taxable Estate Value	Previous Rate	New Rate
$4M–$6M	18%	23%
$6M–$7M	19%	26%
$9M+	20%	35%

These changes may materially affect estate planning for many of our clients.

Planning Opportunities to Consider

Depending on your situation, now may be a critical time to review:

Domicile Planning:
Permanently relocating to a tax-friendly state such as Wyoming, Florida, or Texas could remove you from Washington's capital gains and estate tax regimes—provided it's well-documented and completed before a taxable event.

Gifting Strategies:
Consider gifting appreciated assets to out-of-state individuals or trusts. Washington does not impose a gift tax.

Charitable Tools:
Use charitable remainder trusts (CRTs), donor-advised funds, or direct charitable gifts to reduce taxable gain or estate value.

Income Smoothing:
Structure asset sales across multiple years to maximize use of annual deductions.

Entity Restructuring:
Consider converting Washington real estate into LLCs, especially for out-of-state residents.

Let's Talk

These developments may have immediate and long-term implications on your portfolio, tax exposure, and legacy planning. We encourage you to schedule a review with our team as soon as possible to explore:

- Whether you are impacted by the new capital gains thresholds
- If a domicile change makes sense for you
- How to adjust your estate planning documents and strategies
- Charitable tools and gifting opportunities

As always, thank you for the opportunity to help guide your financial future.

Sincerely,
Spencer and Anne