

Washington State Enacts Historic Tax Increases Amid Budget Shortfall

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On May 20, 2025, Governor Bob Ferguson of Washington State signed into law a series of tax increases to address a projected \$16 billion budget shortfall. The centerpiece is Senate Bill 5167, a \$77.8 billion biennial budget for 2025–2027, marking a 6.5% increase over the previous budget.

Key Tax Legislation

- **Capital Gains and Estate Taxes (SB 5813):**
 - *Capital Gains Tax:* Effective retroactively from January 1, 2025, an additional 2.9% tax is imposed on net long-term capital gains exceeding \$1 million, raising the top rate from 7.0% to 9.9%. The first \$270,000 of gains are exempt, adjusted annually for inflation. This tax applies to gains from the sale of assets such as stocks and bonds but excludes real estate and retirement accounts.
 - *Estate Tax:* For estates of decedents who pass away on or after July 1, 2025, the estate tax exemption increases from \$2.193 million to \$3 million. The estate tax rates also increased, with the top marginal rate rising from 20% to 35% for estates exceeding \$9 million. Progressive Rate Structure:

Taxable Estate Value	Previous Rate	New Rate
\$0 – \$1,000,000	10%	10%
\$1,000,001 – \$2,000,000	14%	15%
\$2,000,001 – \$3,000,000	15%	17%
\$3,000,001 – \$4,000,000	16%	19%
\$4,000,001 – \$6,000,000	18%	23%
\$6,000,001 – \$7,000,000	19%	26%
\$7,000,001 – \$9,000,000	19.5%	30%
Over \$9,000,000	20%	35%

- **Business & Occupation (B&O) Tax Adjustments (HB 2081):**
 - Raises B&O tax rates for various sectors, including retailing and manufacturing, to 0.5%.
 - Imposes a temporary 0.5% surcharge on businesses with taxable income over \$250 million, effective through 2029.
- **Sales Tax Expansion (SB 5814):**
 - Extends sales tax to services such as IT support, custom software development, advertising, and security services, effective October 1, 2025.
- **Repeal of Tax Preferences (SB 5794):**
 - Eliminates several tax exemptions deemed obsolete, including those for self-storage

rentals, which will now be subject to a B&O tax of up to 1.75% starting April 1, 2026.

- **Transportation Funding (SB 5161):**

- Increases the gas tax by 6 cents per gallon and diesel by 12 cents per gallon to fund transportation projects.

Legislative Context

The Legislature passed these measures during a 105-day session to address the state's significant budget deficit. While the tax increases aim to fund essential services, they have sparked debate over their potential impact on businesses and consumers. Governor Ferguson acknowledged possible "unintended consequences" of the new taxes but emphasized the necessity of addressing the fiscal shortfall.

Conclusion

If you live in Washington State and your capital gains exceed \$1 million or your estate is valued above \$3 million, these tax law changes could significantly impact your tax liabilities. To ensure you are prepared for these changes, your financial advisor can assist you with reviewing investment strategies, the timing of asset sales to manage capital gains exposure, and reviewing your estate plan.

Regardless of where you reside, it is recommended to meet with your financial planner, tax advisor, and estate attorney on a regular basis to review your investment strategy and estate planning.

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