

Key Wealth Institute

What Washington State Residents Should Know About Higher Capital Gains, Estate Taxes

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As anticipated for many residents of the state of Washington, the legislature passed Senate Bill 5813 to increase the state's estate tax and added a capital gains tax for high-income earners. Signed into law by the governor, these changes go into effect in 2025.

How will these tax changes affect Washington state residents' personal income and estate taxes?

The answer, as you might expect is, "It depends." There are two parts to the tax increase: long-term capital gains tax intended to help increase funding to the education legacy trust account, and an increase in the state estate tax rates to levy a more progressive rate structure and increase the exemption rate.

The changes and how they may affect your taxes:

For federal income tax purposes, most taxpayers will only pay a long-term capital gains rate of 0%–15%. Those with income above a certain threshold may be subject to a 20% capital gains rate. And then there is the potential for the 3.8% Medicare surtax on top of that. For those of you who don't live in Washington and may not be familiar with its state income tax rules, Washington has no state income tax (and generally would not tax capital gains). However, Washington instituted a 7% capital gains tax on the sale or exchange of long-term capital assets, with an exemption for the first \$250,000, effective January 1, 2022.

Washington State residents: What you need to know about increased Capital Gains and Estate Taxes

Washington state long-term capital gains tax increase

Tax increase – Retroactive to January 1, 2025, Washington state now applies an additional 2.9% excise tax imposed on the sale or exchange of net long-term gains on Washington capital assets exceeding \$1 million.

No change – Net long-term gains over \$270,000 (inflation-adjusted amount) and up to \$1 million carry a 7% state long term-capital gains tax.

Modification of the Washington state estate tax

Currently, 12 states and the District of Columbia have their own estate tax in addition to the federal estate tax. Prior to the change mentioned here, Washington stood out because of its high top rate and relatively low exemption threshold when compared to other states that levy an estate tax. Washington's exemption threshold was previously at \$2.193 million. Many states with estate taxes have higher exemption thresholds. For example, New York's threshold is \$7.16 million in 2025, and Illinois' is \$4 million. Connecticut has a particularly

high exemption, planning to match the federal exemption. Washington's lower exemption amount means more estates are potentially subject to the tax compared to those of states with higher thresholds.

Also, prior to the change, the Washington estate tax rates ranged from 10% to 20%. The rates for other states varies. For instance, New York's rates range from 3.06% to 16%. Illinois' rates also top out at 16%. Washington's top rate of 20% is among the highest state estate tax rates in the country, creating significant tax liabilities for larger estates.

Estate tax exemption amount raised – Taking effect on July 1, 2025, is an increase to the Washington state tax exemption from \$2.193 million to \$3 million (adjusted annually for inflation). If your taxable estate is less than \$3 million, and you pass away after July 1, 2025, there is no Washington state estate tax levied.

Estate tax increase – For Washington state residents with taxable estates over \$3 million, all tax brackets have increased and will adjust for inflation, with the exception of the first \$1 million, which is still taxed at 10% as before. The tax rates increased on July 1, 2025.

| Washington Taxable Estate Value | Old Rate | New Rate after July 1, 2025 | Percentage Increase |
|---------------------------------|----------------------|-----------------------------|---------------------|
| | Over \$2.193M | Over \$3M | |
| \$0 to \$1,000,000 | 10.0% | 10.0% | No change |
| \$1,000,000 to \$2,000,000 | 14.0% | 15.0% | +1.0% |
| \$2,000,000 to \$3,000,000 | 15.0% | 17.0% | +2.0% |
| \$3,000,000 to \$4,000,000 | 16.0% | 19.0% | +3.0% |
| \$4,000,000 to \$6,000,000 | 18.0% | 23.0% | +5.0% |
| \$6,000,000 to \$7,000,000 | 19.0% | 26.0% | +7.0% |
| \$7,000,000 to \$9,000,000 | 19.5% | 30.0% | +10.5% |
| \$9,000,000 and up | 20.0% | 35.0% | +15.0% |

Source: Washington State Legislature ESSB 5813



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While every dollar paid in estate taxes is significant, the highest percentage changes are for taxpayers with an estate over \$7 million, rates going from 19.5% to 30%, and at the \$9 million threshold, increasing from 20% to 35% for Washington state residents who pass away after July 1, 2025.

Also, another quirky aspect of Washington estate tax — it does not offer spousal portability, which allows a surviving spouse to use their deceased spouse's unused exemption, unlike with the federal estate tax. Some states, like Maryland, have portability provisions for their estate taxes. Lack of portability in Washington can increase the estate tax burden on the surviving spouse's estate.

Summary

Retroactive to January 1, 2025, Washington state now applies an additional 2.9% excise tax imposed on the sale or exchange of net long-term gains on Washington capital assets exceeding \$1 million. This is in addition to the 7% state long-term capital gains tax on net long-term gains over \$270,000 up to \$1 million.

Taking effect on July 1, 2025, is an increase to the Washington state tax exemption from \$2.193 million to \$3 million (adjusted annually for inflation). There will also be new estate tax rates and new threshold brackets.

Washington state does not have a state gift tax. For clients with a taxable estate in Washington, this will create opportunities to implement strategies to reduce estate taxes in the future. It is important to explore options.

Financial advisors recommend reviewing your personal financial goals and priorities first and then reviewing income tax and estate tax mitigation strategies that align with your intentions. Every family's situation is different, so the best course of action is to discuss yours with your wealth advisor, as well as your legal and tax advisors.

[Resource: SB 5813 Washington State Legislature](#)

For more information, [please contact your advisor.](#)

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