
New Era of Estate Tax: Legislative Shifts in Washington & Planning for the Big Beautiful Bill

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What's New in Washington State?

Estate Tax Exemption Increase

- Effective July 1, 2025, the Washington state estate tax exemption increased to \$3 million per person.
- The highest state estate tax rate increased from 20% to 35%.

Capital Gain Tax Increase

- Beginning in 2022, Washington state residents have been subject to a 7% tax on long-term gain from the sale of certain assets after certain exemptions and deductions. Recent legislation enacted an increased state capital gain tax, retroactive to January 1, 2025.
- Washington state will now impose an additional 2.9% tax on capital gains exceeding \$1 million. Up to \$1 million of capital gains will be taxed at the existing 7% rate; gains over this amount will be subject to additional 2.9% tax.

Washington State Estate Tax Changes

Estate Tax Impact for Washingtonians

- High net worth estates are most impacted. Federal **and** state estate tax owing.

Who wins? Who loses?

Is Washington Wealth Tax Still on the Horizon?

- Washington state considered a wealth tax that would have imposed a .5% financial intangibles (wealth) tax on the value of publicly traded stocks, publicly traded bonds, mutual funds, and exchange-traded funds “owned or controlled” by a Washington resident. The first \$50 million of taxable assets would have been exempt. The state Senate passed a bill on the last day of the legislative session; the House of Representatives did not have time to consider the Senate bill or to advance their own bill.
- Governor Bob Ferguson was not in support of the wealth tax to balance the budget.

Will we see this proposal resurrected next year?

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CHANGES TO THE FEDERAL GIFT, ESTATE AND GST TAX

Former Law:

Estate, gift and GST tax exemptions would sunset at end of 2025, returning to a \$5 million per person exemption, adjusted for inflation.

New Law:

Increase of estate, gift and GST tax exemption to **\$15 million per person** beginning January 1, 2026. And **adjusted for inflation** beginning in 2027!

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CHANGES TO THE FEDERAL GIFT, ESTATE AND GST TAX

**NEW FEDERAL ESTATE, GIFT AND GST EXEMPTIONS ARE
PERMANENT!**

Charitable Planning

Provisions Effective January 2026

- Itemized Deductions: Charitable contributions will be deductible only to the extent contributions exceed 0.5% of adjusted gross income (AGI).

There is a floor to get a tax deduction.

Example: Taxpayer has \$10 million AGI and donates \$1 million to charity.

- 0.5% of AGI floor = \$50,000. SO, deductible contribution = \$950,000 (\$1,000,000 - \$50,000)

- UPSHOT: The first \$50,000 of charitable contribution is *not deductible*

Charitable Planning

Provisions Effective January 2026

– Non-Itemized Deductions:

Beginning in 2025, taxpayers who do not itemize may claim a charitable deduction of up to \$1,000 for individuals and \$2,000 for joint filers

– AGI Limitation Made Permanent:

The 60% AGI limitation for cash gifts made to public charities is made permanent.

Qualified Small Business Stock

- Increased benefit for QSBS acquired **after July 4, 2025**
 - Taxpayers may exclude 50% of gain after holding stock for **3 years**, 75% of gain after **4 years**, and 100% of gain after **5 years** (old law: taxpayer had to hold stock for 5 years minimum)
- Increased gain exclusion: Amount of eligible gain that may be excluded is \$15 million, up from \$10 million.
- **Corporation with gross assets under \$75 million** (adjusted for inflation) may qualify; previously corporation with gross assets under \$50 million

Planning Opportunity:

Discuss QSBS and consider gifts to various trusts

529 and New “Trump Accounts”

Broadened definition of qualified educational expenses for students in K-12

- For distributions after July 4, 2025, eligible expenses now include costs for tutoring, educational therapy for students with disabilities, standardized testing fees, college entrance examinations, AP exams, and related books and educational materials.
- Limit of eligible expenses increased from \$10,000 to \$20,000.

New “Trump Accounts”

- The government will contribute \$1,000 to a Trump account for each child **born between December 1, 2025, and December 31, 2028.**
- Trump accounts can be created outside of this time frame, with up to \$5,000 in additional contributions by family members. *Contributions would count as annual exclusion gifts.*

Summary of Estate Tax Considerations for an Estate

Federal Tax Considerations*

- Fed. Gift/Estate Tax Exemption: \$13.99 Million each (\$27.98 Million combined) (Increases to \$15 Million each January 1, 2026)
- Fed. GST Tax Exemption: \$13.99 Million each (\$27.98 Million combined) (Increases to \$15 Million each January 1, 2026)
- Portability of Deceased Spouse Unused Exemption Amount = Surviving Spouse can claim any unused gift/estate tax exemption of first deceased spouse
- Federal tax rate: 40% of amount subject to tax

WA Tax Considerations*

- WA Estate Tax Exemption: \$3 Million each (\$6 Million Combined)
- No WA Gift Tax = Unlimited Lifetime Gifts
- No WA GST Tax
- No Portability of Deceased Spouse Unused Exemption Amount = WA Estate Tax Exemption is “use it or lose it” per spouse
- Tax rate: 10% to 35% of amount subject to tax

* All numbers are as of September 11, 2025, and subject to change

So, what planning opportunities can we consider?

Client Revocable Living Trust

Settlors: Client A and B

Trustee: Client A and B

Successor Trustee: Professional Fiduciary

First Spouse's Death

- Consider portability
- Consider pre-payment of WA estate tax

Interim Trust

Trustee: Surviving Spouse

Successor Trustee: Professional Fiduciary

Duration: Administration of First Deceased Spouse's Estate (2-2.5 years)

Surviving Spouse's 1/2 of trust property

Deceased Spouse's 1/2 of trust property

Survivor's Trust

Settlor: Surviving Spouse

Trustee: Surviving Spouse

Successor Trustee: Professional Fiduciary

Funded with Surviving Spouse's share of estate, on non-pro rata basis

Surviving Spouse may alter, amend, or revoke

Marital Trusts

Settlor: First Deceased Spouse

Trustee: Surviving Spouse

GST Exempt Marital Trusts

WA Credit Trust

- Funded with WA Exemption Amount

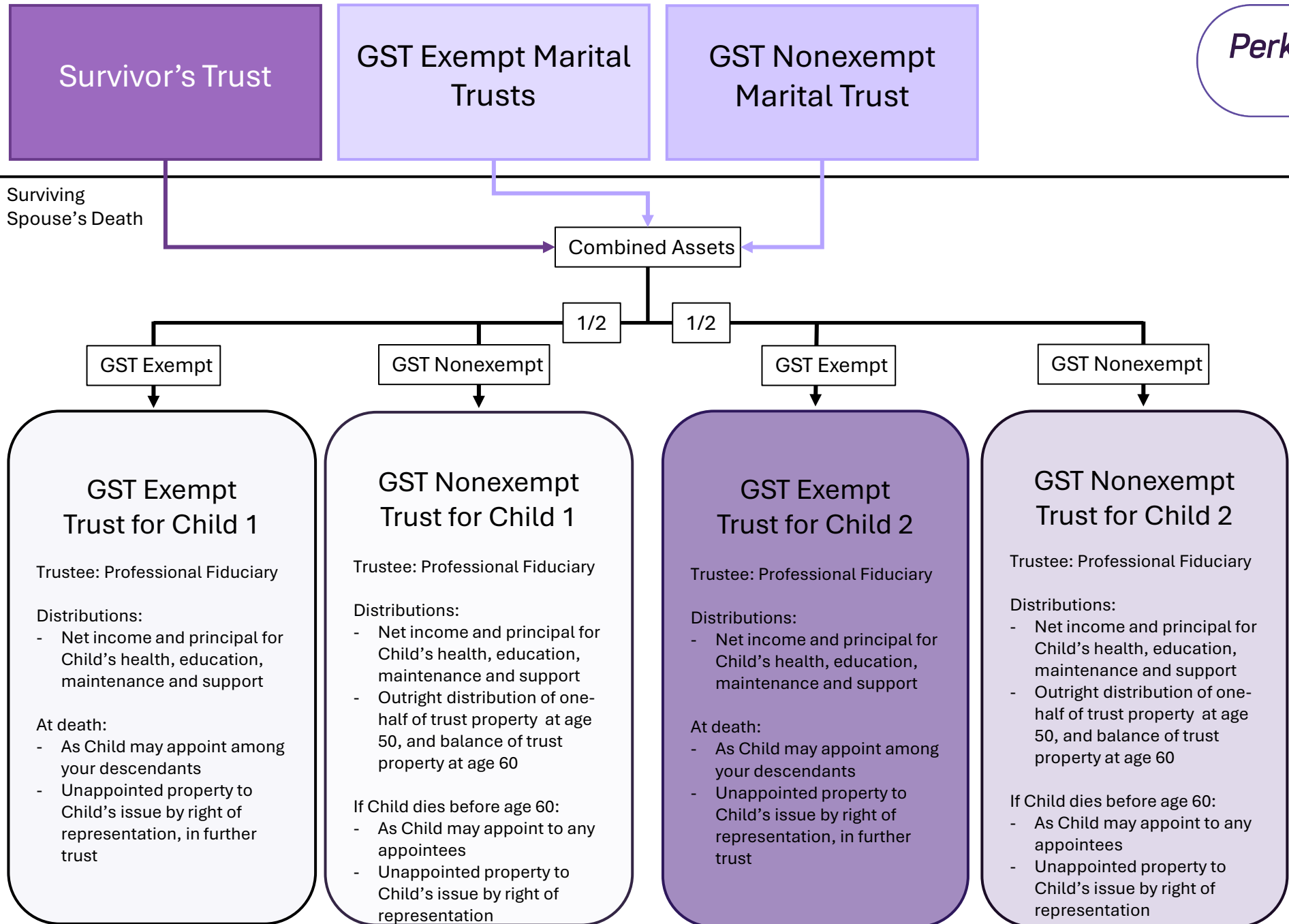
Flow Over Trust

- Funded with amount up to balance of federal GST exemption
- WA QTIP election (?)
- Possible Fed QTIP election

GST Nonexempt Marital Trust

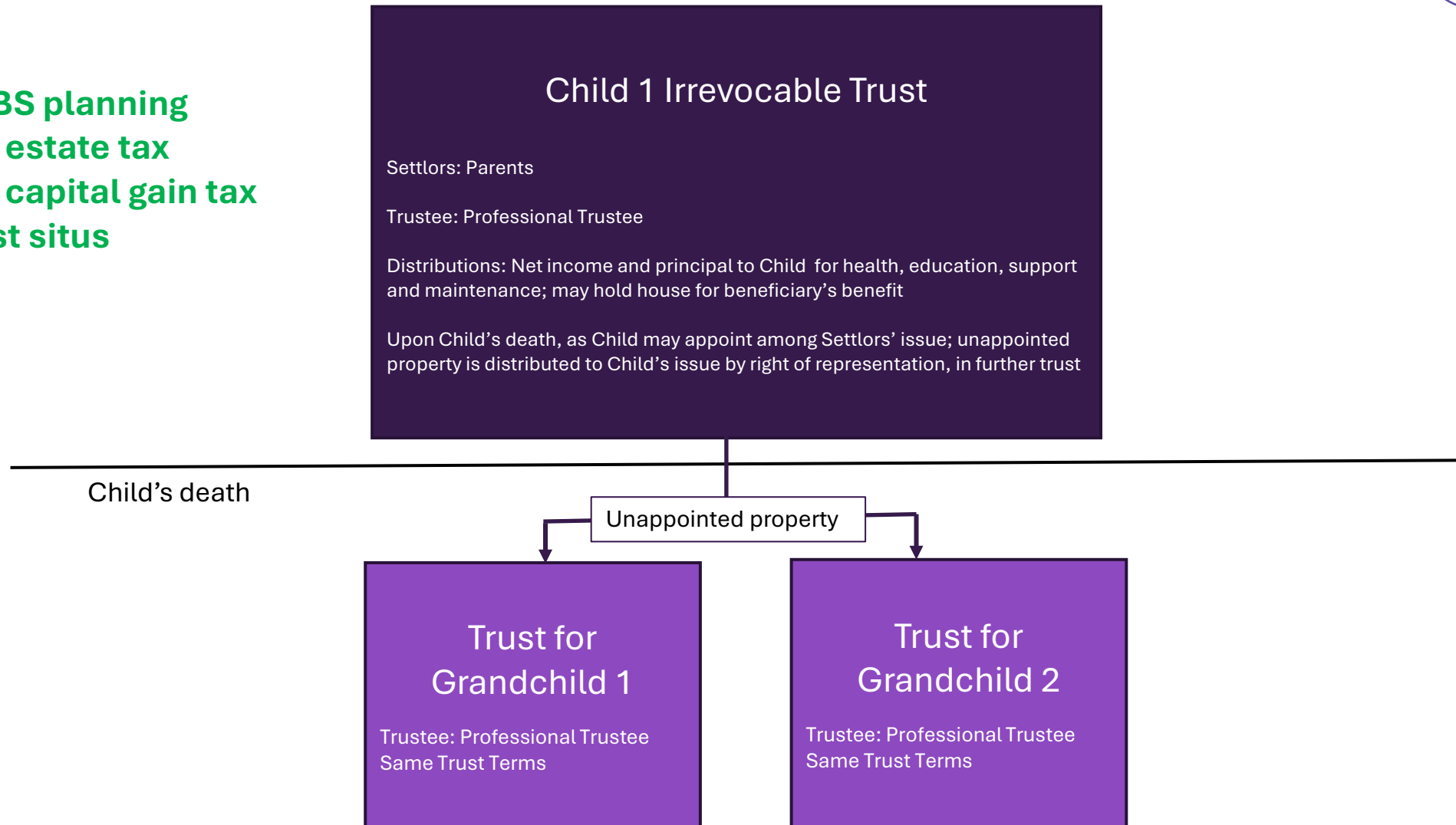
- Funded with excess over Federal GST Exemption

- WA QTIP Election and possible Fed QTIP Election



Irrevocable Trust for Child --- Funded with Lifetime Gifts by Parents

- Consider QSBS planning
- Consider WA estate tax
- Consider WA capital gain tax
- Consider trust situs



THANK YOU

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