



# Washington Estate Tax Update

Presented by Steven B. Boyd

FROM THERE TO  
HERE – A SHORT  
HISTORY

CONSTITUTION  
of the  
STATE of WASHINGTON

Preamble.

We, the people of the State of Washington, grateful  
to the Supreme Ruler of the Universe for our liberties,  
do ordain this constitution.

Article I.

Declaration of Rights.

Section 1. All political power is inherent in the people, and  
governments derive their just powers from the consent of the  
governed, and are established to protect and maintain  
individual rights.

Sec. 2. The Constitution of the United States is the  
supreme law of the land.

Sec. 3. No person shall be deprived of life, liberty, or  
property, without due process of law.

Washington State Constitution, 1889



# Inheritance Tax – State v. Clark

Washington Historical Society. Panoramic view of Olympia showing old capitol building. Handwritten under photo on album: The State Capitol at Olympia. Photographer unknown, ca. 1901.

# Inheritance Tax versus Estate Tax – What's the difference?



# Initiative Measure 402

TO THE PEOPLE

## Official Ballot Title:

Shall inheritance and gift taxes be abolished, and state death taxes be restricted to the federal estate tax credit allowed?

## The law as it now exists:

The State of Washington currently imposes inheritance taxes on both transfers of property resulting from the death of a Washington resident and transfers of certain in-state property of a non-resident decedent. Inheritance taxes may also be imposed on certain transfers made prior to and in contemplation of death. In addition and for comparison, the state imposes a gift tax on transfers of property made during a donor's lifetime.

The inheritance tax is imposed on beneficiaries of the estate. The amount of inheritance tax on any particular transfer depends on the relationship of each beneficiary to the decedent and the value of the property transferred.

Federal law also imposes a tax on transfers by gift or inheritance and allows a credit against such federal estate tax for a portion of the state's inheritance tax.

State inheritance tax collections for fiscal year 1981 approximated \$52 million or 2% of the state's general fund revenue for the period. In excess of two-thirds of the decedents' estates which reported to the Department of Revenue in 1981 paid no state inheritance taxes.

## The effect of Initiative 402, if approved into law:

This initiative would repeal the state's existing inheritance and gift tax laws and would substitute, in their stead, a tax on the transfer of the net estate of a resident decedent and on the transfer of certain in-state property of a non-resident decedent. Only estates liable for federal estate tax would be subject to tax under the initiative and the amount of the tax would be limited to the credit allowable against the federal tax.

The impact of the initiative on a particular estate transfer would vary depending upon the relationship of the recipient to the decedent. Since the initiative eliminates the distinction between classes of beneficiaries, it will have a lesser impact on beneficiaries more closely related to decedent who receive higher exemptions and lower rates under present state law. The initiative will have a greater impact on unrelated or more distantly related beneficiaries who receive no exemption and pay tax at the highest rate under current state law.

The adoption of the tax contained in the initiative together with recent increases in the federal estate tax exemptions would operate to reduce the number of estates in which transfers are now taxable under present state law, and, in most other cases, to lower the level of taxation on those estates, which remain taxable, below that imposed under the current state rate structure. The amount of the corresponding reduction in tax revenues which would otherwise be collected under the state's existing inheritance and gift tax laws cannot be estimated with precision.

NOTE: The ballot title and explanatory statement were written by the Attorney General as required by state law. The complete text of Initiative Measure 402 begins on page 15.

## Statement for

### DEATH TAXES ARE CRUEL

"What I needed when my husband died was a big hug. Instead these vultures swooped in demanding thousands of dollars."

— Veronica Booker, Seattle widow

### OUR ESTATES HAVE ALREADY BEEN TAXED

A couple has the right to pass on to their children the fruits of a lifetime of work. Their home and their savings have been hard-earned. It belongs to them—not the tax collector.

### THE INHERITANCE TAX IS UNJUST

A child has the right to continue a small family business or

the family farm without having to sell the property to large corporations or foreign investors in order to pay inheritance tax.

A tax that destroys these basic rights is unjust.

## Rebuttal of Statement against

Opponent's arguments are false and misleading. *This tax is hardest on average, middle-income working men and women!* While it's true there will be a gradual phasing out of the tax on spouses, there is no provision to phase out this hurtful tax on children, relatives, or friends. *If your estate is worth \$10,500 or more it is subject to inheritance tax!* (Inheritance Tax Law Schedule, Department of Revenue) A yes vote for 402 will create jobs and generate additional tax revenue by attracting investments into Washington and halting the outflow of business and retirement dollars.

### Voters Pamphlet Statement Prepared by:

DICK PATTEN, Chairman, Committee for Initiative 402; MIKE PATRICK, State Representative; KENT PULLEN, State Senator.

Advisory Committee: MRS. R. E. VAN VALKENBURGH, Washington State Federation of Women's Clubs; DON AHRENHOLTZ, Washington State Farm Bureau; LLOYD GARDNER, Citizen Taxpayers Association; WARREN McPHERSON; RANDY RAY, Washington Association of Wheat Growers.



## Statement against

### A TAX BREAK FOR THE WEALTHY

Initiative 402 would give tax relief to a small number of very wealthy individuals at the expense of low and middle income people. Over 70 percent of all estates now pass tax free in Washington. Our state inheritance tax system was thoroughly revised in 1979 to provide generous exemptions for spouses, children, family farms, and life insurance proceeds. By 1983, an estate of \$940,000 will pass tax free. All community property will pass tax free to a surviving spouse by 1984. 402 will benefit only a very few wealthy individuals.

### MORE CUTS OR HIGHER TAXES?

Washington's schools and senior citizens will be hurt by 402. Over \$140,000,000 will be lost to Washington by 1984 without creating one job or helping a middle income person. 402 would repeal a fair tax paid by those who can afford it. The state budget was cut by twelve percent in 1981. The economy and revenues are down. 402 means either more cuts or increases in less fair taxes.

### LOCAL—NOT FEDERAL—CONTROL

Do you want Washington, D.C. to determine our state tax levels? That is exactly what would happen if 402 passes. The amount of Washington's inheritance tax would be determined by the IRS and Congress. Let's keep control. 402 is the wrong approach, at the wrong time, for the wrong reasons.

## Rebuttal of Statement for

By using an emotional harangue and ignoring facts, the proponents would have you believe what is not true.

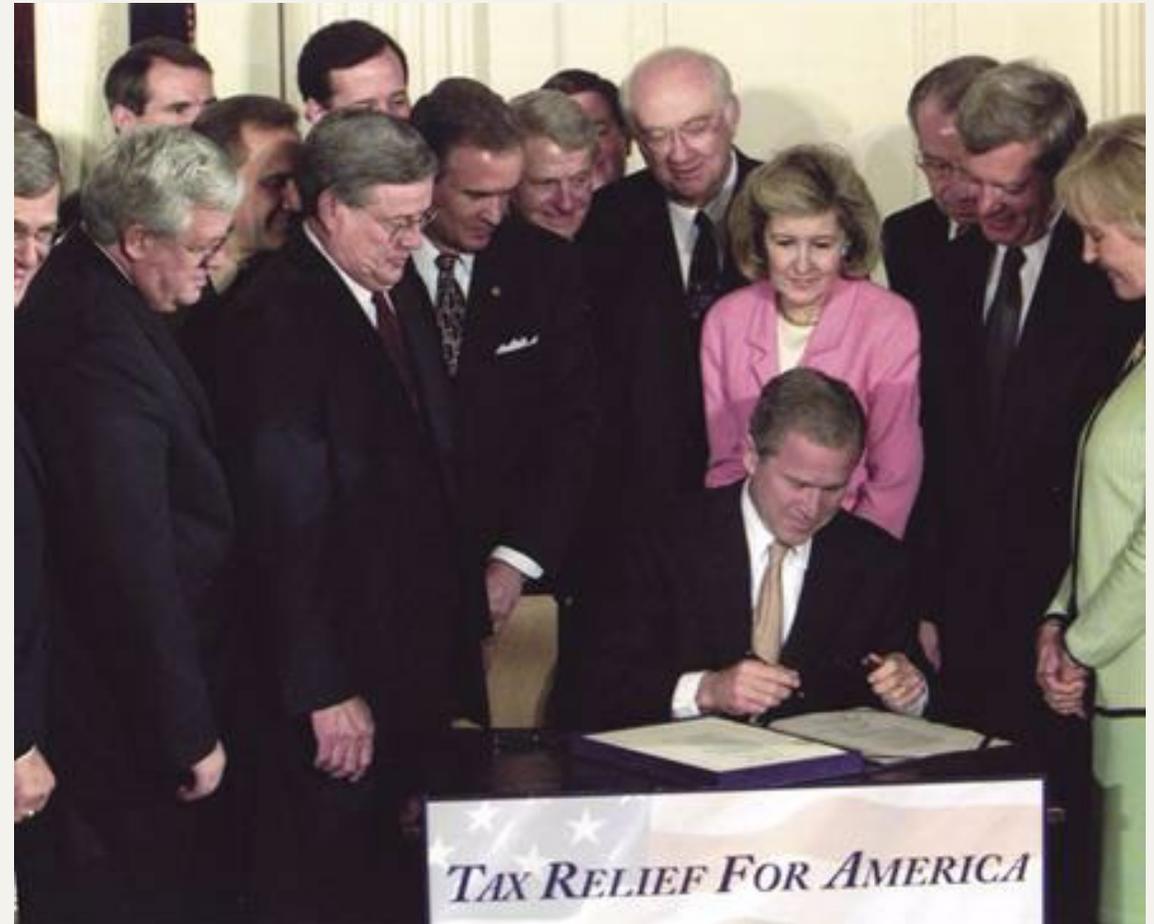
Our system is fair. 1979 changes in state law make certain no Washingtonian is in danger of losing a home or farm because of inheritance taxes. Nobody has to pay their tax in less than nine months and a ten year deferral for hardships is allowed. Don't be misled by deceptive emotionalism. Vote NO on 402.

### Voters Pamphlet Statement Prepared by:

GEORGE SCOTT, State Senator; JOANNE BREKKE, State Representative; NORM SCHUT, President, Senior Citizens Lobby.

Advisory Committee: GEORGE KINNEAR, Former Director, Department of Revenue; ROBERT S. O'BRIEN, State Treasurer; WILLIAM ANDERSON, University of Washington School of Law.

# Economic Growth Tax Relief and Reconciliation Act (EGTRRA)





Washington's  
Estate Tax –  
The Hemphill Case



# Washington Estate & Transfer Tax Act (ETTA)



# 2013 Washington Estate Tax Legislation

“THE BRACKEN FIX”



HAMBLETON

Estate of  
Hambleton

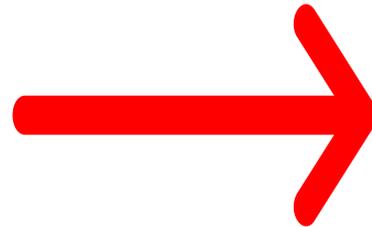
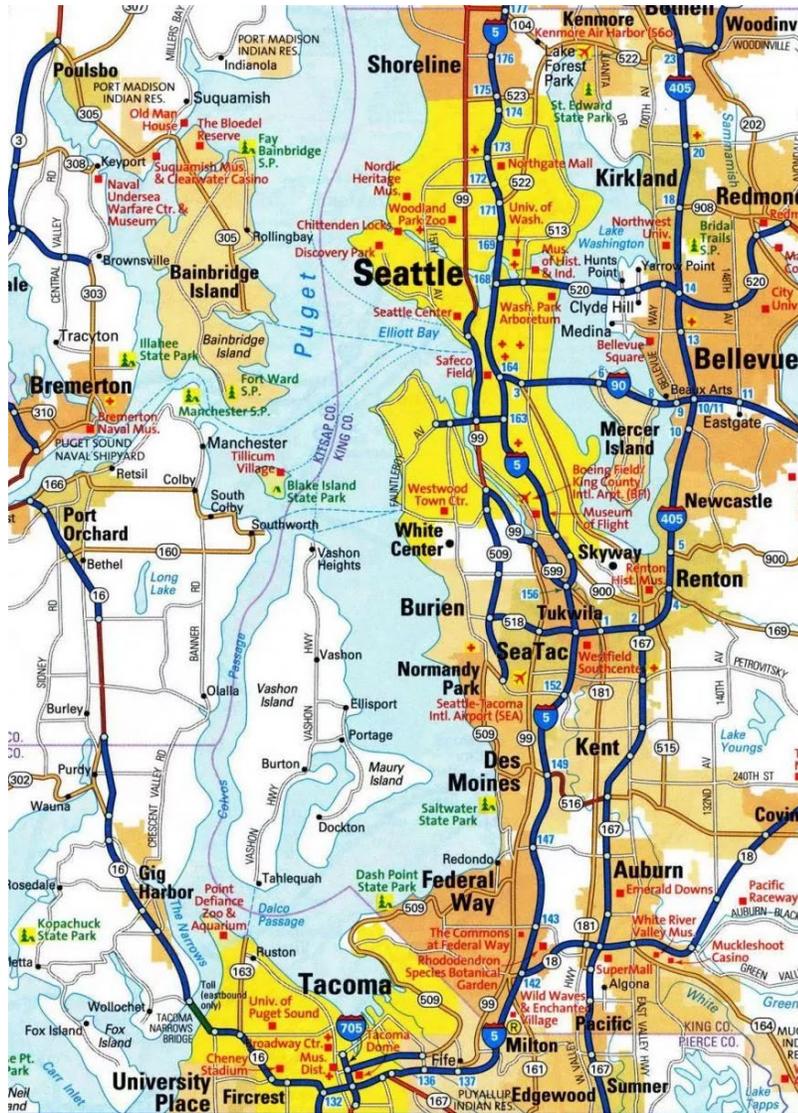


# 2025 Changes to Washington's Estate Tax

- A new applicable exclusion amount
- A new inflation index for the applicable exclusion amount
- New estate tax brackets
- A new applicable deduction amount for qualified family-owned businesses
- A new inflation adjustment for the family-owned businesses applicable deduction amount

# New Applicable Exclusion Amount

# New Inflation Index



## For dates of death Jan. 1, 2014 to Jun. 30, 2025

* Taxable amount	Rate	Tax owed
\$0 to \$1,000,000	10.0%	\$10% of taxable amount
\$1,000,000 to \$2,000,000	14.0%	\$100,000 plus 14% of the amount over \$1,000,000
\$2,000,000 to \$3,000,000	15.0%	\$240,000 plus 15% of the amount over \$2,000,000
\$3,000,000 to \$4,000,000	16.0%	\$390,000 plus 16% of the amount over \$3,000,000
\$4,000,000 to \$6,000,000	18.0%	\$550,000 plus 18% of the amount over \$4,000,000
\$6,000,000 to \$7,000,000	19.0%	\$910,000 plus 19% of the amount over \$6,000,000
\$7,000,000 to \$9,000,000	19.5%	\$1,100,000 plus 19.5% of the amount over \$7,000,000
\$9,000,000 and up	20.0%	\$1,490,000 plus 20% of the amount over \$9,000,000

# New Estate Tax Brackets

## For dates of death July 1, 2025 and after

* Taxable amount	Rate	Tax owed
\$0 to \$1,000,000	10%	\$10% of taxable amount
\$1,000,000 to \$2,000,000	15%	\$100,000 plus 15% of the amount over \$1,000,000
\$2,000,000 to \$3,000,000	17%	\$250,000 plus 17% of the amount over \$2,000,000
\$3,000,000 to \$4,000,000	19%	\$420,000 plus 19% of the amount over \$3,000,000
\$4,000,000 to \$6,000,000	23%	\$610,000 plus 23% of the amount over \$4,000,000
\$6,000,000 to \$7,000,000	26%	\$1,070,000 plus 26% of the amount over \$6,000,000
\$7,000,000 to \$9,000,000	30%	\$1,330,000 plus 30% of the amount over \$7,000,000
\$9,000,000 and up	35%	\$1,930,000 plus 35% of the amount over \$9,000,000



## New Applicable Deduction Amount for Qualified Family-Owned Businesses



## ESSB 5813's Legislative Objective: Funding for Education

# Washington Estate Tax Revenue

<b>Fiscal Years 2020 to 2024 (\$000)</b>					
Source	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024
Estate Tax	\$646,251	\$328,865	\$365,634	\$847,258	\$434,595

<https://dor.wa.gov/about/statistics-reports/business-and-sales-taxes/tax-statistics/tax-statistics-2024>.

# Financial Impact of New Applicable Exclusion Amount, Rates, and Brackets

10-Year Decline  
in Revenue

Fiscal Year 2026	\$ 9,900,000
Fiscal Year 2027	\$29,700,000
Fiscal Year 2028	\$21,800,000
Fiscal Year 2029	\$13,100,000
Fiscal Year 2030	\$ 5,300,000
Fiscal Year 2031	-\$ 6,400,000
Fiscal Year 2032	-\$15,500,000
Fiscal Year 2033	-\$23,400,000
Fiscal Year 2034	-\$31,200,000
Fiscal Year 2034	-\$39,600,000
<b>2026-35 Total</b>	<b>-\$36,300,000</b>

# Pre & Post ESSB 5813 Comparisons

Washington Adjusted Taxable Estate	Prior to July 1, 2025			2026		
	Pre-ESSB 5813 Washington Estate Tax**	Pre-ESSB 5813 Federal Estate Tax	Total Effective Estate Tax	Post ESSB 5813 Washington Estate Tax ***	Post-ESSB 5813 Federal Estate Tax	Total Effective Estate Tax
\$2,750,000	\$55,700	\$0	2.03%	\$0	\$0	0.00%
\$5,500,000	\$439,120	\$0	7.98%	\$322,080	\$0	5.86%
\$9,000,000	\$1,063,330	\$0	11.81%	\$1,052,520	\$0	11.69%
\$50,000,000	\$9,251,400	\$10,703,440	39.91%	\$15,203,400	\$7,918,640	46.24%
\$100,000,000	\$19,251,400	\$26,703,440	45.95%	\$32,703,400	\$20,918,640	53.62%
\$1,000,000,000	\$199,251,400	\$314,703,440	51.40%	\$347,703,400	\$254,918,640	60.26%

\*For simplicity, these amounts assume that no taxable gifts were made during life, all property is Washington situs property, and there are no estate tax deductions other than the IRC 2058 deduction for Washington estate taxes.

\*\* Assumes a death between 1/1/2025 and 6/30/2025.

\*\*\* Assumes a death between 1/1/2026 and 12/31/2026.



# Planning to Minimize Washington's Estate Tax

# Property Situs Planning



# Making Gifts



# Making Gifts

Example: Taxpayer whose estate will be subject to the top Washington estate tax rate makes a gift of \$1,000,000 versus a taxpayer who gives a \$1,000,000 as a bequest. Assume that the donor paid federal gift tax of 40% on the gift.

## Gift Made within 3 years of death:

Gift Amount:	\$1,000,000
Federal Gift Tax Rate:	<u>40%</u>
Federal Gift Tax:	\$400,000

Amount included in Washington Estate:	\$ 400,000
Washington Estate Tax Rate:	<u>35%</u>
Washington Estate Tax:	\$ 140,000

## No Gift Made:

Amount included in Washington Estate:	\$ 1,000,000
Washington Estate Tax Rate:	<u>35%</u>
Washington Estate Tax:	\$ 350,000

Savings of ~\$210,000 (\$350,000-\$140,000)

# Making Gifts - Non-QTIP Spousal Trust

No. of Yrs Gifts Are Made: **30**

Annual Gift: **\$19,000**

Fractional Discount: **0.00%**

Trust Growth Rate: **7.00%**

Inflation Rate for PV Calc: **3.00%**

Combined Federal and State  
Effective Estate Tax Rate: **47.08%**

Total Amount Transferred: **\$570,000**

Amount Removed From Estate: **\$1,920,388**

Tax Savings At Effective Estate Tax Rate: **\$904,119**

Present Value of Estate Tax Savings: **\$372,485**

# Changing Domicile





# Changing Domicile

- Length of time spent in a location
- Expressed intent
- Place of business, profession, or employment
- Location of bank accounts
- Residence and address for federal income and state tax purposes
- Sites of personal and real property owned by the individual
- State of motor vehicle and other personal property registration
- State of motor vehicle driver's license;
- Location of schools attended by children
- State of voter registration
- Location of professional or business licenses
- Payment of in-state tuition
- Location from where financial transactions originate
- Claiming of residence in a state for purposes of obtaining a hunting or fishing license, eligibility to hold public office, eligibility for obtaining a property tax benefit (such as a homestead exemption), or for judicial actions
- Mailing address

# Credit Shelter Trust & Marital Deduction Planning



“Here in Seattle, we plan for everything—rain, taxes, and traffic.

But thanks to great professional advisors like you, at least only two of those are guaranteed.”

- Microsoft CoPilot

