FINAL BILL REPORT
ESSB 5813

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Synopsis as Enacted

Brief Description: Increasing funding to the education legacy trust account by creating a more progressive rate structure for the capital gains tax and estate tax.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Wilson, C., Stanford, Alvarado, Frame, Nobles, Pedersen and Valdez).

Senate Committee on Ways & Means
House Committee on Finance

Background: Education Legacy Trust Account. The Education Legacy Trust Account (ELTA) was created in 2005. The ELTA may be used only for the support of the common schools, expanding access to higher education through funding for new enrollments and financial aid, and other educational improvement efforts.

Capital Gains Tax. The state imposes a 7 percent excise tax on the sale or other voluntary exchange of long-term capital assets by individuals, less a standard deduction of $270,000 for all filers, whether filing as an individual or jointly. The standard deduction is adjusted annually for inflation.

Long-term capital gains or losses are gains or losses from assets held for more than one year. An individual computes the amount of Washington capital gains by making certain adjustments to their federal net long-term capital gains. The tax only applies to capital gains from selling or exchanging capital assets sourced in Washington. The state capital gains tax (CGT) does not apply to the sale or exchange of real estate or assets held in certain retirement savings vehicles, among other exemptions.

All taxpayers must file with the state Department of Revenue (DOR), a CGT return for each taxable year; however, a person with no tax liability is not required to file a tax return. The due date of the state CGT return is the due date for the federal income tax return, unless otherwise required by DOR. The first state CGT returns were due in 2023.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Revenues from the tax, and any associated interest and penalties, are distributed as follows: the first $525 million of state CGT revenues received each year are deposited into the ELTA and the remainder is deposited into the Common School Construction Account. The threshold is adjusted each year by inflation.

Estate Tax. The estate tax is a tax on the right to transfer property at the time of death. The tax is sometimes referred to as a transfer tax. Unlike an inheritance tax, which is tax on the beneficiaries of an estate, the estate tax is on the decedent's estate. A Washington decedent or a non-resident decedent who owns property in this state may owe estate tax depending on the value of their estate. A person living in Washington who inherits property or money does not owe Washington taxes on the inheritance.

The tax applies to all property owned by the decedent on the date of death. The term property includes real estate and other property located in this state, as well as intangible assets owned by a Washington resident, regardless of location. After subtracting certain allowable deductions and a set exclusion amount, the remaining taxable estate is subject to a graduated rate schedule ranging from 10 to 20 percent, depending on the taxable value of the estate.

For decedents with dates of death on or after January 1, 2014, the value of qualifying family-owned business interests (QFOBI) may be deducted from the taxable value of an estate. The QFOBI deduction is limited to the lesser of the value of the QFOBI or $2.5 million. Any amount of QFOBI already included in the farm deduction may not be deducted under QFOBI. An heir to the QFOBI must continue the trade or business for three years from the date of death. Failure to meet this requirement for the QFOBI will result in additional tax due. The value of farms and timberlands may also be deducted from the taxable value of an estate so long as certain requirements are met. This deduction applies to land, farm structures, and farming equipment. It is an unlimited deduction and an heir to the farm does not have to continue farming in order for the estate to take the deduction.

The current exclusion amount is $2.193 million. The exclusion amount was adjusted annually based on the Consumer Price Index (CPI) for the Seattle-Tacoma-Bremerton metropolitan area as calculated by the United States Bureau of Labor Statistics (USBLS). The CPI for this statistical area is no longer calculated by the USBLS, and as a result, the exclusion amount for the estate tax has not changed since 2018.

The proceeds of the estate tax are deposited into ELTA.

Summary: Beginning with tax year 2025 and tax collection in calendar year 2026, the state CGT equals:

- 7 percent multiplied by an individual's Washington capital gains of $1 million or less; and
- 9.9 percent multiplied by an individual's Washington capital gains in excess of $1 million.

For estates of decedents dying on or after July 1, 2025, the exclusion amount is increased to $3 million and the language providing for annual adjustment is updated to reflect the change in the CPI for the Seattle metropolitan area.

For estates of decedents dying on or after July 1, 2025, the QFOBI deduction amount is increased to up to $3 million and provides annual adjustments based on the CPI.

The rates for Washington taxable estates are increased as follows for estates of decedents dying on or after July 1, 2025:

Washington Taxable Estate Value	**Current Rate**	**New Rate**
$0 to $1,000,000	10%	10%
$1,000,000 to $2,000,000	14%	15%
$2,000,000 to $3,000,000	15%	17%
$3,000,000 to $4,000,000	16%	19%
$4,000,000 to $6,000,000	18%	23%
$6,000,000 to $7,000,000	19%	26%
$7,000,000 to $9,000,000	19.5%	30%
$9,000,000 and up	20%	35%

A qualified nonfamilial heir may be eligible for the estate tax deduction for a farm. A qualified nonfamilial heir means an employee of the farm who materially participated in farming operations on the farm and who acquired the property, or to whom the property passed from the decedent.

Votes on Final Passage:

Senate	27	21	
House	53	45	(House amended)
Senate	27	21	(Senate concurred)

Effective: May 20, 2025