



D|A|DAVIDSON

Washington Estate Tax:

CURRENT RULES & PLANNING STRATEGIES



Maximizing the benefit of the legacy that you have built with the people and purposes that are important to you should include consideration of the potential imposition of Washington estate or inheritance taxes. The degree to which your estate may be reduced by estate or inheritance taxes depends upon the value of your taxable estate. With proper planning, strategies can be implemented to reduce your taxable estate while also ensuring your estate ends up in the hands of those intended.

In broad terms, your estate can be subject to Washington state's progressive estate tax range of 10% - 35% of the value of your estate that exceeds the state estate exemption, which is **\$3,000,000** for people who pass in 2025. State estate taxes are generally due **nine (9) months** from the date of a person's passing, which underscores the importance of planning if your estate exceeds the estate exemption amount of is \$3,000,000. A plan that estimates future estate tax liability and identifies the funding sources for those taxes can save a person's family the time, trouble, and stress of selling assets under duress to raise the funds necessary to pay estate taxes.

CURRENT RULES:

Are you subject to Washington Estate Taxes?

Your estate is subject to estate tax if the value of that estate exceeds the applicable exemption amount. The Washington exemption amount is indexed to state inflation to better reflect the purchasing power of your dollar. The exclusion has increased from 2024's amount of \$2,193,000 to 2025's amount of \$3,000,000. The table below illustrates Washington's marginal tax for your estate, post all allowable deductions, including the current applicable exclusion amount of \$3,000,000.

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

FOR EXAMPLE: Let's say your estate is worth \$9.1 million, with the exemption of \$3,000,000, your taxable estate equals \$6,100,000. Now find what range this amount falls under in the left column. From there, you may notice that your base taxes owed are \$1,070,000. The bottom of your bracket threshold is \$6 million, now subtract that from your table estate (\$6,100,000) to reach \$100,000. That \$100,000 multiplied by your marginal rate of 26% equals \$26,000. That sum of \$26,000 plus your base tax owed of \$1,070,000 leaves you with a tax burden of \$1,096,000 that could be owed after your death.

-Washington Department of Revenue

PLANNING STRATEGIES:

How to reduce your Washington Estate Tax Liability

- **1. ANNUAL EXCLUSION GIFTS:** In 2025, you can give each person \$19,000 of cash, property, or both per year without reducing your estate and gift tax exemption. The \$19,000 amount is also indexed for inflation. These gifts can be given to an unlimited number of family recipients. Parents often each make annual exclusion gifts each year to the same child or grandchild, thereby doubling the estate tax savings.
- **2. CHANGING FORM OF OWNERSHIP:** Valuation Discounts to Reduce Size of Gross Estate. The value of an asset can vary in large part on how and with whom you own your assets. Fractional interests in real estate and less than 50% interests in closely held businesses often qualify for valuation discounts for Federal estate and gift tax.
- **3. GENERATION SKIPPING TRUSTS:** If your legacy is of sufficient size to create estate tax exposure for you when you pass and for your children when they pass, thought might be given to the creation of generation skipping trusts. With these trusts, the assets that the oldest generation contributes to the trust can be exempt from estate, gift, and generation skipping tax when that person passes and when her children pass.
- **4. QUALIFIED PERSONAL RESIDENCE TRUSTS:** A person can use a qualified personal residence trust to transfer up to two (2) personal residences at a discounted rate. The amount of the discount depends upon several variables, but the ability to transfer personal residences at discounted values for estate, gift, and generation skipping taxes can help to reduce estate tax exposure, while also preserving the ability to remain in the residence.
- **5. IRREVOCABLE LIFE INSURANCE TRUSTS:** If your estate contains illiquid assets, then you might consider creating an Irrevocable Life Insurance Trust (ILIT) to create the liquidity your estate may need when you pass. A properly drafted ILIT excludes the death benefit that is paid to the ILIT on your passing from estate tax. As life insurance, the death benefit is already income tax deferred. Purchasing a paid-up policy, while potentially expensive, allows you to utilize unused portions of your estate, gift, and generation skipping tax exemptions. This has the benefit of potentially reducing your estate taxes today while providing a death benefit to your beneficiaries.
- **6. GRANTOR RETAINED ANNUITY TRUSTS:** With a grantor retained annuity trust (GRAT) you can transfer property, typically marketable securities, to a trust at their then current fair market value and retain for yourself the right to receive an annuity amount that cannot be less than an interest rate set by the Internal Revenue Code. If the transferred securities outperform the annuity rate, then the transferred securities can be transferred to the ultimate beneficiaries of the GRAT and only use estate, gift, and generation skipping tax exemption equal to the value of the securities on the date that you create the GRAT. In other words, you can transfer post gift appreciation in the securities without using any additional estate, gift, and generation skipping tax exemption. If the securities underperform the annuity rate, then the securities are transferred back to you, effectively leaving you in the same position as you were before you transferred the securities to the GRAT.
- **7. ESTABLISHING TRUSTS IN STATES WITHOUT STATE ESTATE TAX:** If you happen to reside in a state that imposes estate tax or own property in a state that imposes state estate tax, then you may consider establishing trusts in jurisdictions that do not impose state estate tax and, if possible, states that also do not impose state income tax. Nevada is one (1) state that ticks both boxes: no state estate tax, no state income tax.

NEXT STEPS: Please call your D.A. Davidson financial professional or any one of our experienced trust officers to have a more in-depth conversation about your estate plan.



D|A DAVIDSON
WEALTH MANAGEMENT

*We are here to listen, guide and help so that you and your family can lead a comfortable, secure and fulfilling life.
Call your D.A. Davidson financial professional or any one of our experienced trust officers to get started.*