



## Fact Sheet: Washington's Estate Tax October, 2006

**History:** Washington has had some form of inheritance or estate tax since 1901. From 1982 to 2001, Washington's estate tax was fully deductible from the amount owed in federal estate taxes. In 2001, Congress voted to lower the federal tax and phase out the state estate tax credit. In 2005, Washington adopted a new estate tax law that is not affected by phase out of the federal credit or by possible future changes to the federal estate tax.

Washington's estate tax is expected to generate about \$100 million per year, on average. The revenue is dedicated to the Education Legacy Trust Fund, which pays for lower class sizes, help for struggling students, and additional enrollments in higher education.

### How the Washington Estate Tax Works:

- Filing threshold – \$2 million
- Filing deadline – 9 months after death (extensions and installment payments permitted)
- Deductions from taxable estate:
  - \$2 million
  - Farm or timber land and equipment equal to more than half of estate value
  - Bequests to spouse (unlimited)
  - Federal deductions, including funeral expenses, indebtedness, charitable contributions, and property taxes
- Tax rates:
  - 10% on first \$1 million of taxable value after deductions
  - graduated up to 19% on taxable value over \$9 million
  - average tax for estates valued from \$2 million to \$3 million is \$40,000 (effective rate of 1.5%)
  - average tax for estates valued over \$20 million is \$7.86 million (effective rate of 17.4%)

### Who is Affected?

- About 200 estates per year will owe estate taxes with the \$2 million threshold, out of 45,000 people who die annually in Washington – less than half of 1% of estates.
- A married couple with \$4 million can avoid estate taxes altogether with minimal planning.
- 2/3 of the estates with taxable assets in Washington are valued between \$2 million and \$4 million; 9% have more than \$10 million.

### Small Business:

- Of estates over \$2 million, a family business makes up over half the value in about 8 estates per year, on average, according to a Washington Department of Revenue analysis of estate tax returns from 2002 to 2004.
- If a family business constitutes 35% or more of an estate, the portion of the estate tax owed on the business assets may be deferred for 5 years, then paid in installments over 10 years. (WAC 458-57-135 and IRC 6166)