

## Washington State Estate Tax Laws Could Affect Estate Transfers

By Jode Beauvais

As a result of the federal tax reform bill, many taxpayers are no longer subject to federal estate tax. But here in Washington, taxpayers are not so fortunate. Being aware of the Washington state estate tax laws is more important than ever—especially if you're part of an estate transfer.

### Overview

Currently, if you are single and your estate is over \$2,193,000, or you are married and your estate tax is over \$4,386,000, you'll be taxed on the value of your assets at a graduated rate of 10 percent to 20 percent.

But if you are transferring your estate, a couple additional tax factors come into play. Estate owners can consider the following transfer options to protect their wealth.

### Tax Step-Ups and Gifting

When assets pass at the time of death, they receive a step-up to fair market value. The step-up creates a new basis for the beneficiary of the asset. But if an asset is given away during life, there is no step-up and the beneficiary carries over the basis from the individual who gave the gift.

It's important for estate owners to understand the difference between the benefit of getting a tax step-up for federal purposes versus the benefit of giving for Washington estate purposes.

Here are two examples of how the two transfer approaches play out.

#### **Example One: Step Up at Death**

An unmarried taxpayer owns land with a basis of \$1,450,000 at time of death. The fair market value of the property at time of death is \$5 million. The asset then passes to the taxpayer's daughter, resulting in her new basis for the property being stepped up to \$5 million.

In this case, the taxpayer would not be subject to federal estate tax, but would be subject to Washington estate tax. If the land is the unmarried taxpayer's only asset, he would owe roughly \$361,000 in Washington estate tax.

If the daughter holds the land for one year and then sells for \$6 million, she would have a long-term capital gain of \$1 million (\$6 million sales price minus \$5 million stepped-up basis) and federal income tax of \$238,000, which is calculated as \$1 million x 23.8 percent capital gain rate.

In total, the family would pay \$599,000 in combined Washington estate tax and federal income tax.

### **Example Two: Giving During Life**

This example has the same facts as the example above, except the taxpayer gives the property to his daughter during his life. She receives the property with a carryover basis of \$1,450,000. The taxpayer would no longer own any assets and would not be subject to federal or Washington estate tax.

If the daughter then sells the property for \$6 million, she would have a long-term capital gain of \$4,550,000 (\$6 million sales price minus \$1,450,000 original basis) and federal income tax of \$1,082,900, which is calculated as \$4,550,000 x 23.8 percent capital gain rate.

In this scenario, the family would incur \$483,900 more in tax by doing the gift instead of holding the asset until death and receiving the step-up.

### **Take-Away**

When conducting estate planning, it's important for Washington residents to understand the make-up of an estate and the long-term goals of each asset. And because Washington state's estate taxes apply to so many more people than will be subject to federal estate taxes it's still necessary to include the federal income tax ramifications to allow for efficient overall wealth planning—even when the estate is not subject to federal estate tax.

*[Jode Beauvais, CPA, has been in public accounting since 1995. She specializes in assisting business owners and other individuals with complex income and estate tax planning needs. Reach her at [jode.beauvais@mossadams.com](mailto:jode.beauvais@mossadams.com) or 253-284-5229].*

*Assurance, tax, and consulting offered through Moss Adams LLP. Investment advisory services offered through Moss Adams Wealth Advisors LLC. Investment banking offered through Moss Adams Capital LLC.*