

# SENATE BILL REPORT

## SB 5940

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As of May 31, 2013

**Title:** An act relating to adjusting the applicable exclusion and tax rates on estate tax.

**Brief Description:** Adjusting the applicable exclusion and tax rates on estate tax.

**Sponsors:** Senator Braun.

**Brief History:**

**Committee Activity:** Ways & Means: 5/31/13.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Juliana Roe (786-7438)

**Background:** Washington created a stand-alone estate tax in 2005. The tax took effect May 17, 2005. The current Washington estate tax is imposed on every transfer of property located in Washington at the time of death of the owner. 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.

The measure of the tax is based on the taxable estate as determined under federal law, as it existed on January 1, 2005. For Washington decedents dying on or after January 1, 2006, a deduction of \$2 million is allowed from the taxable estate. The value of property used for qualifying farming purposes is also deductible.

After subtracting any applicable deductions (e.g., the \$2 million statutory deduction and the value of qualifying farm property), the remaining Washington taxable estate is subject to a graduated rate schedule ranging from 10 to 19 percent.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Proposed Substitute):** The applicable exclusion amount is increased by \$1 million each year starting in 2015 until it reaches the federal exclusion amount, as it existed on January 1, 2013, for decedents dying in calendar year 2017 and thereafter. The federal exclusion amount established on January 1, 2013, was \$5.25 million and increases annually by the national consumer price index.

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The tax rate imposed on the transfer of property in the decedent's estate is reduced by 5 percent per year, over a five-year period, beginning in calendar year 2018 and ending in calendar year 2022, culminating at 75 percent of the current tax rate.

**Appropriation:** None.

**Fiscal Note:** Requested on May 29, 2013.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: Washington State should increase the estate tax threshold or repeal the estate tax altogether. It would benefit small businesses.

CON: To not consider moving forward with legislation that fixes the Bracken matter and include portions that limit the state's ability to receive revenue is illogical. The Legislature needs to act quickly to avoid any refunds due to the *Bracken* decision. These types of estate tax reforms make the estate tax more regressive. To simply do a rate reduction at this point in time to one of the few dedicated funds for basic education is inappropriate.

OTHER: The Department of Revenue (DOR) does not have a position on this bill, but does have a concern in that the bill does not provide a clarification to the *Bracken* decision.

**Persons Testifying:** PRO: Amber Carter, Association of Washington Businesses; Patrick Connor, National Federal of Independent Business.

CON: Lonnie Johns-Brown, League of Women Voters; Nick Federici, Our Economic Future Coalition; Julie Murray, Office of Financial Management, Office of the Governor.

OTHER: Drew Shirk, DOR.