

SENATE BILL REPORT

SB 5405

As of February 4, 2025

Title: An act relating to updating the inflation adjustment for the estate tax exclusion amount.

Brief Description: Updating the inflation adjustment for the estate tax exclusion amount.

Sponsors: Senators Schoesler, Christian, Dozier and Warnick.

Brief History:

Committee Activity: Ways & Means: 2/04/25.

Brief Summary of Bill

- Updates the inflation index for the annual adjustment to the estate tax exclusion amount.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Alia Kennedy (786-7405)

Background: 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.

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.

Applicable Exclusion Amount. The current applicable exclusion amount is \$2.193 million. The exclusion amount is determined annually by the Department of Revenue (DOR) using the consumer price index (CPI) for the Seattle-Tacoma-Bremerton metropolitan area. The adjustment is determined by multiplying \$2 million by one plus the percentage by which the most recent October CPI exceeds the CPI for October 2012.

As of January 1, 2018, the United States Bureau of Labor and Statistics no longer calculates the CPI for the Seattle-Tacoma-Bremerton metropolitan area. Instead, the Bureau of Labor and Statistics created the Seattle-Tacoma-Bellevue Core Based Statistical Area for the Puget Sound region. As a result, the applicable exclusion amount has not been adjusted since 2018.

Tax Preference Review Requirements. State law provides a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics the Joint Legislative Audit and Review Committee (JLARC) can use to review the effectiveness of the preference in achieving its stated public policy objectives. Tax preferences must be reviewed by JLARC at least once every ten years, unless state statute requires otherwise. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided or the tax preference is exempted from expiration.

Summary of Bill: The applicable exclusion amount for estates of decedents dying before January 1, 2026, is \$2.193 million.

Beginning in calendar year 2026, and each calendar year thereafter, the applicable exclusion amount must be adjusted for inflation using the CPI for all urban consumers, all items, for the Seattle metropolitan area as calculated by the United States Bureau of Labor Statistics.

The adjustment is determined by multiplying \$2.193 million by the sum of one plus the percentage by which the most recent October CPI exceeds the CPI for October 2024.

The update to the inflation index for the annual adjustment to the estate tax exclusion amount is permanent and not subject to tax preference performance review or automatic expiration.

Appropriation: None.

Fiscal Note: Requested on January 21, 2025.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: This bill simply corrects the inflation index for the applicable exclusionary amount. Because the inflation index has been obsolete for so long the estate tax has reached a category of people who may have made wise investments but are otherwise considered wealthy.

Persons Testifying: PRO: Senator Mark Schoesler, Prime Sponsor.

Persons Signed In To Testify But Not Testifying: No one.