

## April 3, 2023 – Wealth Planning Commentary

### WA capital gains tax sets precedent for other states

Last month the Washington Supreme Court upheld a 2021 law that instituted a personal capital gains tax at the state level. Washington's new 7% capital gains tax applies to the sale or exchange of long-term capital assets such as stocks, bonds, and business interests. There is a \$250,000 annual exemption and the tax excludes real estate, retirement accounts, and types of small businesses. Although the tax applies to individuals rather than businesses, individual business interests in pass-through entities are included.

Washington state does not currently levy a personal income tax. The new 7% capital gains tax went into effect last year and the first payments will be due this month. Payments are estimated to affect 7,000 households -- the wealthiest in WA state. The government plans to use the revenue to fund childcare and education costs.

Notably, the WA Court's decision appears to open the door for future excise and income taxes in Washington State -- potentially at the city, county, and state levels. There will be plenty of challenges to the ruling, and there are still outstanding questions about how the tax will apply to certain types of transactions.

In January, we wrote about [progressive states ramping up efforts to raise taxes on the wealthy](#). Other states, such as California and New York, are considering additional taxes on their wealthiest taxpayers. Given the success in Washington, there is now a precedent that could encourage other states to create new tax laws targeting wealthy individuals. We will keep you posted as more information becomes available. Please reach out to your Wealth Manager with any questions.

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