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Larry's Tax Law

Taxes in Washington State May Be Rising

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Many individuals, wanting to liberate their wallets from taxes, have moved to states like Washington, Nevada, Texas, Florida and other states that have friendly state and local tax regimes. This trend, especially for residents of high-tax states such as New York, Oregon and California, has increased in recent years.

Until 2022, Washington had been a top choice for many individuals seeking a better tax climate. Effective January 1, 2022, however, Washington lawmakers adopted a capital gains tax, causing several residents to look for residency outside of Washington, including billionaire Jeff Bezos who moved to Florida. Additionally, effective January 1, 2022, the city of Seattle adopted a new payroll tax on certain businesses with payrolls of $7 million or more. On top of that, effective January 1, 2025, the city of Seattle upped the ante, adopting an additional payroll tax of 5% on businesses with high-earning employees (5% of annual compensation paid to any employee in excess of $1 million who is based at a business location within the city).

Rather than let the seas calm, Washington lawmakers are once again changing the tax terrain in the state. Several tax bills have been passed by the legislature and are on Governor Ferguson's desk waiting to be signed into law. Whether these bills will become law is yet to be seen.

As a side note, a few Washington jurisdictions have decided to make small increases in their local tax rates. That news, alone, should not be cause for alarm. However, one has to wonder whether these rate changes, along with the new tax legislation (if signed into law), will fare well for Washington in the choice-of-residency lottery going forward.

The lyrics of the 1961 hit song written by Percy Mayfield and performed by Ray Charles may be the sentiment of many Washingtonians after they learn of all of the changes to their state and local tax systems.

"Hit the road Jack and don't you come back no more."

Time will tell whether these tax changes are going to cause Washington residents to shed their residency, moving to states where they find greener tax pastures, and whether new businesses or existing businesses will choose Washington as a place where they will do business.

New Washington Tax Legislation

The following is a summary of a plethora of tax changes on the horizon in the state of Washington. While the list seems exhaustive, I likely have not covered every tax law change

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as there were a vast number of bills passed by the legislature this session, a number of which may contain tax changes but are not necessarily focused on taxes.

House Bill 2081

HB 2081 passed the House of Representatives and the Senate on April 26, 2025. It was delivered to Governor Ferguson the next day and is waiting for him to sign the bill into law.

Washington's primary business tax is the Business and Occupation Tax ("B&O Tax"). In general, businesses operating in Washington pay B&O Tax on their gross income. There are, however, some limited credits that may apply against the B&O Tax (e.g., rural county, high technology and multiple activities tax credits). Further, the law contains a myriad of activities that are exempt from the tax.

B&O Tax rates vary depending upon the activities of a business. For example, the B&O Tax rate is currently 0.471% for retail activities; 0.484% for manufacturing, wholesaling and extracting activities; and 1.5% for service and other activities when the taxpayer's taxable service and other activities income is less than $1 million in the prior year and 1.75% for service and other activities income when the taxpayer's income is $1 million or more in the prior year.

Additionally, some taxpayers are subjected to B&O Tax surcharges. For example, certain financial institutions are subjected to a 1.2% tax surcharge on service and other activities income. Also, certain advanced computing companies are subjected to a 1.22% tax surcharge on service and other activities. For this purpose, an advanced computing company is generally a business that designs, develops or modifies software or computer hardware.

HB 2081 increases the B&O Tax for certain business activities in Washington.

HB 2081, in a nutshell, does the following:

It increases the state B&O Tax rate (commencing in 2027):

1. from 0.484% to 0.5% for standard manufacturing, extracting and wholesaling;
2. from 0.471% to 0.5% for standard retailing and radioactive waste clean-up;
3. from 0.484% to 0.5% for research and development by non-profits;
4. from 0.484% to 0.5% for insurance agents, childcare, treatment of chemical dependency and services for salmon canners;
5. from 1.5 % to 1.8% for contests of chance-gambling;
6. from 0.484% to 0.5% for the manufacturing, wholesaling and retailing of commercial airplanes or components of such airplanes;
7. from 0.484% to 0.5% for both the manufacturing and retailing of tooling, specifically for use in manufacturing commercial airplanes, or components of such airplanes;

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3. from 0.484% to 0.5% for printing materials-other than newspapers, and of publishing periodicals or magazines; highway contractors; cold storage warehousing; radio or television broadcasting; and government contractors; and
4. from 1.75% to 2.1% for the service and other activities B&O tax rate for businesses with gross income of over $5 million. Businesses with gross income between $1 million and $5 million would remain subject to the 1.75% tax rate.

It increases the existing B&O Tax surcharges and adds a new surcharge as follows:

1. from 1.2% to 1.5% for specified financial institutions (i.e., institutions with annual net income of $1 billion or more) (commencing October 1, 2025);
2. from 1.22% to 7.5 % for certain advanced computing companies and raises the cap on the tax from $9 million to $75 million (commencing January 1, 2026); and
3. adds a surcharge for taxpayers with Washington taxable income over $250 million. The new surcharge only applies to taxable income over this threshold. Certain taxpayer activities are exempt from this new surcharge, including businesses primarily engaged in farming or as an eligible apiarist and businesses subject to the advanced computing surcharge. Additionally, taxable income from certain activities is excluded from the $250 million threshold, including wholesaling or retailing activities of products manufactured by the taxpayer; and sales of food, food ingredients, food stamp purchases, prescription drugs, timber, timber products, wood products, fuel and petroleum products processed by an affiliated business in Washington. This new surcharge is set to go into effect on January 1, 2026, but it sunsets on December 31, 2029.

Washington lawmakers estimate HB 2081 will impact approximately 191,000 taxpayers. The new tax rates are projected to generate an additional $5.6 billion in tax revenue over four years.

House Bill 2077

HB 2077 was passed by the House and Senate and presented to Governor Ferguson on April 27, 2025. It is waiting for him to sign the bill into law.

HB 2077, which is dubbed the "Tesla Tax," creates a tax on the sale of electric vehicle credits between automakers. It appears the only taxpayer impacted by this new tax is Tesla because it is currently the only automaker that has electric vehicle credits for sale in Washington. Lawmakers project this new tax will generate $54.5 million for the current operating budget.

Senate Bill 5814

SB 5814 was passed by the Senate on April 24, 2025, and signed by the Senate President the next day. It was passed by the House and signed by the Speaker on April 26, 2027. SB 5814 was presented to Governor Ferguson on April 27. It is waiting for him to sign the bill into law.

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Like SB 2081, this piece of legislation is projected to raise significant tax revenues. Lawmakers expect the law to raise more than $2.7 billion over four years. This bill, if signed into law, will go into effect on January 1, 2026.

SB 5814 changes the Washington tax playing field in four major ways:

1. It broadens the services to which the retail sales and use tax and the retail B&O Tax apply to include: information technology technical consulting services; information technology training services and technical support; custom website development services; custom software and customization of prewritten computer software; investigation, security services, security monitoring services, and armored car services; temporary staffing services; and advertising services. Additionally, it eliminates the current exclusion for certain digital automated services (i.e., any service that primarily involves the application of human effort by the seller; live presentations; advertising services and digital processing services), rendering them a retail sale subject to the sales and use tax as well as the B&O Tax. The bill excludes certain services (i.e., temporary staffing services used by hospitals; telehealth and telemedicine services; and services when the sale is between members of an affiliated group) from the retail sales and use tax and retail B&O Tax.
2. It expands the definition of tobacco products to include products that contain nicotine, whether derived from tobacco or created synthetically. These products are subject to the tobacco products tax.
3. It imposes an additional tax on cigarettes of 10 cents per cigarette, or $2.00 per pack.
4. It imposes a one-time prepayment of the retail sales tax for certain businesses. Taxpayers who file a monthly combined excise tax return and have $3 million or more taxable retail sales during calendar year 2026 must make a one-time prepayment of state sales tax collected in June 2027. The prepayment of state sales tax is due on June 25, 2027, and must be equal to 80% of the state sales tax collected and remitted for the June 2026 reporting period. The remaining tax liability is due on or before July 26, 2027. There is a penalty of 10% of the amount due for non-complying taxpayers.

Senate Bill 5813

SB 5813 was passed by the Senate on April 24, 2025, and signed by the Senate President the next day. It was passed by the House and signed by the Speaker on April 26, 2027. SB 5814 was presented to Governor Ferguson on April 27. It is waiting for him to sign the bill into law.

In a nutshell, SB 5813 adds another level of capital gains tax to the capital gains tax regime made into law by Washington lawmakers, effective January 1, 2022. Under the capital gains tax, a 7% tax is imposed on capital gains (with certain exceptions) over $270,000 (adjusted for inflation). SB 5813 tacks on an additional 2.9% tax on capital gains over $1 million.

SB 5813 also makes changes to the Washington estate tax. For estates of decedents dying after June 30, 2025, the estate tax exclusion is increased from $2.193 million to $3 million (and indexed for inflation). Along with that good news, the Washington estate tax rates will rise under SB 5813, effective July 1, 2025,

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as follows:

Washington Taxable Estate Value	Current Rate	New Rate
$0 to $1,000,000	10%	10%
$1,000,000 to $2,000,000	14%	15%
$2,000,000 to $3,000,000	15%	17%
$3,000,000 to $4,000,000	16%	19%
$4,000,000 to $6,000,000	18%	23%
$6,000,000 to $7,000,000	19%	26%
$7,000,000 to $9,000,000	19.5%	30%
$9,000,000 and up	20%	35%

Lawmakers project SB 5813 will generate over $321 million during the next budget period.

Senate Bill 5794

SB 5794 was passed by the Senate on April 24, 2025, and signed by the Senate President the next day. It was passed by the House and signed by the Speaker on April 26, 2027. SB 5794 was presented to Governor Ferguson on April 27. It is waiting for him to sign the bill into law.

SB 5794 repeals what lawmakers call "tax breaks," which the Washington Department of Revenue reports are used by approximately 15,000 Washington taxpayers.

Commencing January 1, 2026, HB 5794 will repeal or sunset the following: the B&O Tax deduction for interest on real estate loans; the prescription drug resellers preferential B&O Tax rate; the insurance producers, title insurance agents, and surplus line brokers preferential B&O Tax rate; the precious metals and bullion B&O Tax and sales and use tax exemptions;

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the home energy assistance credit; the dentistry prepayments insurance premiums tax exemption; the international investment management services preferential B&O Tax rate; the international services B&O Tax credit; and the international banking facilities B&O Tax exemption.

Additionally, beginning October 1, 2025, if a state-chartered credit union merges with or acquires a bank regulated by the Washington Department of Financial Institutions, the credit union will no longer be exempt from the B&O Tax. The B&O Tax will be 1.2% of the gross income of the state-chartered credit union. Last, beginning April 1, 2026, the rental or lease of individual self-service storage space at self-storage facilities, regardless of duration, will be subject to B&O Tax at the services and other activities classification at a rate of 1.5% or 1.75%.

HB 5794 is expected to generate over $148 million during the next budget period.

Senate Bills 5161, 5801, 5802

SB 5161 was passed by the Senate and signed by the Senate President on April 27, 2025. It was passed by the House and signed by the Speaker on that same day. SB 5161 was presented to Governor Ferguson on April 28. It is waiting for him to sign the bill into law.

SB 5801 was passed by the Senate on April 25, 2025, and signed by the Senate President on April 26, 2025. It was passed by the House and signed by the Speaker on April 26, 2025. SB 5801 was presented to Governor Ferguson on April 27. It is waiting for him to sign the bill into law.

SB 5802 was passed by the Senate on April 25, 2025, and signed by the Senate President that same day. It was passed by the House and signed by the Speaker on April 26, 2025. SB 5802 was presented to Governor Ferguson on April 27. It is waiting for him to sign the bill into law.

These bills are focused on transportation and provide for appropriations of the transportation taxes and fees. Additionally, SB 5801 increases a variety of transportation taxes and fees, including:

1. A 6-cent per gallon increase in the state gasoline tax (indexed for inflation).
2. A 3-cent increase in the state diesel tax (indexed for inflation).
3. A $30 per ton fee on the weight of heavy-duty trucks.
4. An increase in the motor vehicle sales tax from 0.3% to 0.5%.
5. An 8% tax on the portion of the cost of vehicles over $100,000 (indexed for inflation).
6. A 10% tax on non-commercial aircraft to the extent the cost is over $500,000 (indexed for inflation).
7. An additional surcharge on the sale of electric bicycles.
8. A new assessment on large events (venues of 17,000 or more) of $1 per attendee.
9. An increase in the rental car tax.

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The change that stands out the most among the myriad of transportation-related tax changes is the gasoline tax. The increase brings the Washington gasoline tax up to 55.4 cents per gallon, making it one of the highest state gasoline taxes in the country.

Local Sales and Use Tax

The Washington Department of Revenue recently announced changes in certain local sales and use tax rates, effective July 1, 2025:

1. San Juan County will decrease its sales tax rate by 0.0015, from the current rate of 2.0% (making the combined state and local rate 8.35%).
2. The City of Stevenson will increase its sales tax rate by 0.003, making the total city/county sales tax rate 1.5% (which when added to the state sales tax rate amounts to 8%).

Conclusion

The tax tides in Washington state may be rising. Whether the changes to Washington state and local taxes (if signed into law) will impact individual residency tax planning or whether they will impact the decision of businesses relative to where they locate operations is yet to be seen. In that regard, the lyrics from Bob Marley & The Wailers song, *High Tide or Low Tide,* sum up the situation well:

"High tide or low tide, I'll be by your side."

Time will tell how these changes to the Washington state and local tax systems, if signed into law, will impact residency and business location decisions. For some, they will remain by Washington's side; others may move their residencies and/or businesses elsewhere.

One last note. It is important to understand, even businesses that have no physical presence in Washington may be subject to the state's tax regimes. So, regardless of physical operational location, a good understanding of the state and local tax laws is necessary.

Posted in Legislation, State and Local Tax, Tax Laws

Tagged as Business and Occupation Tax (B&O Tax), capital gains tax, Sales and Use Tax, Washington Governor Bob Ferguson, Washington state

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