

# 5 TAXES

## YOU NEED TO KNOW THIS WEEK



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*Last night and this morning, Olympia budget leaders introduced a sweeping new package of tax proposals that [will be heard in committee on Wednesday.](#)*

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## [1. Capital Gains & Expense Tax](#)

A new tax proposal in Olympia would significantly increase Washington's top capital gains and estate tax rates, positioning the state among the highest in the nation on both fronts.

The bill builds on the existing 7% capital gains tax by adding an additional 2.9% surcharge on gains above \$1 million. This would bring Washington's top marginal rate to 9.9%, trailing only California, New York, New Jersey, and Washington D.C. — all states that have experienced net domestic outmigration in recent years. While the current tax is projected to bring in roughly \$500 million annually, the new surcharge could raise up to an additional \$200 million per year.

On the estate tax side, the bill increases the exclusion threshold from \$2.193 million to \$3 million, and ties future increases to inflation using a standard index. This change would reduce tax liability for estates up to roughly \$9 million — saving as much as \$140,000 for a \$4 million estate. However, for estates valued above that level, the bill introduces a steep increase in rates.

Under current law, the top marginal rate is 20% for estates valued at \$11.193 million or more. The proposal would raise that top rate to 35% for estates exceeding \$12 million, making Washington's estate tax the highest in the country.

[More Information](#)



## [2. Property Tax](#)

**SB 5812** proposes sweeping changes to Washington’s property tax structure and school funding formula.

As a companion to **HB 2049**, **SB 5812** would increase property taxes through three key mechanisms. First, it would raise the state’s and local governments’ property tax levy growth limits from 1% annually to 3%. Second, it would increase the per-pupil funding cap for local school district levies. Starting in calendar year 2026, districts would be allowed to collect an additional \$500 per student, with further increases of 3.3% above inflation each year through 2030.

The fiscal impact is significant, and the proposal is projected to raise more than \$800 million over the state’s four-year budget outlook.

Currently, most districts face a per-pupil levy cap of approximately \$3,150 (with Seattle operating under a different formula). Under SB 5812, that cap would rise to \$5,035 by 2031 – a nearly 60% increase. If state funding does not increase at a similar pace, this measure would effectively shift a greater share of K-12 education funding burden to local property taxpayers.

In addition to the tax changes, the bill includes several key K-12 policy provisions, such as expanding Local Effort Assistance (LEA) and increasing special education funding.

[About the Proposal](#)



### [3. Zero Emission Vehicle Credits](#)

A newly introduced bill, [SB 5811](#) (companion to [HB 2077](#)), proposes a novel excise tax targeting automakers who profit from surplus credits under Washington's Zero-Emission Vehicle (ZEV) Program.

The legislation establishes a new tax on revenue generated from the sale, banking, and pooling of surplus ZEV credits: Credits that automakers earn by exceeding the state's mandated electric vehicle sales targets. Companies falling short of these mandates can either purchase credits from those with a surplus, or face penalties.

As the ZEV mandate phases in, requiring 100% of new vehicle sales to be electric (with limited hybrid allowances), these credits are expected to become significantly more valuable.

According to the bill's fiscal estimates, the proposed tax would raise approximately \$280 million over the next four years. Of that total, \$200 million would be directed to the state's general fund, while \$80 million would support the Electric Vehicle Incentive Account.

The measure primarily affects companies profiting from the ZEV credit market — most notably manufacturers like Tesla, which earned more than half of all ZEV credits issued in 2023.

[Read the Bill](#)



#### [4. Targeted Sales Tax on Services](#)

Late last night, [SB 5814](#) was introduced, representing one of the most sweeping tax expansions proposed in recent Washington legislative history. The bill would extend the state sales tax to a wide range of currently untaxed services, generating an estimated \$4 billion in new state revenue over the next four years, along with another \$1.5 billion in local sales tax collections.

The largest portions of new revenue would come from applying sales tax to computer and IT-related services (just under \$2 billion), temporary staffing agencies (\$1.1 billion), and security services (\$200 million). The proposal also includes taxing certain digital automated services – such as data processing – and some forms of advertising that are not tied to radio, television, or print.

Beyond the sales tax expansion, the bill contains two additional provisions with significant fiscal implications.

First, it requires businesses with more than \$3 million in annual revenue in 2026 to prepay one month of sales tax in June 2027 for taxes due the following month. This unusual step would generate a one-time \$800 million boost to the state budget. While not explicitly stated, the timing suggests this prepayment is intended to help close an expected budget shortfall at the end of the biennium.

Second, [SB 5814](#) would impose tobacco-equivalent taxes on synthetic nicotine products, generating approximately \$130 million over four years.

[Access the Bill](#)



## 5. B&O Taxes & Antio "Fix"

**SB 5815** represents the most aggressive overhaul of Washington's Business & Occupation (B&O) tax system in recent memory, aiming to raise an estimated \$6 billion over the next four years by increasing tax rates across nearly all sectors of the state's economy.

At the heart of the proposal is a new surcharge on large businesses with more than \$250 million in annual revenue. Originally proposed at 1% in earlier drafts by the House, the final version cuts that in half to 0.5%. Manufacturers, farmers, and now grocery businesses are exempt. Even at the reduced rate, this provision alone is expected to generate about \$3 billion through 2030, when it is set to sunset – though the temporary nature of the tax raises questions about long-term revenue sustainability.

In addition to the surcharge on large firms, **SB 5815** increases the baseline B&O tax rates for most other businesses across the state beginning in 2027. Retail, wholesale, and manufacturing sectors would see modest increases, while service businesses with more than \$1 million in gross revenue would see a substantial rate hike – from 1.75% to 2.1%, a 20% increase. These rate changes are permanent and do not include a sunset clause.

The bill also targets large financial institutions, raising their existing surcharge from 1.2% to 1.5% on top of their standard B&O tax rate. Meanwhile, the surcharge on advanced computing companies – originally introduced in a prior budget cycle and championed by Microsoft – would rise sharply from 1.22% to 5%. However, the annual cap of \$9 million per company remains in place, significantly limiting the overall impact on any single firm despite the higher rate.

Finally, **SB 5815** seeks to resolve a legal ambiguity stemming from the *Antio* court decision regarding how investment income should be treated under the B&O tax. Under the bill, businesses that receive less than 5% of their revenue from investments would be exempt. However, businesses earning more than 5% from such sources would be required to pay B&O tax on that income.

Notably, nonprofits are entirely exempt regardless of how much of their income comes from investments, and special carve-outs are included for collective investment vehicles.