# *How to Plan for Washington State's Death Tax*

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The American Taxpayer Relief Act of 2012 permanently provides for a federal estate exemption of $5 million, indexed for inflation ($5.25 million in 2013). As a result, most taxpayers may have no federal death taxes. However, the Washington state death tax is still in play.

When a Washington state resident or someone who owns Washington property dies with net assets worth more than $2 million, the person is liable for paying Washington estate taxes. The graduated tax rates range from 10 percent to 19 percent. These state estate taxes are deductible against the federal taxable estate and reduce the federal estate tax payable, if any. Currently, Washington and Oregon are the only western states with an estate tax.

For a current list of states:
With estate taxes go to http://wills.about.com/od/stateestatetaxes/a/stateestatetaxchart.htm;
With inheritance taxes go to http://wills.about.com/od/stateestatetaxes/a/inheritancetaxchart.htm
With no death taxes go to http://wills.about.com/od/stateestatetaxes/qt/nostateestatetaxes.htm

**Here are some suggestions for how to minimize Washington estate taxes:**

✓ Consider establishing residency in another state that has no estate tax, and little or no income taxes. This would include spending the majority of your time at your non-Washington residence in order to establish residency in that state.

✓ Remain a Washington state resident, but plan to make lifetime gifts to reduce the value of your estate to below the $2 million threshold. Unlike federal law, Washington state does not add back lifetime gifts to determine their taxable estate value.

✓ Use your annual gifting amount, which allows you to donate $14,000 per year per person, to reduce your net assets to the $2 million level. Annual gifts above $14,000 require federal gift tax returns. Direct payments to either higher-education schools or medical providers are not considered gifts and are not limited to $14,000 even though they benefit a family member. You might also consider gifts to qualified charitable organizations.

✓ You could transfer your home (in advance) into a Qualified Personal Residence Trust to remove that asset from your estate. This option requires professional assistance and a federal gift tax return with proper appraisals.

✓ Review your will or revocable living trust with state estate taxes in mind.

✓ Plan for qualified farmland and timberland exemptions. If you own farmland or timberland, you could reduce or avoid the Washington estate tax on those assets if you plan properly.

✓ If you don't live in Washington state but own real estate or store tangible personal property here, consider restructuring the ownership to create non-Washington intangible assets. A transfer of individually owned assets into a business entity, such as a limited liability company (LLC), would transform your personal ownership into LLC member units. Most states treat LLC units as "intangible personal property." While intangible personal property is still part of your potentially taxable estate, Washington's tax formula reduces the tax on such intangible "non-Washington assets," depending on their value compared to the value of Washington assets.

✓ If you live in Washington state, consider restructuring ownership to create non-Washington real estate and tangible personal property assets.

If you are married and your assets are community property, some of these decisions can be postponed until after the first spouse dies. Because of the marital exemption, you can elect to defer Washington estate taxes on assets over $2 million if your will or living trust is correctly drafted. For example, if a couple has $6 million in assets, the first spouse to die would own one-half, or $3 million. The exemption is $2 million. The personal representative can defer the tax on the $1 million that is otherwise taxable by transferring the assets directly to the surviving spouse or into a marital trust. These deferred assets would be includable in the surviving spouse's estate to the extent not spent during his or her lifetime.

It's imperative that you plan in advance to best protect your assets for your surviving family members and those you care about. Washington residents with net assets of more than $2 million (whether single or married) are advised to speak to estate planning professionals to find ways to minimize the Washington estate tax.

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