SPECIAL REPORT

Marcus & Millichap
THE VARA GROUP

Washington State Budget and New Tax Laws
Frequently Asked Questions:

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Q: What is included in the new state budget?

A: Governor Bob Ferguson signed the 2025-27 state operating budget in May 2025, totaling $78 billion. The larger budget was adopted to address a projected $16 billion shortfall through 2029. To generate additional revenue, several tax changes were enacted:

- House Bill 2081: Adjusts Business & Occupation (B&O) tax rates across several categories, including raising the surcharge on financial institutions from 1.2 percent to 1.5 percent; for a handful of mega-cap advanced computing firms, the surcharge will increase sharply to 7.5 percent.
- Senate Bill 5813: Makes the capital gains and estate taxes more progressive, increasing marginal rates for higher-income individuals and larger estates.
- Senate Bill 5814 : Expands the sales and use tax to include services such as information technology and temporary staffing.
- Senate Bill 5794: Eliminates certain B&O tax preferential rates.
- Senate Bill 5801: Raises the gas tax by 6 cents per gallon and adds luxury taxes on high-value vehicles and noncommercial aircraft.

Q: What does the new capital gains tax mean?

A: Washington's capital gains tax was first enacted in 2022 at a flat 7 percent rate on gains above a $250,000 deduction. Now, it has been modified to adopt a progressive structure, with a top rate of 9.9 percent on gains exceeding $1 million. The tax applies only to financial and intangible assets, such as stocks, bonds and business interests; real estate transactions remain exempt, including both land and built property. The Department of Revenue also clarified that Washington does not impose indirect taxation on real estate owned through entities, so when an LLC or ownership interest is sold, the portion of gain tied to real estate is excluded. Consequently, commercial real estate may become a more attractive wealth-building vehicle amid rising taxes on financial assets, potentially encouraging a shift of capital toward a relatively stable and tax-favorable option.

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Q: What about the changes in estate tax?

A: Washington's estate tax now exempts the first $3 million, indexed for inflation, up from $2.193 million. While this eases the burden on smaller estates, the new brackets are more progressive. The top rate rises to 35 percent for taxable estates over $9 million — up from 20 percent. Washington state now has the highest estate tax rate in the country. Estates around $9 million (roughly $6 million taxable) owe about the same as before, but those above this level will pay more. Because the state taxes the worldwide assets of residents, but only the in-state property for nonresidents, high-net-worth individuals might relocate. This could affect other tax revenues and even influence how many privately owned properties are listed for sale.

Q: How will other taxes affect commercial real estate?

A: Expanding the sales tax to services such as IT, digital marketing and custom software will raise operating costs for affected companies. With the state tax rate at 6.5 percent and combined rates near 10 percent in the Seattle-Tacoma area, some firms may downsize, relocate or adjust operations to offset costs, which could lead to softening urban office demand. Higher B&O tax rates will create similar pressures, though the impact should be smaller as rate increases are comparatively modest in most cases. Other changes, including the higher gasoline tax and expanded tobacco tax, should have only marginal effects on commercial real estate demand.

Q: What would the new taxes be paying for?

A: The new taxes close a projected $16 billion shortfall through 2029 and fund housing and transportation priorities. The Move Ahead Washington plan allocates $16 billion over 16 years to highways, public transit and freight upgrades, which may boost retail and office leasing in transit-accessible areas and improve industrial efficiency. More state funding for affordable housing and homelessness programs could spur multifamily construction and encourage converting underused commercial sites into housing, aiding the long-term multifamily outlook. Yet House Bill 1217, passed in May but separate from the budget, caps annual rent increases at 7 percent plus CPI or 10 percent per year, which could limit multifamily revenue growth.