Price & Farrington's Estate and Tax Planning *Fast*Faxts

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Estate, Tax , Business and Wealth Planning for Advisors and Clients

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Planning Alert: Washington State's New Estate Tax: *How It Works*

It happened very quietly. With no fanfare. Several weeks after the legislature in Olympia approved a new stand-alone Washington estate tax, Governor Gregoire signed the bill into law on May 17, 2005, effective immediately. The tax affects anyone who dies on or after that date with a taxable estate of more than $1.5 million in 2005 and $2 million in 2006 and beyond. This is a stand-alone estate tax that incorporates some provisions of the Internal Revenue Code as of January 1, 2005. But the Washington estate tax is not affected by the scheduled repeal of the federal estate tax in 2010.

The payoff. The Washington Department of Revenue estimates that about one-half of one percent of all estates in Washington will be affected: 200 estates in 2005; 210 in 2006; 220 in 2007; 240 in 2008; 260 in 2009; and 270 in 2010. The tax is expected to generate about $100 million each year, increasing slowly over time.

Who must file a Washington return? For decedents dying on or after May 17, 2005 a Washington estate tax return must be filed by the personal representative if the decedent owned property in the state of Washington and the gross estate exceeds these thresholds:

Time Period	Filing Threshold
5/17/05-12/31/05	$1.5 million
2006 and thereafter	$2.0 million

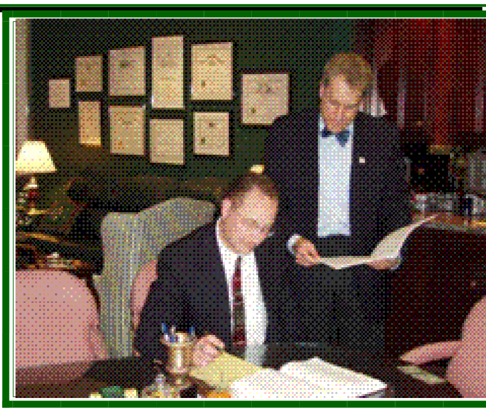
When must the return be filed? The estate tax return must be filed within nine months of the decedent's death. For example, if a decedent passes away on May 17, 2005 the estate tax return or an extension request must be filed by February 17, 2006.

How is the tax calculated?

The tax is calculated using the "Washington taxable estate", which means the federal taxable estate determined without regard to the deduction for state estate, inheritance, legacy or succession taxes:

✦ Less $1.5 million for decedents dying May 17 through December 31, 2005, and $2 million for decedents dying on or after January 1, 2006; and

✦ Less the amount of real or tangible personal property used for farming purposes that qualifies for the farm deduction.



Chuck Farrington (seated) and Glenn Price

The table in the box below is then applied to the Washington taxable estate.

What are the other provisions?

✦ **Farm Deduction**. A deduction is available for farmland and any tangible personal property used primarily for farming purposes. Certain criteria must be met in order to qualify for the farm deduction.

✦ **Out-of-State Assets**. Apportionment is allowed for estate property located outside of Washington. The amount of tax is the amount determined in the table multiplied by a fraction. The numerator of the fraction is the value of the property located in Washington. The denominator of the fraction is the value of the decedent's gross estate. Property qualifying for a farm deduction is excluded from the numerator and denominator of the fraction.

✦ **Elections and Valuations**. Elections or valuations made on the Washington return must be consistent with the elections or valuations made on the federal estate tax return.

✦ **Qualified Terminal Interest Property (QTIP) Election**. A personal representative may choose to make a different QTIP election amount on the Washington return than on the federal estate tax

If Washington Taxable		*The Amount of Tax Equals*		*Of Washington Taxable Estate Value Greater Than*
Estate is at least	**But less than**	**Initial tax amount**	**Plus Tax Rate %**	
$0	$1,000,000	$0	10.00%	$0
$1,000,000	$2,000,000	$100,000	14.00%	$1,000,000
$2,000,000	$3,000,000	$240,000	15.00%	$2,000,000
$3,000,000	$4,000,000	$390,000	16.00%	$3,000,000
$4,000,000	$6,000,000	$550,000	17.00%	$4,000,000
$6,000,000	$7,000,000	$890,000	18.00%	$6,000,000
$7,000,000	$9,000,000	$1,070,000	18.50%	$7,000,000
Above $9,000,000		$1,440,000	19.00%	Above $9,000,000

return and a QTIP election may be made on the Washington return when no federal return is required.

✦ **Statute of Limitations.** Refunds and assessments must be made within four years plus the calendar year in which the tax was paid or the return filed.

✦ **Generation Skipping Transfer Tax (GSTT).** Washington state no longer collects the GSTT on the estates of decedents whose date of death is May 17, 2005 or later.

Note: All estates are required to file a Washington return if a federal return is required even though no tax is due.

What are some examples of how the estate tax applies?

Example 1. Bill dies in 2006 with an estate valued at $3.1 million. Bill left $1 million to his spouse Hillary using the unlimited marital deduction. There is no Washington state tax due on Bill's estate.

Gross estate…………………....$3,000,000
Less admin. expen. deduct…. -$100,000
Less $2M statutory exemp..--$2,000,000
Washington taxable estate …………..$0

Note: although no WA estate tax is due, the estate is required to file a return.

Example 2. A widow dies in 2006 leaving a gross estate of $3.1 million. The estate had $100,000 in deductible expenses for federal estate tax purposes (e.g., for funeral expenses, indebtedness, property taxes and charitable transfers). The decedent also owned a home in Arizona valued at $300,000.

Gross estate……………….…$3,100,000
Less admin.exp..deduct…....-$100,000
Less $2M stat exemp……...-2,000,000
WA taxable estate………...$1,000,000

Based on the tax table, the estate tax equals $100,000 (calculated as $1,000,000 x 10% Washington estate tax rate). Because the widow owned an out-of-state asset the tax due to Washington is prorated by multiplying the amount of tax owed by a fraction. The numerator is the value of the property located in Washington divided by the denominator that equals the value of the decedent's gross estate.

WA assets: Gross estate = $2,800,000 ($3,100,000-$300,000)
$3,100,000
x $100,000 = $90,323 tax due

Note: the estate does not have to pay any estate tax to Arizona in order to reduce the tax owed to Washington.

Example 3. George dies in 2006 leaving a gross estate valued at $4,000,000. The assets include George's one-half community property interest in timberlands, valued at $2,000,000. George's wife Laura owns the other one-half interest in the timberland. The timberlands qualify for the Washington estate tax deduction for farm property. George leaves his interest in the timberlands to his daughter, Barbara, a qualified heir.

Gross estate……………….$4,000,000
Less $2M farm deduction……...-$2M
Less $2M statutory exemption….-$2M
Washington taxable estate……….$0

Note: Although no WA estate tax is due, the estate must file a return.

Example 4. A widow dies in 2006 leaving a gross estate valued at $3.5 million. A majority of the value of the gross estate was comprised of a small construction business. The business assets (real property and heavy equipment) were heavily mortgaged. The estate had $1,500,000 in mortgage debt and other allowable expenses deductible for federal estate tax purposes.

Gross estate……………….$3,500,000
Less debt and exp deduct….-$1.5M

Less $2M stat exempt……....-$2M
Washington taxable estate……..$0

Note: Although no WA estate tax is due, the estate must file a return.

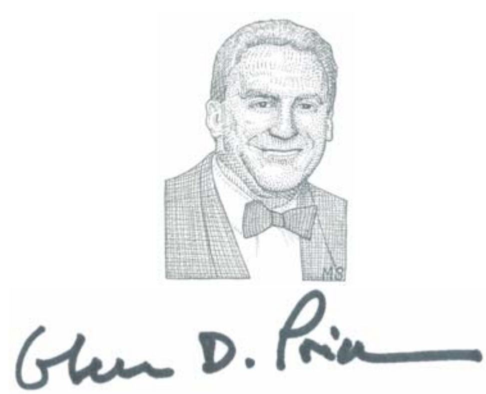
Example 5. A widow dies in 2005 leaving a gross estate valued at $3,000,000.The estate had expenses deductible for federal estate tax purposes equaling $100,000. The estate assets include a farm and farm equipment valued at $2,000,000 that qualify for the Washington estate tax farm deduction. The widow leaves the farm to her daughter, a qualified heir.

Gross estate…………....$3,000,000
Less allowable expenses deduction………………..-$100,000
Less $1.5M stat. exemp-$1,500,000
Less $2M farm deduc...-$2,000,000
Washington taxable estate……...$0

Note: Although no WA estate tax is due, the estate is still required to file a WA estate tax return. ■

Contact us if you have questions about how the new Washington estate tax affects your — or your clients'— estate and tax planning decisions. In the meantime, we wish you good planning!

GDP



In Passing

"Death ends a life, not a relationship."
Morrie Schwartz

"Dying is no big deal. The least of us will manage that. Living is the trick."
Red Smith

"There is no cure for birth and death save to enjoy the interval."
George Santayana

"Let us so live that when we come to die even the undertaker will be sorry."
Mark Twain

"Dying is easy, comedy is hard."
Edmund Gwenn

"If you want him to mourn, you had best leave him nothing." *Martial*

"Let 'er R.I.P." *The Simpsons*