

Larry's Tax Law

It Is Raining Tax Increases in Washington State – When It Rains It Pours

By Larry Brant on 5.23.25 | Posted in Legislation, State and Local Tax, Tax Laws

As reported on [May 13, 2025](#), several changes to the Washington state tax laws were passed by lawmakers and delivered to the desk of Governor Ferguson in late April, awaiting his signature to make them law. In the aggregate, these changes create what is likely the largest historical increase in taxes the state has ever seen. While there was some speculation that the governor would not sign all of the bills into law, especially since they had been sitting on his desk for more than three weeks, that speculation is no longer. Governor Ferguson signed these bills into law on May 20, 2025.

It is worth re-reading my previous blog post on this topic to familiarize yourself with these vast tax increases. At the 10,000-foot level, these new laws create the following changes to the Washington state tax landscape:

House Bill 2081 contains numerous tax rate and surcharge increases to the state Business & Occupation Tax (B&O Tax). The new rates and surcharges are projected to generate an additional \$5.6 billion in tax revenue for the state over a period of four years.

House Bill 2077, dubbed the “Tesla Tax,” creates a new tax on the sale of electric vehicle credits between automakers. With Tesla being the only automaker with these credits for sale in the state, it is the only taxpayer impacted by the new law. Lawmakers project this new tax will generate \$54.5 million for the current operating budget.

Senate Bill 5814 does several things to impact tax revenues. It broadens the services to which the retail sales and use tax and the retail B&O Tax apply. 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. It also imposes an additional tax on cigarettes of 10 cents per cigarette, or \$2.00 per pack. Additionally, it imposes a one-time prepayment of the retail sales tax for certain businesses.

Senate Bill 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. It 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). However, the tax rates rise dramatically for taxable estates of \$4 million or more (with a new highest tax rate of 35% for estates of \$9 million or more).

Senate Bill 5794 repeals or sunsets 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;
- 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.

Lastly, 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 more than \$148 million during the next budget period.

Senate Bills 5161, 5801 and 5802 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.

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.

After Governor Ferguson signed these bills into law, he indicated that some of these bills would need adjustment in the next legislative session. In particular, he was addressing SB 5814 and HB 2081. However, it is unclear what adjustments he was referencing.

Suffice it to say, May has been a stormy month in terms of Washington state taxation. Time will tell what impact, if any, these tax changes will have on business activities in the state and choice of residency.

Tags: 2025 Washington state tax increases, Business and Occupation Tax (B&O Tax), capital gains tax, Sales and Use Tax, Washington Governor Bob Ferguson, Washington state