

Alert | State & Local Tax (SALT)



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Washington State Expands Sales Tax, Increases B&O and Capital Gains Taxes

On May 20, Washington Gov. Bob Ferguson signed into law several bills aimed at closing Washington's projected \$16 billion budget gap, which were passed as part of **2025–27 operating budget**.

Interested parties closely monitored the signing of these bills, especially **SB 5814**, which significantly expands Washington's sales tax. The bill includes advertising services—generally digital—within the tax base, raising concerns from both in-state and out-of-state companies based on the lack of detail provided regarding the sourcing of such services. While the governor did not veto SB 5814, Washington legislators are aware of the concerns and additional action on this issue is expected.

Key Details of the Tax Changes Impacting Businesses and High-Net-Worth Individuals

- **Business and Occupation (B&O) Tax Changes:** **HB 2081** includes numerous B&O tax increases and modifies when the B&O investment deduction applies. This latter change was made in response to the Washington Supreme Court's recent decision in *Antio, LLC v. Dep't of Revenue*,¹ essentially codifying the department's position on that deduction. Notable B&O tax increases include:
 - A temporary 0.5% surcharge on a business' taxable income in excess of \$250 million beginning Jan. 1, 2026, and continuing through Dec. 31, 2029;

¹ 557 P.3d 672 (Wash. 2024).

- A permanent rate increase from 0.484% to 0.5% for certain categories of business activity (including manufacturing, wholesaling, and retailing) beginning Jan. 1, 2027;
 - A permanent rate increase from 1.75% to 2.1% for the services and other activities category for businesses with over \$5 million in annual revenue beginning on Oct. 1, 2025;
 - A permanent rate increase from 1.2% to 1.5% for the financial institutions surcharge beginning on Oct. 1, 2025; and
 - A permanent rate increase from 1.22% to 7.5% for the advanced computing surcharge as well as an increase to the annual cap of \$75 million beginning on Jan. 1, 2026.
- **Retail Sales Tax:** SB 5418 expands the state sales tax to include many personal, business, and professional services, including digital advertising services, IT support, landscaping services, software training, tattoo services, data processing, website development, graphic design, temporary staffing services, and search engine marketing. SB 5418 also makes several modifications to Washington’s digital automated services provisions and provides that services between members of an affiliated group will be exempted. These changes are set to take effect Oct. 1 of this year.
 - **Capital Gains Tax:** SB 5813 creates a new capital gains tax top bracket of 9.9% for gains in excess of \$1 million, retroactively applying from the beginning of this year (Jan. 1, 2025).

This is not an exhaustive list of all the changes that were made in conjunction with the state budget revisions but does reflect some of the key issues that may impact businesses and high-net-worth individual taxpayers. With the governor signing all of these bills, the Department of Revenue may begin to develop rules and policies on many of these new or expanded programs in the near future. Policy discussions may continue as cleanup legislation, and a special legislative session seems likely.

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