FRESH ADVICE

WASHINGTON STATE CAPITAL GAINS TAX



Michelle A. Clary, CFP®, ChFC®, CLU®, RICP®, AEP®, CEO of Piton Wealth



The Piton team endeavors to be both proud and humble enough to partner successfully with accomplished professionals who devote their skills to ensuring that every component of a client's financial plan is as expert and robust as possible. In this issue, the Fresh Advice team uses an important financial topic, the Capital Gains Tax in Washington state, to explain how having financial advisors and specialists can result in superior results for clients and additional benefits for everyone.

WASHINGTON STATE CAPITAL GAINS TAX: LAWS AND RULES

First, let's recap some fundamentals of Washington state's Capital Gains tax, before exploring ways that its rules interact with multiple components of an individual's (or family's) financial plan. The tax became active as of January 1, 2022 (though there was a long and somewhat contentious history about the legislation prior to that; visit https://www.consiliowealth.com/insights/how-the-new-capital-gains-tax-in-washington-state-could-affect-you for a helpful overview). The capital gains tax in Washington state is a 7% tax on profits from the sale of long-term assets (owned for over a year before selling them) over $270,000 (for 2024, up from $262K for 2023; more at https://dor.wa.gov/taxes-rates/other-taxes/capital-gains-tax). To unpack this a little, the tax applies only to gains. For example, if you sold some stock for $600K, but only $100K of that total was long-term gain, that would not generate a capital gains tax bill in Washington state, since the gains don't exceed the $270K threshold.

WHY PROFESSIONAL AND COMPREHENSIVE FINANCIAL PLANNING MATTERS

Of course the rules and consequences are not as simple as that. Here the collaboration between a tax specialist and a financial advisor can make it more likely that a client gets the most tax-efficient option. There are exceptions to the tax that a tax specialist can certainly research (retirement accounts and real estate are two examples). There are also federal taxes that can come into play with capital gains, including long-term capital gains and the Net Investment Income Tax (NIIT, sometimes referred to as the "Obamacare tax"). A tax specialist can make sure all the different tax ramifications are at play in the decision-making process, not just so that taxes are filed correctly but so that they work to the maximum benefit of the taxpayer. Just as importantly, a financial advisor can bring information and perspective that the tax specialist may not have. A financial advisor can work with a client to split a sale across tax years (for example, a sale with $500K in long-term capital gains, but split in half across two tax years, would not trigger the Washington state Capital Gains tax for either year). Planning sales that would be exempt from the tax can similarly avoid or reduce the tax to be paid. Additionally, because long-term capital gain losses can, within specific legal limits, be counted against the gains, (a tactic known as "tax-loss harvesting"), coordinating losses and gains can reduce the overall taxes owed (for example, a sale in 2024 resulting in $300K of long-term capital gain would liable for 7% tax being levied on $30K, but if a $50K loss on another sale can be counted against it, then the tax liability goes to zero). These kinds of strategies are a key reason Piton supports and believes in partnering with financial specialists whenever it will benefit clients.

THE CHARITABLE GIVING ADVANTAGE!

More than strategic and advantageous, thoughtful partnerships between professionals can lead to results for cli-

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ents that are truly joyful. Piton Wealth especially celebrates the joy of living generously, and strategic planning for clients, in partnership with other professionals, can facilitate more of that generosity. In the case of Washington state's Capital Gains tax, for example, someone who made a sale of stock with long-term gains could pay a portion of the gains in taxes prior to a charitable organization receiving the funds. If that same asset were donated to the organization, however, neither the seller nor the organization would pay the tax on it, so the cause receives more funding for the same asset. Additionally, Washington state Capital Gains tax allows a deduction for charitable donations above the standard cap (the cap on the Charitable Donation Deduction for tax year 2024 is $108,000), so the total threshold is higher when charitable giving is included (and be sure to consult a CPA about the specific criteria for charitable donations under this law). Moreover, another of Piton's favorite tools, the Donor Advised Fund can be a helpful mechanism for facilitating this type of generosity. Donating the asset to a DAF also means that the amount going to the cause(s) will not be reduced by the tax, but that the charitable organization does not have to facilitate themselves the sale of the asset in order to receive the funds (such sales can be challenging for organizations, whose specialties and resources are directed in other ways). For the donor, a DAF also provides flexibility in timing and allocation of the value of the donated asset (see the October 2022 issue of Fresh Advice for more details on this: https://pitonwealth.com/fresh-advice-october-2022-strategic-giving/).

Piton Wealth was conceived and founded with a culture of generosity and service. Partnering with clients and specialists in the community is both a purpose of our work and continual inspiration for us. If you or anyone you know will benefit from our dedication and these types of partnerships, please share this issue and reach out to us!

Thank you!

The Piton team will be back with more Fresh Advice in February! We will be revisiting a topic of our issue from a year ago, but with an added local twist! You won't want to miss it!



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QUIZ

Washington state, the Capital Gains tax of 7% applies to

a. long-term capital gains in a tax year above a specific threshold
b. all long-term capital gains in a tax year
c. long-term capital gains in a tax year minus short-term gains
d. the value of long-term capital gains when donated to charity

CAN YOU FIND the HIDDEN PITON?

A piton is a tool which mountain climbers use to secure a hold and climb higher than they could have otherwise. That is why we are Piton Wealth, to advise clients so they climb to ever higher goals. Comprehensive financial planning is the dedicated tool that the Piton team uses for clients to achieve those goals. The ultimate goal is a fulfilling and generous life. The Piton team hopes to see you as part of that life at one of Piton's community events, or any of the many life-affirming events in our communities, and we would love to talk to you about a plan, so please reach out to us when you want to find out about a potential Navigated Journey for you and your loved ones.

If you are interested in Piton Wealth's services, call (509) 582-0570 or visit pitonwealth.com/request-an-appointment/

We hope to hear from you!

ANSWERS: a. You can see the piton on page 1, 2ndcolumn last sentence.

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