**WAC 458-57-015 Valuation of property, property subject to estate tax, how to calculate the tax.** (1) **Introduction.** This rule applies to deaths occurring on or before May 16, 2005, and is intended to help taxpayers determine and pay the correct amount of estate tax with their state return. The estate tax rules for deaths occurring on or after May 17, 2005, can be found in RCW 458-57-XXX-XXX. It explains the necessary steps for determining the tax, and provides examples of how the federal estate tax unified credit relates to the amount that must be reported on the state return. (If a nonresident decedent has property located within Washington at the time of death refer to WAC 458-57-025 to determine the amount of tax payable to Washington.)

(2) **Valuation.** The value of every item of property in a decedent's gross estate is its fair market value. However, the personal representative may elect to use the alternate valuation method under section 2032 of the ((~~2001~~)) Internal Revenue Code (IRC), and in that case the value is the fair market value at that date, including the adjustments prescribed in that section of the IRC. The valuation of certain farm property and closely held business property, properly made for federal estate tax purposes pursuant to an election authorized by section 2032A of the ((~~2001~~)) IRC, is binding for state estate tax purposes.

(3) **Property subject to estate tax.** The estate tax is imposed on transfers of the taxable estate, as defined in section 2051 of the ((~~2001~~)) IRC.

(a) The first step in determining the value of the decedent's taxable estate is to determine the total value of the gross estate. The value of the gross estate includes the value of all the decedent's tangible and intangible property at the time of death. In addition, the gross estate may include property in which the decedent did not have an interest at the time of death. A decedent's gross estate for federal estate tax purposes may therefore be different from the same decedent's estate for local probate purposes. Sections 2031 through 2046 of the ((~~2001~~)) IRC provide a detailed explanation of how to determine the value of the gross estate. The following are examples of items that may be included in a decedent's gross estate and not in the probate estate:

(i) Certain property transferred by the decedent during the decedent's lifetime without adequate consideration;

(ii) Property held jointly by the decedent and others;

(iii) Property over which the decedent had a general power of appointment;

(iv) Proceeds of certain policies of insurance on the decedent's life annuities; and

(v) Dower and curtesy of a surviving spouse or a statutory estate in lieu thereof.

(b) The value of the taxable estate is determined by subtracting the authorized exemption and deductions from the value of the gross estate. Under various conditions and limitations, deductions are allowable for expenses, indebtedness, taxes, losses, charitable transfers, and transfers to a surviving spouse. Sections 2051 through 2056A of the ((~~2001~~)) IRC provide a detailed explanation of how to determine the value of the taxable estate.

(4) **Imposition of Washington's estate tax.** A tax in an amount equal to the federal credit is imposed by RCW 83.100.030 upon the taxable estate of every decedent. Washington's estate tax is due in every case in which the gross estate tax exceeds the unified credit as specified in section 2010 of the ((~~2001~~)) IRC, and there is credit available to be taken, with the exception that all applicable federal estate tax credits are to be applied to the estate's tax liability before the state estate tax liability is computed.

(a) The following tables are taken from the ((~~2001~~)) IRC. They show the maximum amount of federal credit available for state death taxes. The amount of federal credit computed multiplied by the appropriate fraction is ~~also~~ the amount of Washington estate tax due.

Calculate the credit for state death taxes

(i) Step one - calculate the adjusted taxable estate:

Worksheet
Adjusted Taxable Estate
1. Taxable estate (from ~~Tax Computation, WA Form REV 85-0046~~federal from 706, Part 2, Line 3) $. . . . . . . .
2. Adjustment . . . . . . . . $60,000
3. Adjusted taxable estate. Subtract line 2 from line 1. Use this amount to compute maximum credit for state death taxes in Table (~~ii~~B).

(ii) Step two - apply Table B to the adjusted taxable estate to calculate the credit for state death taxes:

| **(A)** -- Taxable estate, equal to or more than... | **(B)** -- and, Taxable estate, less than... | **(C)** -- Base credit on amount in column (A) | **(D)** -- Rate of credit on excess over amount in column (A) **(AS A PERCENT)** |
|---|---|---|---|
| $ 0 | $ 40,000 | $ 0 | 0.0 |
| $ 40,000 | $ 90,000 | $ 0 | 0.8 |
| $ 90,000 | $ 140,000 | $ 400 | 1.6 |
| $ 140,000 | $ 240,000 | $ 1,200 | 2.4 |
| $ 240,000 | $ 440,000 | $ 3,600 | 3.2 |
| $ 440,000 | $ 640,000 | $ 10,000 | 4.0 |
| $ 640,000 | $ 840,000 | $ 18,000 | 4.8 |
| $ 840,000 | $ 1,040,000 | $ 27,600 | 5.6 |
| $ 1,040,000 | $ 1,540,000 | $ 38,800 | 6.4 |
| $ 1,540,000 | $ 2,040,000 | $ 70,800 | 7.2 |
| $ 2,040,000 | $ 2,540,000 | $ 106,800 | 8.0 |
| $ 2,540,000 | $ 3,040,000 | $ 146,800 | 8.8 |
| $ 3,040,000 | $ 3,540,000 | $ 190,800 | 9.6 |
| $ 3,540,000 | $ 4,040,000 | $ 238,800 | 10.4 |
| $ 4,040,000 | $ 5,040,000 | $ 290,800 | 11.2 |
| $ 5,040,000 | $ 6,040,000 | $ 402,800 | 12.0 |
| $ 6,040,000 | $ 7,040,000 | $ 522,800 | 12.8 |
| $ 7,040,000 | $ 8,040,000 | $ 650,800 | 13.6 |
| $ 8,040,000 | $ 9,040,000 | $ 786,800 | 14.4 |
| $ 9,040,000 | $ 10,040,000 | $ 930,800 | 15.2 |
| $ 10,040,000 | . . . . . . . . | $ 1,082,800 | 16.0 |

(iii) Step three - multiply the credit for state death taxes by the percentage for the year of the decedent's death:

| Year | Percentage |
|---|---|
| 2002 | .75 |
| 2003 | .50 |
| 2004 | .25 |
| 2005 | 0.00 |

(b) **Examples.** The following are examples of how the estate tax is applied. These examples should be used only as a general guide. The tax status of other situations must be determined after a review of all of the facts and circumstances.

(i) A married woman dies in the year 2002, leaving her husband and children surviving. Her taxable estate, computed after allowance of the marital deduction, is ((~~$900,000~~)) $1,100,000. The adjusted taxable estate is ((~~$840,000 ($900,000 - $60,000~~)) $1,040,000 ($1,100,000 - $60,000). The Washington state estate tax due is ((~~$27,600 (the base credit shown in column **(C)** on the first $840,000)~~)) $29,100 ($38,800 multiplied by .75).

(ii) A married man dies with all of his property passing to his wife, outright under a community property agreement. His marital deduction under section 2056 of the ((~~2001~~)) IRC reduces his federal taxable estate below the applicable exclusion amount. Because his taxable estate is below the applicable exclusion amount, while no Washington estate tax is due a return must be filed.

(iii) The federal taxable estate of a decedent is $100,000 (before gifts are added, which place the estate into a taxable category). The adjusted taxable estate is $40,000 for state estate tax purposes ($100,000 - $60,000). No Washington estate tax is due because section 2011 of the ((~~2001~~)) IRC provides for no credit unless the adjusted taxable estate exceeds $40,000. *Gifts can push an estate into a taxable category.

(iv) A widow dies in 2003, leaving a taxable estate of ((~~$725,000~~)) $1,030,000. The amount of tax payable to the state of Washington is computed as follows: Taxable estate of ((~~$725,000~~)) $1,030,000 less $60,000 equals an adjusted taxable estate of ((~~$665,000~~)) $970,000. The state death tax credit (((~~2001~~)) IRC section 2011 on the first ((~~$640,000~~)) $840,000 is ((~~$18,000~~)) $27,600. The state death tax credit for the ((~~$25,000~~)) $130,000 increment (~~$665,000 - $640,000~~ $970,000 - $840,000) is ((~~$1,200~~)) $7,280 (((~~4.8% of $25,000)~~)) (5.6% of $130,000). The total Washington estate tax liability is ((~~$19,200 ($18,000 + $1,200)~~)) $17,440 [($27,600 + $7,80) x .50] however, the state estate tax cannot exceed the adjusted gross estate tax (line 14) which in this case would be ((~~$9,250~~)) $12,300. Therefore, the state estate tax would be ((~~$9,250~~)) $12,300 because it is the lower of the two. This occurs in a small window over the applicable exemption threshold amount.