

Washington State Excise Tax Changes Frequently Asked Questions:

FEBRUARY 2023

Q: Is there a New Tax Rate under proposal?

A: House Bill 1628 would impose a new 4 percent tax rate for the portion of the sale price on real property above \$5,000,000. If approved, the new rate would go into effect on January 1, 2025.

Q: How does the Excise Tax work in Washington?

A: State law imposes a graduated real estate excise tax (REET) on all real property transfers taking place in the state of Washington.

- The graduated tax rate ranges from 1.1 percent to 3.0 percent, based on a certain price threshold. The State Dept. of Revenue established the price thresholds at \$500,000, \$1,500,000 and \$3,000,000, with the respective tax rates for each bracket only applying to the applicable portion of a property's sale price.
- The State Dept. of Revenue is required to periodically review the REET selling price thresholds.
 - The lowest price threshold is adjusted by the lesser of 5 percent and the change in the urban consumer price index (CPI-U) for shelter over the trailing three-year period. The dollar adjustment then carries on to the higher brackets.
 - If the change in the CPI-U for shelter does not exceed zero, there is no adjustment.

Current Tax Rates Under New 2023 Thresholds

Real Estate Excise Tax Rate	For the portion of the sale price that is:
1.10%	Less than or equal to \$525,000
1.28%	Greater than \$525,000; less than or equal to \$1,525,000
2.75%	Greater than \$1,525,000; less than or equal to \$3,025,000
3.00%	Greater than \$3,025,000

Q: What change was made to the REET in 2023?

A: As per procedure, the Dept. of Revenue has adjusted the REET selling price thresholds, due to recent increases in the state's cost of housing. Each excise tax bracket has been bumped up by 5 percent of the lowest threshold – or \$25,000 – effective Jan. 1, 2023.

Q: What does this mean for investor activity in the state of Washington?

A: The new thresholds result in slightly lower excise taxes being paid on the sale of most commercial and residential properties priced at or above \$500,000.

- This change, however, is likely too small to warrant any significant shifts in investors' timelines for buying and selling.
 - For example, a sale price of \$50 million in 2023 incurs about \$500 less in real estate excise taxes than it would in 2022.
- The excise tax, however, is likely applicable to more properties, as the appreciation of sales prices over the past three years has generally exceeded the adjustments applied to the thresholds.

Q: Are there exemptions?

- Sales of real property designated for agricultural or timber-related use are instead subject to a flat 1.28 percent excise tax.
- Transfers of real property will qualify for a full exemption if:
 - The buyer is rehabilitating, or assuming operations of existing affordable housing units located on the property.
 - The buyer is constructing affordable units on the property.
- Properties transferred under IRS "tax-deferred" programs, such as 1031 exchanges, are exempt.
- Properties sold under certain distressed conditions, such as bankruptcy or dissolution, are also exempt.

For information on national commercial real estate trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

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