GUIDE · HIGH EARNERS 10 min read

Washington State Taxes for High Earners and Tech Employees: The 2026 Guide

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THE SHORT ANSWER

Washington doesn't tax wages, but high earners there face three state taxes that most people in no-income-tax states don't: a 7% tax on long-term capital gains above an annual deduction ($278,000 for 2025), rising to 9.9% on gains over $1 million; an estate tax that starts at $3 million, a fifth of the federal exemption; and, from 2028, a new 9.9% tax on income over $1 million that is being challenged in court. The biggest federal surprise for tech employees is RSU withholding: employers withhold 22% on vesting shares that are often taxed at 32% to 37%.

Your paycheck and RSUs

Salary, bonuses and vesting RSUs are wages. Washington doesn't tax them today, so your federal return is where the tax happens.

RSUs are taxed as ordinary income on the value of the shares the day they vest. Employers withhold federal tax on them at a flat 22% (37% on supplemental wages above $1 million in a year). For a household earning $300,000 or more, the shares are usually taxed at 32%, 35% or 37%, so every vest leaves a gap that shows up in April, often with an underpayment penalty.

> Use the RSU tax calculator to size this year's gap, then close it with extra W-4 withholding or an estimated payment before January 15.

Selling stock: federal and Washington capital gains

When you sell shares, the gain above your value at vest is a capital gain. Federally, long-term gains (shares held more than a year) are taxed at 0%, 15% or 20%, plus the 3.8% net investment income tax at higher incomes. Short-term gains are taxed like wages.

Washington adds its own tax on long-term gains:

- 7% on long-term gains above the annual standard deduction ($278,000 for 2025; the 2026 figure is adjusted for inflation).
- 9.9% on the portion of taxable Washington gains above $1 million, since 2025.
- Exempt: real estate, assets in retirement accounts, depreciable business assets and qualifying family-owned small business sales.
- Short-term gains aren't subject to the Washington tax.
- The return is due with your federal return, usually April 15.

Because the deduction resets every year, spreading large sales across tax years can keep much of the gain under it. A concentrated position in your employer's stock is also a risk question, not only a tax one, so plan the sell-down on purpose.

RSUs, ESPP and stock options at a glance

EQUITY TYPE	TAXED AS INCOME WHEN	WATCH OUT FOR
RSUs	Shares vest	22% withholding that's too low for your bracket
ESPP	You sell (the discount, and more if you sell early)	Holding-period rules that decide how much is ordinary income
Non-qualified options (NSOs)	You exercise	The same 22% withholding gap as RSUs
Incentive options (ISOs)	You sell, if holding periods are met	The alternative minimum tax in the year you exercise and hold

For ISOs, the 2026 AMT exemption is $90,100 for single filers and $140,200 for joint filers, and it phases out at 50 cents per dollar above $500,000 and $1,000,000 of income. An exercise that looks tax-free on your regular return can trigger AMT; model it before you exercise.

The new millionaires' tax (2028)

In March 2026 Washington enacted a 9.9% tax on individual income above $1 million, scheduled to apply from January 1, 2028, with the first payments due in April 2029. It's being challenged in court, and the

Department of Revenue hasn't finished the rules on how income is measured or how it interacts with the capital gains tax.

For households whose income can cross $1 million in a year, through a big vest, a liquidity event or a business sale, the timing of that income around 2028 may matter. It's worth planning, but not worth making irreversible moves until the rules and the court case settle.

Estate tax: Washington's lowest threshold

The federal estate tax exemption is $15 million per person in 2026. Washington's exclusion is $3 million, and it has no portability between spouses. A Seattle-area home, retirement accounts, life insurance and vested stock can pass that line without anyone feeling rich.

Rates changed twice recently: the top rate rose to 35% for deaths from July 1, 2025, and a 2026 law brought it back to 20% for deaths on or after July 1, 2026. Washington has no gift tax, so lifetime gifts and trusts designed for the state exclusion are common planning tools. Work with an estate attorney; we coordinate the tax side.

Real estate

Real estate is exempt from Washington's capital gains tax. On a home sale, the federal exclusion shelters up to $250,000 of gain ($500,000 married) if you've owned and lived in it for two of the last five years. Washington's real estate excise tax applies to the sale price at graduated rates, and rental properties bring the depreciation and passive loss rules covered in our real estate guide.

If you also own a business

Washington taxes businesses on gross receipts through the B&O tax. Since October 1, 2025, the rate for service businesses depends on the prior year's receipts: 1.5% under $1 million, 1.75% from $1 million to $5 million, and 2.1% above $5 million. Several services, including some IT, digital advertising and live events, also became subject to sales tax on the same date.

Moves that actually help Washington high earners

- Close the RSU withholding gap every year instead of in April.
- Give appreciated shares to charity or a donor-advised fund instead of cash, which avoids both the federal and the Washington capital gains tax on those shares.
- Spread large stock sales across years to use the Washington deduction each year.

- Max out pre-tax 401(k) and HSA contributions, and use backdoor or mega-backdoor Roth contributions if your plan allows them.
- Model ISO exercises for AMT before you exercise.
- Review your estate plan against Washington's $3 million exclusion, not only the federal one.

Frequently asked questions

Does Washington have a state income tax?

Not on wages today. It taxes long-term capital gains above an annual deduction at 7%, and 9.9% above $1 million. A new 9.9% tax on individual income above $1 million is scheduled to begin in 2028, subject to a court challenge.

Are RSUs taxed in Washington?

Not when they vest. Gains when you later sell shares can count toward Washington's capital gains tax if they're long-term and your total gains exceed the annual deduction.

Is selling my house subject to Washington's capital gains tax?

No. Real estate is exempt from the Washington capital gains tax. The federal home sale exclusion and Washington's real estate excise tax still apply.

What is Washington's estate tax exemption in 2026?

$3 million for deaths on or after July 1, 2026 ($3,076,000 for deaths from January through June 2026), with a top rate of 20% after the 2026 change. The federal exemption is $15 million.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

Want this applied to your situation? Book a free 30-minute call with Akansha Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

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