

# About Washington's Proposed Millionaires Tax:

## FREQUENTLY ASKED QUESTIONS

The Millionaires Tax (Senate Bill 6346, House Bill 2724) would provide approximately \$3.7 billion annually to protect funding for core programs in our state, like health care and education. It would ultimately help ensure our state budget has more sustainable funding in the years to come. It is also a big step toward addressing Washington's upside-down tax code that currently gives preferential treatment to the ultra-wealthy at the expense of everyone else. We have answers to some of the frequently asked questions about the Millionaires Tax.

### What the tax is:

#### 1. What is the Millionaires Tax?

**In the simplest terms, the proposed Millionaires Tax is a 9.9% tax on household earnings over \$1 million per year.** If you earn less than \$1 million per year, you would be exempt from paying this tax. More specifically, it is a 9.9% tax "on the receipt of Washington taxable income," with a standard deduction of \$1 million annually.

**So if a household makes \$1,000,500 each year, the tax would only apply to that \$500.** In this example, total taxes owed would be approximately \$50.

#### 2. When would the Millionaires Tax take effect?

The Millionaires Tax would take effect on January 1, 2028. This means that the first tax returns and payments for 2028 taxable income would be due in April 2029. The state would begin realizing revenues in 2029.

#### NOTE

As currently written, the bill spends revenues in a number of ways, like providing a small expansion to the Working Families Tax Credit and more than doubling the small business credit for the Business & Occupation (B&O) tax. Negotiations on how the revenues would be spent are subject to change through the end of session.



### 3. Who would pay this tax?

This tax would apply to people who live or work in Washington state and make more than \$1 million annually. For Washington residents, the tax would apply to all taxable income, and for non-residents, it would apply to the net amount of income that is derived from or connected with Washington (e.g., through employment or business activities in the state).

This tax would be paid by around 20,000 households, or less than 1% of the wealthiest people in Washington. **This means that over 99% of Washingtonians would not pay this tax.**

### 4. Why does Washington need a Millionaires Tax?

Washington continues to have the second most inequitable – or upside-down – tax code in the nation. This is in part because it over-relies on funding from regressive taxes like the sales tax, which put the biggest squeeze on people with low and middle incomes. Meanwhile, the ultra-wealthy get a special deal. For example, people making over \$1 million per year pay around 4% of their income in state and local taxes in Washington – compared to around 11% for median-income households and 14% for the lowest-income households.<sup>1</sup>

The Millionaires Tax would help make meaningful progress toward fixing this broken tax code to better fund our communities sustainably and equitably.

It is also important to note that the wealthiest 1% of households in Washington recently received the largest wealth transfer in U.S. history through the harmful Congressional H.R. 1 bill, resulting in an average tax break of \$90,850.<sup>2</sup> The ultra-wealthy keep hoarding wealth and getting a special deal in the tax code at the expense of the rest of us.

## Where the money goes:

### 5. How much revenue would the Millionaires Tax generate, and how would those funds be spent?

Current estimates show that the Millionaires Tax could generate \$3.7 billion per year in revenue, starting in 2029.<sup>3</sup> Generally, revenues would support funding for critical programs, expand tax credits for low-income people, and expand tax exemptions for small businesses.

**As currently proposed, the funding is allocated to the following areas:**

#### ▶ State General Fund – 93% of revenue

##### **GENERAL FUND PROGRAMS:**

- Broad support for K-12 education, health care, higher education, and other essential government and human services.

##### **TAX OFFSETS AND THE WORKING FAMILIES TAX CREDIT:**

- Expanded eligibility for the Working Families Tax Credit, which provides a cash boost to people with low incomes, so that it includes young adults and seniors (i.e., ages 18 to 24, and age 65 and older) who do not have qualifying children. People would start receiving the expanded credit for the 2028 tax year starting in 2029.
- A sales tax exemption for grooming and hygiene products (like soap, toothpaste, and shampoo), starting in 2029.
- A Business and Occupation (B&O) small business tax credit increase that is more than doubled. Additionally, small businesses with less than \$250,000 in gross receipts will no longer owe the B&O tax, starting in 2029.
- Adjustments to a recent B&O tax surcharge on high-grossing businesses so that they expire one year earlier, in 2028 instead of 2029.

#### ▶ County Public Defense Funding Stabilization Account – 7% of revenue

- The creation of a new account to dedicate funding to counties and cities for public defense services.

**6. If this tax goes into effect, does it mean there will no longer be a budget shortfall this year?**

No. Because Washington does not have the infrastructure to administer this tax immediately, revenues from the Millionaires Tax would not come in until 2029. While it does not address current budget shortfalls, passing this tax now would help ensure that budgets can be balanced in more progressive ways over the long term. But **there are nearer-term revenue options that lawmakers should consider this session. (See sidebar to the right.)**

**7. Why is it a good idea to use funding from this tax to expand the Working Families Tax Credit?**

The flexible, direct cash support that the Working Families Tax Credit provides is a lifeline that people can use for things like groceries, utilities, and school supplies. In 2025, it provided an average cash boost of \$722 to around 300,000 households, supporting one in four kids in Washington.<sup>6</sup> The proposal to use part of the Millionaires Tax funding to expand this credit to reach a wider population is an important move to fix our tax code holistically and help more people deal with the affordability crisis.

## What the tax applies to:

**8. What would the Millionaires Tax apply to?**

**The Millionaires Tax would apply to how much your household actually earns in a year**, and not financial assets or net worth. This means that the value of your home, for example, would not be a factor in whether you would pay this tax or not.

## HOW DO WE ADDRESS THE BUDGET CRISIS IN THE NEAR TERM?

**There are nearer-term revenue options on the table this session that would bring in funding earlier than 2029.** Lawmakers could pass the wealth tax on financial intangible assets (SB 5797) and an employer-paid payroll tax on high wages like the Well Washington Fund (HB 2100). These policies would still take time to set up, but could bring in revenue more quickly than the Millionaires Tax. They are estimated to bring in approximately \$3 billion to \$6 billion annually to our state budget and help prevent budget cuts in the coming years.<sup>4,5</sup>



## ***What would the Millionaires Tax apply to? (continued)***

The Millionaires Tax would also only apply to your Washington taxable income, which is based on a household's federal adjusted gross income, plus some additional adjustments, deductions, and nonrefundable credits. Generally, the credits and some of the adjustments are designed to prevent double taxation and account for taxes already paid on the same earnings for the capital gains tax, the B&O tax, pass-through entities' tax payments, and income taxes for other states and jurisdictions.

### **9. What deductions are included in the Millionaires Tax?**

**Standard deduction of \$1 million:** There is a standard deduction of \$1 million per household, regardless of filing status (e.g., single, married filing jointly, married filing separately, domestic partners). So, as we noted earlier, if a household makes \$1,000,500 each year, the tax would only apply to that \$500. In this example, total taxes owed would be approximately \$50. The deduction would be increased for inflation every year.

**Charitable deduction of \$100,000:** Similar to the standard deduction, this deduction allows for up to \$100,000 in allowable charitable contributions to be deducted per household, regardless of filing status.

### **10. How would capital gains profits factor into this proposed tax?**

The short answer: Individuals would not be double taxed – paying the Millionaires Tax and capital gains tax – on the same profits they earn from the sale of stocks, bonds, and other high-end assets.

The longer answer: The U.S. and Washington state tax codes have different definitions of capital gains. For the Millionaires Tax, the Washington state definition of long-term capital gains would be used to calculate Washington taxable income.

How this works: Federal long-term capital gains and losses would be removed from a taxpayer's federal adjusted gross income, and state capital gains would be added back in, helping to calculate the overall Washington taxable income. This ensures that Washington state's capital gains exemptions – such as on the sale of real estate or the sale of qualified family-owned small businesses – would be carried over and exempted from the Millionaires Tax. The charitable deduction (\$111,000 in 2025, adjusted annually for inflation) for Washington state capital gains would also be carried over.

Importantly, the Millionaires Tax would provide a nonrefundable tax credit of the Washington state capital gains taxes already paid. Thus, no double taxation.

## 11. Would the Millionaires Tax apply to the sale of homes and real estate?

**No, the Millionaires Tax would not apply to the sale of your home and other real estate, nor the equity or appraised value of your home.** Because the sale of real estate is specifically exempted within the Washington capital gains tax, that exemption carries over and would be exempted from the Millionaires Tax.

The Millionaires Tax would apply to rental income for people who are landlords, however.

## Other common questions:

### 12. How would the Millionaires Tax impact business owners?

If a household reports their business income and expenses on their own federal income tax return *and* earns a profit over \$1 million, it's possible the business would be affected by this tax. There are several provisions to help mitigate the effect of the Millionaires Tax on small businesses:

- **Credit for B&O taxes:** Any B&O taxes paid on Washington taxable income during the tax year would be fully credited, reducing taxes owed.
- **Exemption for sale of qualified family-owned small businesses:** This carries over from the capital gains tax exemption.
- **Deduction on federal adjusted gross income (AGI) for business expenses and costs:** Business owners who report their business income on their federal income tax return can deduct their expenses to show their actual, or net, profit. This means that their federal AGI is reduced – and therefore the income subject to the proposed Millionaires Tax is also reduced. As a result, the vast majority of ordinary small businesses would not be subject to this tax.
- **Options for pass-through entities:** Pass-through entities are businesses structured as s-corporations, partnerships (which include limited liability companies, or LLCs), or sole proprietorships. In businesses with these types of structures, profits “pass through” to their owners for taxation – so that profits fall under personal income taxes rather than corporate income taxes.<sup>7</sup> Taxable state income under the Millionaires Tax would include a business owner’s share of pass-through business income. To mitigate this impact, the state would provide an option in which the business is responsible for the tax rather than the owner, which would allow these business owners to 1) receive a credit for their share of pass-through business income, and 2) claim a federal deduction for pass-through entity taxes.

### 13. How many states have a Millionaires Tax?

Forty-one other states tax individual earnings over \$1 million per year.<sup>8</sup> Additionally, within the past five years, **momentum has been growing nationwide to establish distinct “Millionaires Taxes”** – typically through surcharges or progressive income rate structures.<sup>9</sup> For example, Massachusetts voters passed the Fair Share Amendment in 2022, a 4% surcharge on top of the standard income tax on income over \$1 million. (And the number of millionaires in Massachusetts has increased by 30% since that state enacted this tax!)<sup>10</sup>

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## Endnotes

1. Institute on Taxation and Economic Policy, “Who Pays? 7<sup>th</sup> Edition,” Jan. 2024, <https://itep.org/washington-who-pays-7th-edition/>.
2. Emily Vyhnaneck, Tracy Yeung, and Leila Reynolds, “What the harmful Republican megabill means for people and families in Washington,” Washington State Budget and Policy Center, Sept. 4, 2025, <https://budgetandpolicy.org/schmudget/what-the-harmful-republican-megabill-means-for-people-and-families-in-washington/>.
3. Washington Senate Democrats, “Washington State Democrats introduce Millionaires Tax,” Feb. 3, 2026, <https://senatedemocrats.wa.gov/blog/2026/02/03/washington-state-democrats-introduce-millionaires-tax/>.
4. Office of Financial Management, Fiscal Notes, SB 5797, 2025. <https://fnspublic.ofm.wa.gov/FNSPublicSearch/Search/bill/5797/69>.
5. Office of Financial Management, Fiscal Notes, HB 2100, 2026. <https://fnspublic.ofm.wa.gov/FNSPublicSearch/Search/bill/2100/69>.
6. Data from Department of Revenue, Feb. 2026.
7. Institute on Taxation and Economic Policy, “How Do States Tax the Profits of Pass-through Entities?,” 2025, <https://itep.org/how-do-states-tax-the-profits-of-pass-through-entities/>.
8. Tax Policy Center, “How do state and local individual income taxes work?,” Jan. 2024, <https://taxpolicycenter.org/briefing-book/how-do-state-and-local-individual-income-taxes-work>.
9. Natalie Fertig, “Washington state lawmakers join other states in proposing a millionaire's tax,” POLITICO, Feb. 3, 2026, <https://www.politico.com/news/2026/02/03/washington-state-millionaire-tax-00762278>.
10. Richard Solomon, “Do Millionaire Surtaxes Lead to Millionaire Exodus?,” People’s Policy Project, Nov. 17, 2025, <https://www.peoplespolicyproject.org/2025/11/17/do-millionaire-surtaxes-lead-to-millionaire-exodus/>.

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