

# About Washington's New Millionaires Tax:

## FREQUENTLY ASKED QUESTIONS

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**The monumental new Millionaires Tax was signed into law in Washington state in the spring of 2026!** This tax will provide over \$3 billion annually to protect funding for core programs in our state, like health care and education. It will 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 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 will 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 will only apply to that \$500.** In this example, total taxes owed will be approximately \$50.

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

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



### 3. Who will pay this tax?

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

This tax will be paid by around 20,000 households in our state, or less than 1% of the wealthiest households in Washington. This means that over 99% of Washingtonians will 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, households 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 will 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 will the Millionaires Tax generate, and how will those funds be spent?

Current estimates show that the Millionaires Tax will generate over \$3 billion per year in revenue, starting in 2029.<sup>3</sup> Generally, revenues will support funding for critical programs, expand tax credits for low-income people, and expand tax benefits for small businesses. Unless otherwise stated, the programs and changes listed below will begin in 2029.

#### FUNDING IS ALLOCATED TO THE FOLLOWING AREAS:

##### General fund programs:

- **Broad support for K-12 education, health care, higher education, and other essential government and human services.** Almost half of the general fund goes towards K-12 education.

##### Child care and school programs:

- **Support for free and low-cost child care and early learning programs** by dedicating 5% of Millionaires Tax revenues to the Fair Start for Kids Account.
- **Free school breakfast and lunch for all children** in K-12 schools in Washington.

##### Expanded eligibility for the Working Families Tax Credit:

The Working Families Tax Credit provides a cash boost to low- and middle-income households to provide much-needed relief for families facing the rising cost of living.

- **Removal of the age restriction** so that low-income young adults ages 18 to 24 and working seniors ages 65 and older without children at home will qualify for the credit.
- **Increased income limits** so that an estimated additional 460,000 households – for a total of over 20% of all households in Washington – will qualify for the credit.<sup>4</sup>

##### Other tax offsets:

- **No more sales tax on certain common household items** through a sales tax exemption for over-the-counter drugs, diapers, and grooming and hygiene products (like soap, toothpaste, and shampoo).
- **An increased Business & Occupation (B&O) tax filing threshold for small businesses** so that if a business has less than \$250,000 in gross receipts, it will no longer have to file nor pay any B&O tax.
- **A small business B&O tax credit that is more than doubled**, which means that approximately the first \$300,000 of gross receipts will be exempted, with credits gradually phasing out up to \$600,000.
- **Expiration of the sales and use taxes on retail services enacted in 2025** with ESSB 5814 (except for advertising services), starting in 2029; and an exemption from these taxes for public libraries and K-12 schools and districts, starting immediately.
- **Funding for local county and city governments** to offset the impact of reduced sales tax revenues.

**6. 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. Using 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.

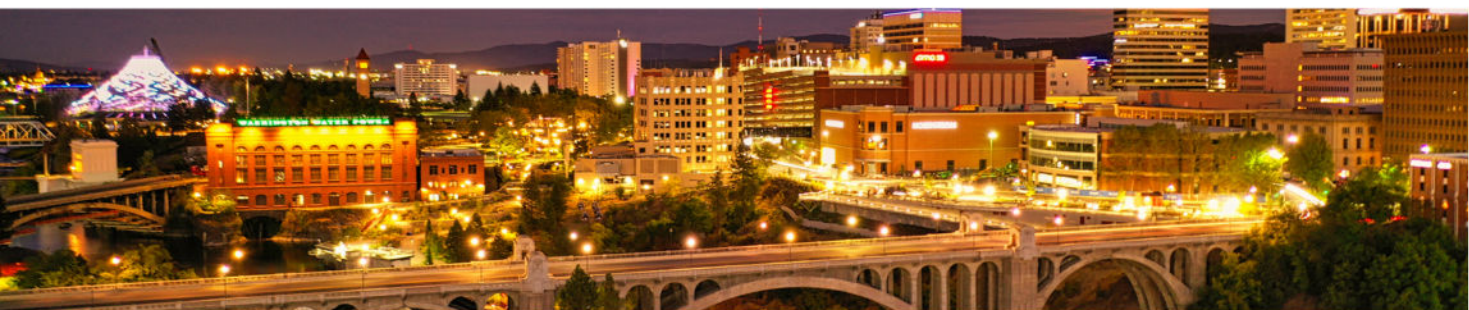
**What the tax applies to:**

**7. What will the Millionaires Tax apply to?**

**The Millionaires Tax will 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, will not be a factor in whether you will pay this tax or not.

The Millionaires Tax will also only apply to your Washington taxable income, which is based on a household’s federal adjusted gross income (AGI) – plus some additional adjustments, deductions, and nonrefundable credits. This means, for example, that tribal income will be excluded from Washington taxable income, since it is excluded from federal AGI. 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 on an owner’s behalf, and income taxes for other states and jurisdictions.

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## 8. 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). The deduction will be increased for inflation every two years. So, as we noted earlier, if a household makes \$1,000,500 each year, the tax will only apply to that \$500. In this example, total taxes owed will be approximately \$50.

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

## 9. How will capital gains profits factor into the Millionaires Tax?

The short answer: Individuals will 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 will be used to calculate Washington taxable income.

How this works: Federal long-term capital gains and losses will be removed from a taxpayer's federal adjusted gross income, and state capital gains will 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 – will 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 will also be carried over.

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

## 10. Will the Millionaires Tax apply to the sale of homes and real estate?

**No, the Millionaires Tax will 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 will be exempted from the Millionaires Tax.

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

## Other common questions:

### 11. How will the Millionaires Tax impact business owners?

If a household owns a pass-through entity – and therefore reports their business income and expenses on their own federal income tax return – *and* earns over \$1 million during the year, it’s possible they will be affected by this tax.

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>5</sup> Taxable state income under the Millionaires Tax will include a business owner’s share of pass-through business income.

There are several provisions to help mitigate the effect of the Millionaires Tax on these businesses and business owners:

- **Credit for B&O taxes:** Any B&O taxes paid on Washington taxable income during the tax year will be fully credited, reducing taxes owed.
- **Exemption for sale of qualified family-owned small businesses:** This carries over from the capital gains tax exemption.
- **Carryover of net operating losses:** Business owners with a net operating loss after the tax takes effect in 2028 can carryover up to 80% of those losses to deduct in a future year.
- **Pass-through entity election:** The state will provide an option in which the business is responsible for paying the tax rather than the owner, which allows these business owners to 1) receive a credit for the tax paid on their share of pass-through business income, and 2) claim a federal deduction for pass-through entity taxes.
- **Advisory group to assist with the roll-out of the tax:** This appointed group of representatives of small and large business associations and certified public accountants, among others, will have the opportunity to provide the Department of Revenue with recommendations on the implementation and administration of the tax.

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

Forty-one other states tax individual earnings over \$1 million per year.<sup>6</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>7</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. (The tax has also routinely exceeded initial revenue projections — outpacing expectations by \$3 billion over roughly its first three years!)<sup>8</sup>

# 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 Vyhnanek, 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. Office of Financial Management, Fiscal Notes, SB 6346, 2026. <https://fnspublic.ofm.wa.gov/FNSPublicSearch/Search/bill/6346/69>.
4. Tracy Yeung and Leila Reynolds, “The Millionaires Tax significantly expands the Working Families Tax Credit,” Washington State Budget and Policy Center, March 17, 2026, <https://budgetandpolicy.org/schmudget/the-millionaires-tax-significantly-expands-the-working-families-tax-credit/>.
5. 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/>.
6. 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>.
7. 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>.
8. Wesley Tharpe, “States Should Forge Ahead With New Revenues in Face of Misleading Tax Migration Claims,” April 6, 2026, <https://www.cbpp.org/blog/states-should-forge-ahead-with-new-revenues-in-face-of-misleading-tax-migration-claims>.

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