

Facts vs. Myths: Understanding the Millionaire's Tax (SB 6346)



Emily Vyhnanek, they/them
Washington State Budget and Policy Center



Emma Scalzo, she/her
Balance Our Tax Code Coalition

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 would be exempt from paying this tax!

WHAT INCOME IS TAXED?

The Millionaires tax will apply a 9.9% tax **“on the receipt of Washington taxable income.”**

The Millionaires tax provides a standard deduction to households of \$1 million annually and a charitable deduction of \$100,000.

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.

In this example, a household's taxes owed would be \$0 if they make at least \$500 in deductible charitable contributions!

WHO WILL PAY THIS TAX?

- Unless you are earning *OVER* \$1 million in a year, you are not going to pay this tax!
- Around **20,000 of the wealthiest individuals and households** in Washington state – **less than one percent** of our state's tax-filer population will pay this tax.
- Residents (all income) and non-residents (net amount of income that is derived from or connected with Washington).

WILL THIS MILLIONAIRES TAX APPLY TO A HOME THAT I OWN OR SELL?

No! The value of your home and any amounts you might receive from the sale of a home are fully exempted from the Millionaires tax.

This is because of the Millionaires tax carries over an exemption within the capital gains tax which **excludes any amounts received for the sale of residential and other real property.**

Additionally, the Millionaires Tax would apply to how much your household actually earns in a year, and not financial assets (like how much your home is worth).

HOW ARE BUSINESSES IMPACTED?

1. **A 100% Credit for any Business & Occupation (B&O) taxes paid to Washington state:** These taxes are fully credited, reducing taxes owed and ensuring no double taxation.
2. **Exemption for sale of qualified family-owned small businesses:** This carries over from the capital gains tax exemption.
3. **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 Millionaires Tax is also reduced. *As a result, **the vast majority of ordinary small businesses will not be subject to this tax.***

HOW ARE BUSINESSES IMPACTED? (CONT.)

Options for pass-through entities: Many businesses operate as “Pass-through entities,” which include s-corporations, LLCs, or sole proprietorships. The Millionaires Tax would apply to a business owner’s share of pass-through business income.

In businesses with these types of structures, profits land on or “pass through” to someone’s personal income taxes (rather than paying corporate income taxes).

The Millionaires tax provides an option for pass through entity owners to:

1. Receive a credit for their share of pass-through business income, AND
2. Claim a highly beneficial federal deduction for pass-through entity taxes.

HOW MUCH IS RAISED & WHERE WILL THE MONEY GO?

The Millionaires Tax is estimated to bring in **\$3+ billion annually (beginning in 2029)**.

*“The intent of this act is to **maintain and preserve essential governmental services for Washingtonians, particularly within K-12 education, health care, higher education, and human services, and support working families** by ensuring continued investment in the working families' tax credit by depositing revenues from this act into the general fund.”*

HOW THE FUNDS (GENERALLY) BREAK DOWN:

Revenue generated must be deposited into **state general fund** (certain specific things funded + broad funding for general fund services) and relatively small amount going to a newly created **Local Public Defense Funding Stabilization Account**

EXPANSION TO THE WORKING FAMILIES TAX CREDIT

Expanded eligibility for the Working Families Tax Credit:

The WFTC provides a cash boost to people with low incomes. The Millionaires tax includes a much-needed **age expansion, 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.

SPECIFIC SALES & USE TAX EXEMPTIONS

Diapers + grooming and hygiene products will be fully exempt from the sales tax.

The legislation enacts a sales tax exemption for diapers and for grooming and hygiene products (like soap, toothpaste, and shampoo), starting in 2029.

BUSINESS AND OCCUPATION CREDIT AND EXEMPTION

Two big improvements to the benefits available for small businesses in Washington state:

1. Business and Occupation (B&O) small business tax credit increase that is more than doubled.
2. Small businesses with less than \$250,000 in gross receipts will no longer owe the B&O tax, starting in 2029.

\$150 MILLION TOWARDS THE PUBLIC DEFENSE FUND

Local Government Public Defense Funding Stabilization Account – now capped at \$150 million per year: The Millionaires tax creates a new account to dedicate funding to counties and cities for public defense services.

COULD THE INCOME TAX THRESHOLD BE LOWERED LATER?

Potentially - but that's **not the intention of the bill and progressive tax reforms like the Millionaires Tax.**

Our long-term goal is to get to a tax code that is re-balanced and right-side up. This will require a lot of big changes to bring equity to the tax code, with policies that factor in your ability to pay.

Starting with policies like the Millionaires tax helps make sure the wealthy pay more of what they owe, and will start to take pressure off everyone else.

Important to stay grounded: Our current tax code is **ALREADY** designed to over-rely on every-day people with middle and low incomes.

IS IT CONSTITUTIONAL UNDER WASHINGTON LAW?

Constitutional interpretation is ultimately determined by the Washington State Supreme Court.

Here's what you need to know:

- The Washington State Constitution **does not outright prohibit an income tax.**
- The issue at stake is the precedent for interpreting income as property. Property is beholden to a "uniformity clause," meaning all property taxes must be applied at the same rate within a given class of property.
- To enact a Millionaires Tax, the court would need to overturn the definition of income as property; this is ultimately up to them.

WILL IT PASS?

Yes (but with your help!) **Call your lawmakers, sign a group letter, and keep the pressure on. We are in the final days of session!!**

If the legislature passes the tax, the Millionaires tax will have the following path:

1. The bill will head the Governor's desk for signing. *The Governor can also veto (or line-item veto), so we'll be looking out for actions here.*
2. The tax will be challenged via lawsuit - which means the Courts will weigh in on the constitutionality.
3. The tax will also certainly be challenged at the ballot box in November 2026, so voters will have the chance to weigh in.

