



MULTISTATE INCOME/FRANCHISE TAX

Washington enacts Millionaires Tax

Tax Alert

Overview

On March 30, 2026, Washington [Senate Bill 6346](#) (S.B. 6346) was signed into law, establishing a new state tax on high-income individuals and enacting a package of related tax changes. Beginning January 1, 2028, S.B. 6346 imposes a 9.9 percent tax on Washington taxable income exceeding \$1 million per household (the “Millionaires Tax”), with first returns and payments due in 2029. Additionally, S.B. 6346 provides for new sales and use tax exemptions and reverts many changes from the 2025 session effective January 1, 2029, expands the Working Families’ Tax Credit, modifies Business and Occupation (“B&O”) tax credits and filing thresholds, and establishes an elective pass-through entity-level tax (“PTET”). S.B. 6346 generally takes effect 90 days after adjournment of the 2026 legislative session. Lastly, S.B. 6346 provides that if the Millionaires Tax is invalidated by a court of final jurisdiction, the act is void in its entirety.

This Tax Alert summarizes some of the relevant provisions of the Millionaires Tax.

Millionaires Tax

S.B. 6346 imposes a new tax, beginning January 1, 2028, at a rate of 9.9 percent on Washington taxable income exceeding \$1 million, determined on a per-household basis. The tax applies only to individuals. If an individual’s Washington taxable income does not exceed the \$1 million threshold for a taxable year, no tax is due for that year. The first annual returns and payments under the new tax are due in calendar year 2029.

Determination of base income

S.B. 6346 defines Washington base income as federal adjusted gross income (“AGI”) modified by enumerated statutory adjustments, including:

- An exclusion of long-term capital gains and losses included in federal AGI.
- An addition of Washington capital gains subject to Washington’s capital gains excise tax plus the Washington capital gains tax standard deduction, to the extent the deduction reduced the amount of long-term capital gains subject to the Washington capital gains tax.
- An addition of interest income from obligations of other states and their political subdivisions excluded from federal AGI, while continuing to exclude interest on Washington state and local obligations.
- An addition of state and local income taxes, as well as certain B&O or public utility taxes, to the extent deducted in computing federal AGI.

- An addition of loss carryforwards attributable to taxable years beginning before January 1, 2028, and partial inclusion of net operating loss carryforwards attributable to taxable years beginning on or after January 1, 2028, as specified in the statute.
- An addition of income from certain incomplete non-grantor trusts for Washington residents.
- An exclusion of interest income from federal obligations to the extent the state is prohibited from taxing that income.

Standard deduction and other adjustments

Washington taxable income is determined by further modifying Washington base income by key statutory adjustments, including:

- A \$1 million standard deduction, applied per individual or per married or state-registered domestic partner household, regardless of whether a joint or separate return is filed. For nonresident individuals, the standard deduction is prorated by multiplying the amount of the standard deduction by a fraction, the numerator of which is the individual's Washington base income and the denominator of which is the individual's federal AGI from all sources. The fraction may never be greater than one. The standard deduction is indexed for inflation beginning October 2029 and each October of an odd-numbered year thereafter, using the consumer price index for all urban wage earners and clerical workers.
- A deduction for charitable contributions claimed under Internal Revenue Code ("IRC") section 170, capped at \$100,000 per individual or household unit.
- Additional adjustments related to capital construction fund deposits, wagering losses, and certain business expenses disallowed for federal income tax purposes.

Allocation and apportionment of income

S.B. 6346 establishes detailed sourcing, allocation, and apportionment rules for determining Washington taxable income:

- Residents allocate all income to Washington.
- Nonresidents allocate income derived from Washington sources, including compensation for services performed in Washington, income from business activity conducted in Washington, and income attributable to Washington real or tangible personal property.
- Income from multistate business activity is apportioned using a single receipts-based factor with market-based sourcing rules.
- Special rules apply to professional athletes, non-resident student athletes and certain short-term Washington activities.
- Part-year residents include total AGI for periods of Washington residency and Washington-source income for periods of nonresidence.

Elective PTET

Beginning January 1, 2028, S.B. 6346 allows certain pass-through entities, including partnerships, limited liability companies classified as partnerships, and S corporations to elect annually to pay the Millionaires Tax at the entity level on behalf of participating owners.

- The PTET is imposed at a rate of 9.9 percent on the taxable income of the electing entity.
- The election is made annually and is irrevocable for the taxable year once filed with the first election due by June 15, 2028.

- Taxable income includes the distributive share of income attributable to participating owners, with different sourcing rules for resident and nonresident owners, as previously discussed.
- Participating owners are allowed a nonrefundable credit for their proportionate share of tax paid by the electing entity.
- Estimated payments for the PTET are not required before July 1, 2029.

Credits

S.B. 6346 provides several nonrefundable credits against the Millionaires Tax, including:

- A credit for income taxes paid to another state or political subdivision on income also subject to Washington tax.
- A credit for Washington B&O tax or public utility tax paid on the same income.
- A credit for Washington capital gains tax paid on capital gains included in Washington taxable income.
- A credit for PTET payments attributable to participating owners.

Unused credits cannot be carried forward or backward, and no refunds are provided for unused credit amounts.

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