SB 6346 | HB 2724

Washington Income Tax on "Millionaires"

What Washington employers and business owners need to know

Washington lawmakers have enacted a state income tax, despite decades of failed efforts. Engrossed Substitute Senate Bill 6346 was framed as taxing high earners, but it will have profound consequences for job creators and employers. That's because many Washington businesses are structured as pass-through entities (S-corps/partnerships/LLCs) where business income is reported on the owner's individual return.

HOW IT'S CALCULATED

START WITH FEDERAL ADJUSTED GROSS INCOME (AGI)

DETERMINE "WA BASE INCOME"

- *Subtract items WA won't tax (like federal long-term capital gains)*
- *Add back certain items (like some state/local taxes deducted on your federal return and other required add-backs)*

APPLY DEDUCTIONS

- *$1,000,000 exemption per person or couple (inflation-adjusted; reduced for nonresidents)*
- *Up to $100,000 in charitable deductions*
- *80% carryforward of net operating losses*

APPLY CREDITS

- *Income taxes paid to other states/local jurisdictions*
- *WA B&O/Public Utility taxes paid*
- *WA capital gains tax paid, and*
- *WA income tax paid by a pass-through entity (if it elects to pay).*

Owners of pass-through entities could elect to pay the income tax either through the business or individually. If they elect to have the pass-through entity pay, the owners would be allowed a credit against the tax. (Federal law has limited the amount of state and local taxes that individuals may deduct, but pass-through entities may still take the full deduction.)

HOW MUCH?

9.9%

Tax rate on an individual's Washington taxable income, beginning Jan. 1, 2028

RAISING OVER

$3B

PER YEAR

WHERE THE MONEY GOES

95%

STATE GENERAL FUND

5%

Distribution into the fair start kids account

OVER ▸

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Why business owners should pay attention

Pass-through income can trigger the tax (even without cash distribution)

- The bill explicitly treats pass-through income as including both distributed and undistributed federal taxable income.

Practical implication: an owner can face Washington income tax on profits retained in the business for payroll, equipment, inventory, debt service, or expansion.

Volatility risk for employers

- Owners can get pulled over the threshold in a "spike year" (strong year, one-time transaction, restructuring, etc.).

Administrative complexity adds cost

- New state-level income tax base, credits, apportionment, and estimated payment mechanics create additional compliance work — especially for multi-state owners and pass-throughs.

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What tax relief is included

- Repeals the new sales taxes applied to retail services under SB 5814, except for advertising services, beginning January 1, 2030.
- Doubles the B&O small business credit and increases the B&O filing threshold from $125,000 to $300,000.
- Expands the Working Families Tax Credit eligibility for childless adults 18+.
- Exempts certain grooming/hygiene products, diapers and over-the-counter drugs from state sales and use tax.
- Repeals sales taxes on certain specified services, which were enacted in 2025 in ESSB 5814 effective Jan. 1, 2029.

Other notable provisions of the bill

- It specifies that the income tax would apply to pension income.
- It would amend I-2111. The initiative, which was approved by the Legislature in 2024, prohibited the state and any local jurisdiction from imposing income taxes. The income tax bill would amend the statute to allow the state income tax, but it would leave the prohibition on local income taxes in place.
- If the income tax is determined to be unconstitutional, the entire bill would be null and void.
- There is an emergency clause, which would prevent a referendum.
- Requires the creation of an advisory group for consultation on the implementation and administration of the bill.

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