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Washington State S.B. 6346 - "Millionaire Tax" Frequently Asked Questions:

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Q: What is Washington's new millionaire tax?

A: Washington's newly passed legislation imposes a 9.9 percent tax on income exceeding \$1 million for individual taxpayers, with joint filers sharing a combined \$1 million standard deduction. The new tax is effective January 1, 2028. This marks a significant shift for a state that has historically not had a personal income tax. The policy could face constitutional challenges, as Washington's constitution requires property taxes to be uniform and the state's Supreme Court historically classified income as property in a 1933 ruling, which is why the state has long avoided a traditional income tax.

Q: What types of income does the tax apply to?

A: The tax applies broadly to taxable income reported on federal returns. This means it includes wages, bonuses, business income, and potentially certain investment earnings depending on how the state defines the base, though Washington's existing capital gains tax remains a separate levy structured as an excise tax. Importantly, liability is tied to income generated in Washington rather than residency alone. As a result, individuals residing outside the state could still face the tax if they earn compensation in Washington, receive investment income tied to the state, or collect distributions from pass-through entities operating there.

Q: Could the tax lead to outmigration?

A: Some states that have enacted higher taxes on top earners did not experience a significant outflow of high-income residents. For example, in 2022 Massachusetts imposed a 4 percent surtax on annual income above \$1 million in addition to its existing 5 percent income tax. Early data shows that both the number and wealth of millionaires continued to grow after the surtax took effect, and tax collections substantially exceeded projections. Washington's measure, however, represents a more abrupt change, introducing a sizable top personal income levy in a state that historically had no income tax and potentially prompting more pronounced out-migration.

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Q: How will revenue generated from the tax be used?

A: S.B. 6346 is projected to generate roughly \$3.5 billion annually beginning in 2029, with most of the revenue flowing into Washington's state general fund, supporting core government services such as public schools, health care, education, and other social programs. A portion of the funding will also be directed toward tax relief measures and targeted programs, including expanding the Working Families Tax Credit for lower-income households, increasing small-business tax exemptions under the state's Business & Occupation tax, and eliminating sales tax on certain essential goods like hygiene products. Additionally, part of the revenue is expected to support public defense systems, helping offset rising legal service costs.

Q: How will the tax affect commercial real estate?

A: The new tax is unlikely to materially alter overall commercial real estate demand, though it may influence certain property segments indirectly. While the tax applies to income distributed from a pass-through entity operating in Washington, large organizations are unlikely to uproot their businesses solely in response to this policy. Expanded small-business tax relief tied to the legislation could support entrepreneurship and local firm growth, potentially benefiting property types that rely heavily on smaller retail, office, and flex industrial tenants. In addition, luxury retailers and premium service providers, where discretionary spending by high-income earners drives activity, are likely to see only modest impacts under the expectation that outmigration remains on the margin.

Q: How could the tax affect CRE investment sales?

A: The tax does not change the existing capital gains tax exemption on real estate transactions. At the same time, it could encourage first-time high-income private investors to pursue a range of acquisition opportunities with commercial properties, where depreciation benefits may help reduce taxable income. This demand may outweigh disposition activity from investors seeking to relocate domicile in order to reduce the impact of S.B. 6346 on their total income. For institutional investors, the impact is limited, as these entities are largely structured to avoid direct exposure to personal income taxes.

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