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WASHINGTON STATE TAX POLICY

A LITERATURE SYNTHESIS OF THE POTENTIAL IMPACTS OF THE “MILLIONAIRES TAX”

ABBY MURPHY
MARGOT HUTTER

METHODOLOGY

Literature synthesis of the following...

- **Washington State Tax Background**
 - Gates Report, Dick Conway articles
- **“Millionaires Tax” Policy**
 - Details and context
 - Potential outcomes of the tax
- **Similar Policies**
- **Conclusion**

• *Effective tax rate = total taxes paid ÷ total income*

BACKGROUND

REGRESSIVITY RANKING:

49TH

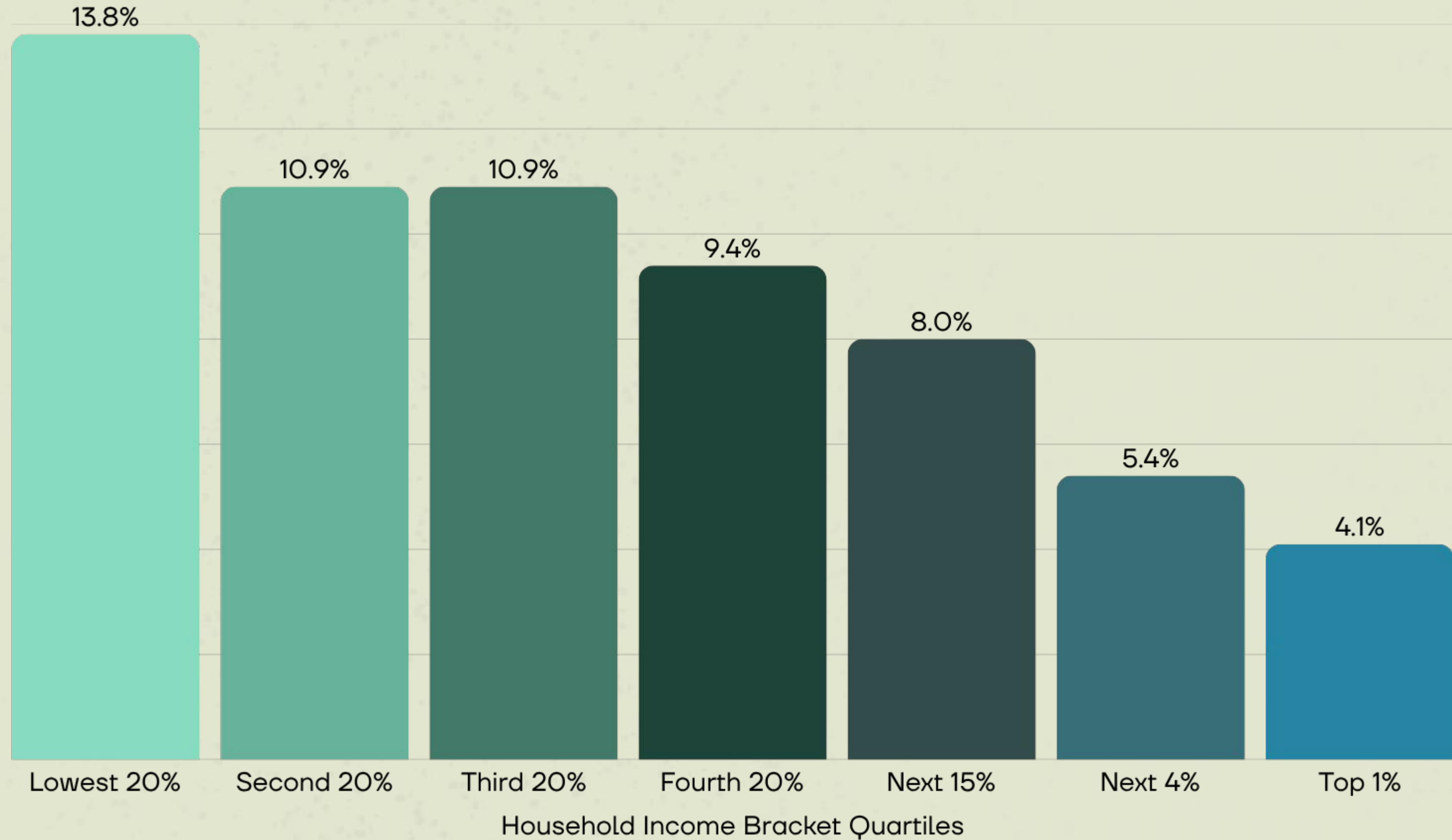
- **One of only nine states without an income tax**
- Revenue gap
- Fairness

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Total Taxes as a Share of Family Income in Washington State



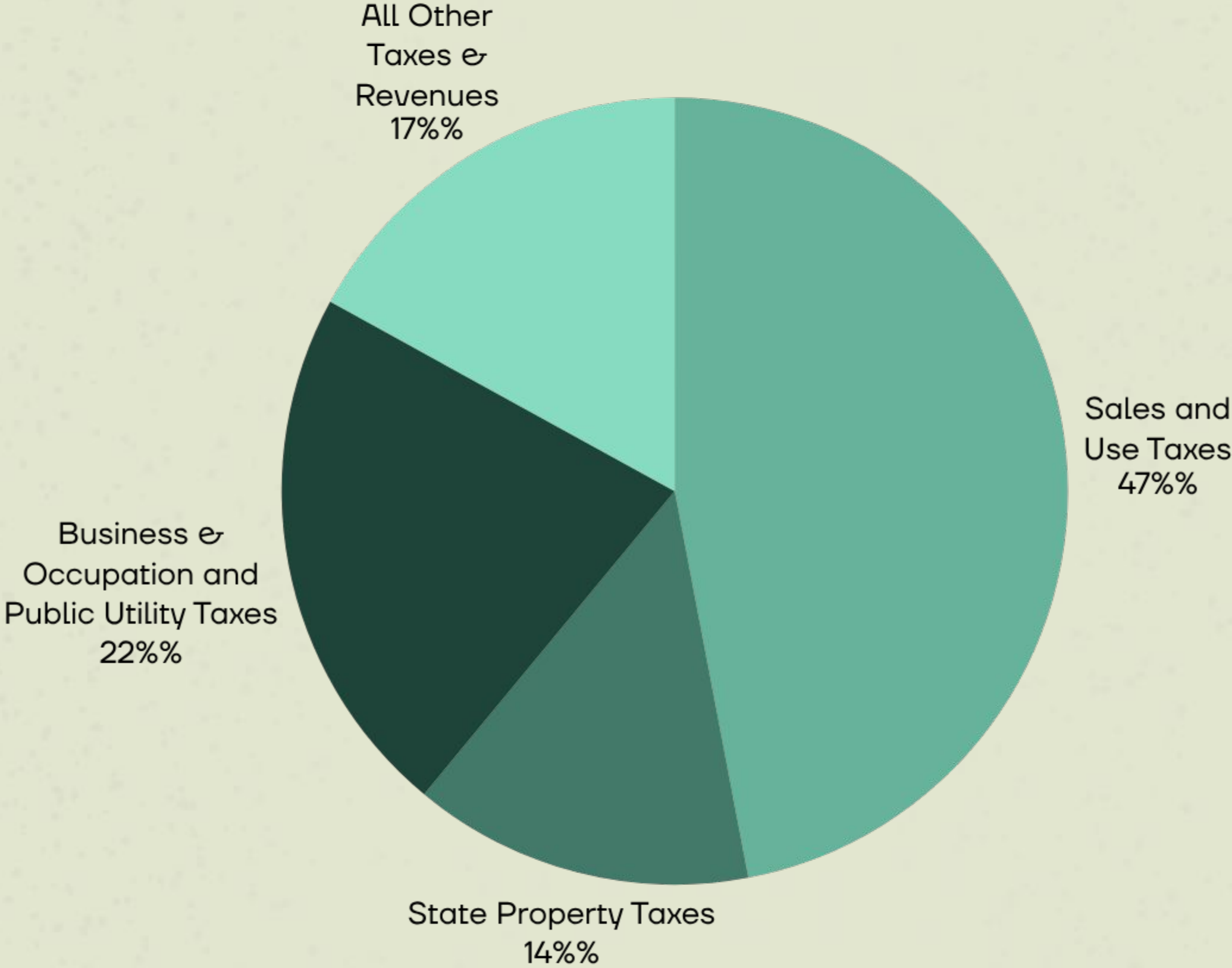
State Government Near General Fund Tax & Other Revenues Fiscal Year 2025

STATE REVENUES

47%

- **Sales and use taxes** make up 47% of Washington State revenue
- **Heavily dependent** on consumption and spending for revenue

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WASHINGTON STATE REVENUE GAP

- **NGF-O: Near General Fund - Operations**
 - K-12 education, Medicaid, social services, etc.
- **Original** projected ending balance for **FY 2026-29**
 - **\$381 million cushion**
- **Updated** projected ending balance for **FY 2026-29**
 - **\$4.3 billion deficit**
- OFM claims projected drops in NGF-O revenue are driven by **slower economic growth & weaker taxable sales** for retail & construction

WHAT THE LITERATURE SAYS ABOUT TAX FAIRNESS & REGRESSIVITY

WA's current tax structure is **inequitable and regressive** (Conway; Gates Report)

- Business and Occupation (B&O) tax applies to gross revenue, harming **small businesses** experiencing low profits (Gates Report)
- **Heavy reliance** on sales and B&O taxes – unstable and inequitable (Conway)
 - Sales/excise tax dependence = intense **revenue shortfalls** during

recessions

WHAT THE LITERATURE SAYS ABOUT TAX REFORM

- “Gates Report” (2002): increase low-income **tax credits**, reduce sales/excise tax **dependence**, **increase high-income taxes** via capital gains and/or income tax
- Dick Conway proposes **flat-rate income tax** reforms: **10.5%** (no deductions) or **11.2%** with a \$15k standard deduction
- Both reduce taxes for middle & lower income households and raise for top 1% (up to 11.1% effective tax rate)
- **Comprable** marginal income tax rates: **California** (12.0%) and **Oregon** (10.4%)

WHAT IS THE “MILLIONAIRES TAX”?

9.9%

- SB 6346 passed as an **excise tax**
- Begins **January 1, 2028**, with first tax returns and payments due in **April, 2029**
- How it intends to be **allocated**:
 - General fund programs
 - Child care and school programs
 - Expanded eligibility for the Working Families Tax Credit
 - Other tax offsets & breaks

MILLIONAIRES TAXES ACROSS THE NATION

- Millionaire taxes have been implemented in or are being implemented in **+7 states**
- Started in California in **2004**
- Actual collections have been **greater than** projected revenue collections

SCENARIO ANALYSIS

1. Struck down in court

- **1933: Culliton v. Chase**
 - **Income = property** → graduated
income taxes violate the uniformity
requirement

2. Flight of millionaire population

3. No flight of millionaire population

FLIGHT OF MILLIONAIRES LITERATURE

SYNTHESIS

- Millionaire Migration in California: Administrative Data for Three Waves of Tax Reform
(Varner, Young, and Prohofsky)
 - **Migration** accounts for about **0.5% of changes** in the millionaire population
 - Estimated **0.04% decrease** in millionaires for every one percentage point increase in effective tax rate
- Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data
(Young, Varner, Lurie, and Prisinzano, 2016)
 - Estimated **0.25% decrease** in millionaires for every one percentage point increase **CEBR**
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FLIGHT OF MILLIONAIRES LITERATURE

SYNTHESIS

- Lessons on State and Local Income Taxes From the Twenty-First Century and Challenges for the Future (Agrawal, 2026)
 - Synthesizes surrounding literature on subnational income taxes
 - Estimated around **0.40%** decrease in millionaires for every one percentage point increase in effective tax rate in their projections
 - Tax mobility can lead to **tax competition** between subnational regions, driving tax rates down

FLIGHT PROJECTIONS

Decrease Per 1 Percentage Point Rate Increase	Implied Annual Flight	Millionaire Households	Change	Estimated Loss in Revenue	Percentage of Revenue Loss
-0.04%	-0.26%	21,473.16	-56.8	\$ (11,254,161.60)	-0.38%
-0.25%	-1.65%	21,174.76	-355.2	\$ (70,338,510.00)	-2.34%
-0.4%	-2.6%	20,961.61	-568.4	\$ (112,541,616.00)	-3.75%
-0.85%	-5.6%	20,322.17	-1,207.8	\$ (239,150,934.00)	-7.97%
-1%	-6.6%	20,109.02	-1421	\$ (281,354,040.00)	-9.38%

NO FLIGHT SCENARIO

Papers by Dick Conway

- **“Millionaires Tax”**

- Increase in tax revenue **would improve** current **tax inadequacy**

- Implementations **would not fully improve** taxing **fairness**

- Estimates that top 1% households would have a 9.1% effective tax rate – **still lower than 20%** of WA households (13.8%) **and 60%** of households (10.9%+)

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CONCLUSION

- Fears of flight are highly skewed, **less** concerning than media suggests
- Importance of **staying factors** of Washington State and millionaires
- The literature is **not specific** to Washington State or the **scale** of the tax rate

increase

- **Limitations** of our projected findings

SOURCES

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THANK YOU FOR LISTENING!

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Questions or comments?

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	Sales Tax
National Average	7.53%
Washington State	6.50%
Seattle	10.55%
Tacoma	10.40%
Spokane	9.10%

HISTORY OF WASHINGTON'S TAX STRUCTURE

1933 RULING

- **Argicultural** economy
- The **Great Depression** and **property taxes**
- **Current** tax structure

LEGALITY OF SB 6346

- **Article V11, Section 1 of the Washington State Constitution**

- “The word ‘property’ as used herein shall mean and include everything, whether tangible or intangible, subject to ownership.”

- **1933: Culliton v. Chase**

- **Income = property** → graduated **income taxes violate** the uniformity requirement

- **2021: 7% tax on long-term capital gains**

CEBR Upheld by the state’s Supreme Court in **2023**; ruled an **excise tax**
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LEGALITY OF SB 6346

- **April, 2026:** Attorney General Rob McKenna files a **lawsuit** arguing that SB 6346 is unconstitutional
- Washington State **Supreme Court** to make **final ruling** of the tax's **constitutionality** in **2026** or **2027**