



The Millionaires Tax doesn't apply to your retirement savings

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The Millionaires Tax is a personal income tax on adjusted gross income (AGI) with a \$1 million deduction: **anyone reporting less than \$1 million in annual AGI does not pay this tax.** Accordingly, retirement and pension **accounts** are not taxed, but if distributions from such accounts result in an AGI over \$1 million in a single year (\$83,333 or more per month), then any income over \$1 million is taxed at 9.9 cents per dollar.

The Millionaires Tax treatment of pensions and retirement accounts is standard tax policy

The Internal Revenue Service taxes retirement accounts and pensions based on whether contributions were made with pre-tax or after-tax dollars.¹ Washington's Millionaires Tax aligns with this standard practice because Washington state taxable income is based on a household's federal adjusted gross income, plus some additional adjustments, deductions, and credits. For example, federal AGI does not include qualified distributions from a designated Roth account – so that income is not subject to the Millionaires Tax.²

An incredibly small fraction of Washington households has retirement distributions AND income sufficient to pay the Millionaires Tax

Just 0.6% of tax filers (23,370 households) in Washington have annual income over \$1 million dollars. Of those households, only 3,870 have taxable individual retirement income and just 2,870 have taxable pensions and annuities.³ This means out of all the households in Washington state, 0.1% have retirement income and 0.08% have pensions *plus additional income* that brings total annual AGI over \$1 million.

Households with over \$1 million in adjusted gross income are making an average of \$2.6 million per year, with only \$104,543 (on average per year) derived from retirement income. In other words: the average tax filer with over \$1 million in AGI who will be subject to the Millionaires Tax receives nearly all their income in the form of wages, business income, dividends, and/or capital gains – not retirement accounts.

Public employees do not have pensions high enough to qualify for the Millionaires Tax – unless they have other (very) significant income

For example, a top-paid public-school teacher in Olympia making \$180,000 per year would have to work for 278 years to earn \$1 million in annual pension benefits – this is impossible.⁴ A teacher retiring after a reasonable number of years (say, 30) would have to be earning \$1.67 million per year each of the last five years of their employment in order to receive a \$1 million annual pension. Even the highest-paid K-12 public school administrator in Washington state (earning over \$466,000 per year) will not have a pension that qualifies for the Millionaires Tax.⁵

¹ <https://www.irs.gov/taxtopics/tc410>

² <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-designated-roth-account>

³ <https://www.irs.gov/statistics/soi-tax-stats-adjusted-gross-income-agi-percentile-data-by-state>

⁴ <https://govsalaries.com/boe-jodi-210130606> Formula used: Annual pension = $0.02 \times \text{years} \times \$180,053$. Solving for years to reach \$1,000,000/year: $\$1,000,000 \div \$3,601.06 = 277.7$ years

⁵ <https://fiscal.wa.gov/K12/K12Salaries>