

Income Tax Update - June 12, 2017

Policy Staff, Advocates and Legal Team

- Executive – Ben Noble, Glen Lee and Carlo Caldirola-Davis
- Legislative – Lisa Herbold, Kshama Sawant, Central Staff
- Advocates – “Trump-Proof Seattle” Coalition: EOI (John Burbank), Transit Riders Union, Seattle Education Association, etc.
- Legal Team – Law ^{Kent Meyer} Department; Hugh Spitzer, Greg Wong (Pacifica), and Lowney & Smith (EOI’s lawyers)

Key Policy Issues

1. Who will be taxed? Those who live here or those who work here?

- Answer – Those who live here. Captures both earned and unearned income and more legally defensible.

2. What income tax will be taxed? Adjusted Gross Income (AGI)? Total income?

- Answer – Total income; trying to avoid a legal restriction that prevents the City from taxing “net income”.

3. What levels of income will be taxed?

- Answer (at this point) – Single Filer: \$250,000; Dual Filers: \$500,000. This would exclude more than 95% of City households. These thresholds will be supported by analysis to show that these income levels are more than sufficient to “amply provide for a high quality of life” in Seattle.

4. At what rate will income be taxed?

- Answer – 2% of income above the thresholds noted above, leaving some room for downward negotiation. We considered a higher second bracket, but rejected it in favor of “simple/stupid” approach.

IRS - Cooperative agreement with cities over 250,000 people
- voluntary on both sides

5. How much revenue could be raised?

- Answer – At the levels proposed, the tax would raise more than about \$125 million per year.

6. To what purpose will revenues be dedicated?

- Answer – “revenue from such a systemic change in taxation will be dedicated to lowering the property tax burden and the impact of other regressive taxes; replacing federal funding potentially lost through Trump budget cuts; and providing public services, including housing, education, and transit; creating green jobs and meeting carbon reduction goals”

[And to pay for tax collection/enforcement.]

7. Who must file a Seattle income tax return?

- Answer – Those whose income is above the thresholds, rather than all residents. This is less onerous, but could create enforcement issues in the future.

8. How will the tax be enforced?

- Answer – Fines and interest will be imposed on those who do not pay, or under pay, the tax they owe. The City will seek an information sharing relationship with the IRS to support potential audits. Unclear how robust that relationship can/will be. If legislation withstands legal challenge, the enforcement approach will likely be revisited and could require further legislation.

What is the Likelihood of a Referendum?

A referendum is possible, but opponents may well judge that they are likely to lose the vote, and a loss could weaken their position when they get to court.

Timeline?

- This week – initial presentation the draft ordinance.
- Goal is final action by mid-July, and definitely before the August Primary.