

POLICY NOTE

Key Findings

1. Seattle's "head tax" and income tax efforts impact the whole state by discouraging new companies from moving into the region.
2. Seattle's "head tax" blamed Amazon for city failures in land planning. Amazon's expansion was approved by the City Council, yet Amazon was blamed for Seattle's housing problem.
3. Seattle's income tax efforts were illegal, and designed to get the state high court to overturn the state ban on local income taxes.
4. Other cities may seek to benefit from Seattle's tax policies. For example, Tacoma offered a \$275 per worker tax credit to companies that create additional jobs in the city.
5. Critics of the sales tax claim it is an unstable revenue source, but capital gains taxes are seven times more unpredictable than sales taxes.

Summary of the Taxes and Government Reform panel: head tax and capital gains income tax

By Marina Dolgova, Research Assistant, Doug and Janet True Internship Program
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Introduction

On May 22nd and 23rd, Washington Policy Center hosted the 5th annual statewide Solutions Summit in Bellevue for Western Washington attendees, and in Spokane for Eastern Washington attendees. Together, these two major policy events attracted over 500 policymakers, business owners, community leaders, students, and engaged citizens.

The events were held at the Hyatt Regency Hotel in Bellevue and at the Davenport Grand Hotel in downtown Spokane.

Panel discussions included state and national experts speaking on budget reform, a state income tax, the Seattle head tax, policies to promote economic growth, right-to-work, and labor reform. Following is a summary of the speaker presentations given at the first panel discussion in Bellevue on the topic of taxes and government reform.

Panel discussion on government reform, state income tax, Seattle workers head tax

Moderator: Jason Mercier, Director of WPC's Center for Government Reform

Speaker: Senator Guy Polumbo (D-Maltby)

Speaker: Representative Drew Stokesbary (R-Auburn)

The two speakers, Senator Polumbo and Representative Stokesbary, discussed the effects these two taxes could have on local and state economies.

Senator Palumbo, a Democrat, represents the 1st Legislative District, including parts of Snohomish County north of Seattle. He was first elected in 2016. He serves as vice chair of the Senate Higher Education and Workforce Development Committee, and is a member of the Ways and Means Committee, the Energy, Environment and Technology Committee, and the Local Government Committee. He is a small business owner in Snohomish County.

Representative Stokesbary, a Republican, represents the 31st Legislative District, which covers parts of southeastern King County. Elected first in 2014, he is the House Minority Floor Leader and a member of the Appropriations Committee, as well as the Education and

Finance Committees. Away from the Legislature, Representative Stokesbary is a lawyer focusing on startup companies at Stokesbary PLLC in Sumner.

Seattle head tax

In early May, the Seattle City Council passed a city head tax, requiring companies with yearly revenue of more than \$20 million to pay \$275 dollars a year per employee that works in Seattle. Since Amazon's headquarters office is in downtown Seattle, many saw this as a "tax on Amazon."

As a former Amazon employee, Senator Palumbo noted that, "What goes on in Seattle, does not stay in Seattle," and that the tax could have implications for employers across the state. Further, when Washington's largest city passes new taxes, it discourages new companies from moving into the region.

He noted that companies long established in Seattle may consider moving to neighboring cities or out of state.

Other cities may benefit

Senator Palumbo said nearby cities may try to benefit from Seattle's tax policy. For example, Tacoma offered a \$275 per worker tax credit to companies that create additional jobs in the city. While a company moving to a different city would not be as detrimental to the state economy, it would most certainly hurt Seattle's economy.

Senator Palumbo did recognize Seattle's housing problem and the homelessness crisis, particularly in King County. However, he said that blaming big companies, such as Amazon, is not the best solution. He pointed out that before Amazon expanded within the city limits, it brought the plans for the expansion to the City Council for approval.

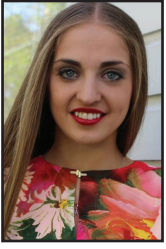
However, the city failed at land planning, and now it blames Amazon for its own failure.

Senator Palumbo offered solutions to fight the homelessness crisis without punishing businesses. These included Growth Management Act reform, and adding more temporary housing to accommodate the homeless. (Note: the Seattle head tax was later repealed.)

City and state income taxes

Unlike the head tax, the income tax was not as easily disposed of; some elected officials continue to push it at the state and local level. Jason Mercier pointed out that voters have rejected an income tax ten times at the ballot box and gave two reasons why a Seattle-style graduated income tax is illegal in Washington state:

1. State law bars cities and counties from imposing a local income tax;
2. Under the state constitution income is property and, if it is taxed, must be taxed at a flat (uniform) rate.



Research Assistant Marina Dolgova published this study as part of WPC's Doug and Janet True Research Internship Program.

These facts did not stop the Seattle City Council in 2017 from enacting an income tax of 2.25% on individuals making more than \$250,000 a year and couples making more than \$500,000 a year. Seattle officials argue they imposed not an income tax, but an excise tax on the “privilege” of earning income.

A King County superior court judge has already ruled the city income tax illegal. Seattle officials have filed an appeal with the state supreme court, saying it was always their intention to get the high court to overturn the state ban on local income taxes.

Capital gains tax is an income tax

Representative Stokesbary noted that in every other state a capital gains tax is considered an income tax. He pointed out that income and capital investment drive economic growth. Therefore, capital investment needs to be encouraged and not punished with a special tax.

He said the Seattle income tax may do exactly the opposite of what officials want, by slowing the economic growth that the city has enjoyed for a few years.

Income taxes are unstable

In answer to the claim that sales tax revenue is unstable, Representative Stokesbary pointed out that “a capital gains tax is seven times more unpredictable than sales tax.” He explained that both taxes have many similarities, therefore, one cannot classify one tax as regressive, and the other as progressive.

For example, the federal income tax has many deductions that reduce how much people have to pay, regardless of their income. Similarly, sales taxes do not apply to savings, housing, food and other essential items. Therefore, he concluded, a local income tax is not good public policy and he supports WPC's position opposing the Seattle income tax.

Conclusion

It is worth mentioning that after Seattle passed the head tax, business owners and other residents began to collect signatures to put a proposal on the ballot and overturn the tax. After that action, the City Council voted 7-2 to repeal the head tax.

In the case of the income tax, city officials chose to bypass voters and appeal the validity of the tax to the state supreme court. The court has not yet decided whether to take the Seattle income tax case, but WPC is following it closely and will report on further developments.

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