

**SUMMARY and FISCAL NOTE\***

<b>Department:</b>	<b>Dept. Contact/Phone:</b>	<b>Executive Contact/Phone:</b>
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*\* Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

**1. BILL SUMMARY**

**a. Legislation Title:** AN ORDINANCE imposing an income tax on high-income residents; providing solutions for lowering the property tax burden and the impact of other regressive taxes, replacing federal funding potentially lost through federal budget cuts, providing public services, including housing, education, and transit, and creating green jobs and meeting carbon reduction goals; and adding a new Chapter 5.65 to the Seattle Municipal Code.

**b. Summary and background of the Legislation:**  
 This ordinance would impose an income tax on high-income Seattle residents. In particular, the ordinance places a two-percent tax on the income of joint tax filers with income over \$500,000 and single tax filers (or those filing as Qualifying Widow(er) or as Head of Household) with over \$250,000 in total annual income. The estimated \$125 million in new yearly revenue that would be generated by this tax would allow the City to lower the burden associated with property taxes and other regressive taxes, replace federal funding potentially lost through federal budget cuts, enhance public services such as housing, education, and transit, and/or create green jobs while meeting the City’s carbon reduction goals. Tax proceeds would also be used to pay the cost of tax administration and collection. These potential costs are detailed below.

**2. CAPITAL IMPROVEMENT PROGRAM**

**a. Does this legislation create, fund, or amend a CIP Project?** \_\_\_ Yes X No  
 If yes, please fill out the table below and attach a new (if creating a project) or marked-up (if amending) CIP Page to the Council Bill. Please include the spending plan as part of the attached CIP Page. If no, please delete the table.

<b>Project Name:</b>	<b>Project I.D.:</b>	<b>Project Location:</b>	<b>Start Date:</b>	<b>End Date:</b>	<b>Total Project Cost Through 2022:</b>

**3. SUMMARY OF FINANCIAL IMPLICATIONS**

**a. Does this legislation amend the Adopted Budget?** \_\_\_ Yes X No  
 If there are no changes to appropriations, revenues, or positions, please delete the table below.

This legislation establishes the tax and provides direction about the potential use of the resulting revenues, but does NOT appropriate any of the anticipated revenues. Use of net proceeds (net of implementation and enforcement costs) will be determined at a

future date, after anticipated judicial review.

**b. Does the legislation have other financial impacts to the City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?**

If so, describe the nature of the impacts. This could include increased operating and maintenance costs, for example.

This legislation would have a significant impact on City revenues. Revenue projections developed from IRS data from 2014 income tax payments indicate that the tax could generate approximately \$125 million in annual revenues. In order to generate this revenue, the City will need to make one-time investments in an information technology system capable of tracking payments from thousands of tax payers, and will also need to fund an on-going tax administration and enforcement function. The most effective path for efficient and effective enforcement will be through establishing a relationship with the Federal Internal Revenue Service (IRS), which would allow the City access to relevant tax payment records. Cities with populations over 250,000 are eligible to enter such data sharing arrangements. The data security protocols required under such arrangements are among the factors that will drive the cost of the systems needed to track tax payments.

The overall costs of implementation and enforcement are estimated as follows:

- Acquisition and implementation of an information technology (IT) system to track tax returns and payments: \$10 - \$13 million, one-time. This expenditure would need to occur before any revenues could be collected from the new tax.
- Staff of 20 to 25 to maintain this IT system, draft necessary rules, develop and disseminate taxpayer education materials, serve as account representatives to answer questions and assist taxpayers in complying with the income tax. In particular, this would include 3 positions charged with developing necessary administrative rules, addressing on-going legal questions and/or disputes with individual filers, and coordinating with the IRS; 2 positions dedicated to development and ongoing upkeep of the IT system; up to 15 positions for education, outreach, and customer service; and 2 to 4 positions to oversee and manage a taxpayer appeal and arbitration process. The estimated cost of this on-going function would be \$2.5 - \$3.0 million per year.
- Additionally, an enforcement staff of roughly 20 to 25 would be needed for reviewing tax submittals, investigating cases of potential under/over-payment, conducting audits, etc. The estimated cost of this on-going function would be \$2.5 - \$3.0 million per year. This function would be built up over the initial years of implementation and scaled to match the number of returns and the level of voluntary compliance (as confirmed via an anticipated relationship with the IRS).

Thus, in total, implementation would require a one-time expenditure of \$10 - \$13 million, and ongoing annual costs of \$5 - \$6 million.

**c. Is there financial cost or other impacts of *not* implementing the legislation?**

Estimate the costs to the City of not implementing the legislation, including estimated costs to maintain or expand an existing facility or the cost avoidance due to replacement of an existing facility, potential conflicts with regulatory requirements, or other potential

costs or consequences.

Without this ordinance, the City’s revenue streams would remain unchanged.

If there are no changes to appropriations, revenues, or positions, please delete sections 3.d., 3.e., and 3.f. and answer the questions in Section 4.

**3.d. Appropriations**

**This legislation adds, changes, or deletes appropriations.**

If this box is checked, please complete this section. If this box is not checked, please proceed to Revenues/Reimbursements.

Fund Name and number	Dept	Budget Control Level Name/##*	2017 Appropriation Change	2018 Estimated Appropriation Change
<b>TOTAL</b>				

\*See budget book to obtain the appropriate Budget Control Level for your department.

This table should reflect appropriations that are a direct result of this legislation. In the event that the project/programs associated with this ordinance had, or will have, appropriations in other legislation please provide details in the Appropriation Notes section below. If the appropriation is not completely supported by revenue/reimbursements listed below, please identify the funding source (e.g. available fund balance) to cover this appropriation in the notes section. Also indicate if the legislation changes appropriations one-time, ongoing, or both.

Is this change one-time or ongoing?

Please explain any complicated scenarios – e.g. three-year funding agreement but not permanent ongoing.

N/A

Appropriations Notes:

This ordinance authorizes the income tax but does not appropriate money for any new expenditures – either for implementation/enforcement or for new City services.

**3.e. Revenues/Reimbursements**

**This legislation adds, changes, or deletes revenues or reimbursements.**

If this box is checked, please complete this section. If this box is not checked, please proceed to Positions.

**Anticipated Revenue/Reimbursement Resulting from this Legislation:**

Fund Name and Number	Dept	Revenue Source	2017 Revenue	2018 Estimated Revenue
			\$0	\$0
<b>TOTAL</b>			<b>\$0</b>	<b>\$0</b>

This table should reflect revenues/reimbursements that are a direct result of this legislation. In the event that the issues/projects associated with this ordinance/resolution have revenues or reimbursements that were, or will be, received because of previous or future legislation or budget actions, please provide details in the Notes section below. Do the revenue sources have match requirements? If so, what are they?

Is this change one-time or ongoing?

Please explain any complicated scenarios – e.g. three-year funding agreement but not permanent ongoing.

On-going

Revenue/Reimbursement Notes:

Consistent with the earlier description, annual estimated revenues from the income tax are approximately \$125,000,000. Given the likely legal challenge and the potential implementation delay associated with establishing a system of collections and enforcement, revenues are not expected to be realized in 2018.

**3.f. Positions**

     **This legislation adds, changes, or deletes positions.**

If this box is checked, please complete this section. If this box is not checked, please proceed to Other Implications.

**Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:**

Position # for Existing Positions	Position Title & Department*	Fund Name & #	Program & BCL	PT/FT	2017 Positions	2017 FTE	Does it sunset? (If yes, explain below in Position Notes)
<b>TOTAL</b>							

\* List each position separately

This table should only reflect the actual number of positions created by this legislation. In the event that positions have been, or will be, created as a result of previous or future legislation or budget actions, please provide details in the Notes section below.

Position Notes:

This legislation does not authorize any positions at this time. As noted above, approximately 40-50 positions will be needed to implement and enforce the income tax authorized by this ordinance. The Executive will return to Council to seek the authority for such positions once the legal status of this legislation is further resolved.

**4. OTHER IMPLICATIONS**

**a. Does this legislation affect any departments besides the originating department?**

If so, please list the affected department(s) and the nature of the impact (financial, operational, etc.).

Finance and Administrative Services (FAS) would be responsible for implementation and enforcement.

**b. Is a public hearing required for this legislation?**

If yes, what public hearing(s) have been held to date, and/or what public hearing(s) are planned/required in the future?

No, but such a hearing has been scheduled for June 14.

**c. Does this legislation require landlords or sellers of real property to provide**

**information regarding the property to a buyer or tenant?**

If yes, please describe the measures taken to comply with RCW 64.06.080.

No

**d. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**

For example, legislation related to sale of surplus property, condemnation, or certain capital projects with private partners may require publication of notice. If you aren't sure, please check with your lawyer. If publication of notice is required, describe any steps taken to comply with that requirement.

No

**e. Does this legislation affect a piece of property?**

If yes, and if a map or other visual representation of the property is not already included as an exhibit or attachment to the legislation itself, then you must include a map and/or other visual representation of the property and its location as an attachment to the fiscal note. Place a note on the map attached to the fiscal note that indicates the map is intended for illustrative or informational purposes only and is not intended to modify anything in the legislation.

No

**f. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities?**

If yes, please explain how this legislation may impact vulnerable or historically disadvantaged communities. Using the racial equity toolkit is one way to help determine the legislation's impact on certain communities.

Given that the tax focuses only on individuals and households with incomes of \$250,000 or \$500,000 respectively, no impacts for vulnerable or historically disadvantaged communities are anticipated.

**g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s).**

This answer should highlight measurable outputs and outcomes.

The ordinance does not specify the use of the resulting resources, although new initiatives and/or systematic tax reductions would be possible because of the increased revenues.

**h. Other Issues:**

**List attachments/exhibits below:**

None.