

June 21, 2017

MEMORANDUM

To: Councilmember Tim Burgess, Chair
Councilmember Lisa Herbold, Vice Chair
Councilmember Rob Johnson, Member
Affordable Housing, Neighborhoods, and Finance Committee

From: Erik Sund, Council Central Staff

Subject: CB 119002 – Imposing an Income Tax on High-Income Residents – as introduced

Resolution 31747 (approved by the Council on May 1 and signed by the Mayor on May 5) stated the Council's goal of passing a "progressive income tax ordinance" by July 10, 2017. The resolution also stated that in making decisions about the design of the tax legislation, "legal viability will be the primary consideration". Soon after the resolution's adoption, a working group of Councilmembers, contracted consultants, and staff of the Legislative Department, the Law Department, various executive branch departments began work on the development of a Council Bill in fulfillment of this goal.

A draft version of the resulting ordinance was made public on Monday, June 12 and was the subject of a presentation and testimony in a public hearing of the Affordable Housing, Neighborhoods and Finance Committee (AHNFC) on Wednesday, June 14. After further review by both City staff and outside legal counsel, a revised form of the initial draft was introduced on Monday, June 19 as Council Bill (CB) 119002. This note combines a brief summary of CB 119002 and highlights some of the changes made prior to introduction.

Summary of CB 119002

CB 119002 would establish a tax on the high-income residents of Seattle. Eligibility for the tax would be based on total income as reported on federal income tax (FIT) returns. The 2% tax would apply only to income above \$250,000 per year for single filers (including those filing as Single, Married Filing Separately, Qualifying Widow(er) with Dependent Child, or Head of Household) or income above \$500,000 per year for married couples filing jointly. Examples of the tax owed by filing status and income levels are shown in the tables below.

Single Filers (includes Married Filing Separately, Qualifying Widow(er), and Married Filed Separately)

Total Income	Tax-free Income	Taxable Income	Tax Owed	Tax as % of Total Income
Up to \$250,000	\$250,000	\$0	\$0	0.00%
\$275,000	\$250,000	\$25,000	\$500	0.18%
\$500,000	\$250,000	\$250,000	\$5,000	1.00%
\$1,000,000	\$250,000	\$750,000	\$15,000	1.50%

Joint Filers

Total Income	Tax-free Income	Taxable Income	Tax Owed	Tax as % of Total Income
Up to \$500,000	\$500,000	\$0	\$0	0.00%
\$550,000	\$500,000	\$50,000	\$1,000	0.18%
\$750,000	\$500,000	\$250,000	\$5,000	0.67%
\$1,000,000	\$500,000	\$500,000	\$10,000	1.00%

The tax would apply to income received after January 1, 2018 and would first be collected in 2019. Early estimates indicate that the tax would raise approximately \$125 million in the first year. The use of revenues from the tax would be restricted to: (1) lowering the property tax burden and the impact of other regressive taxes; (2) replacing federal funding currently received by the City that may be lost due to federal budget cuts; (3) providing public services such as housing, education, and transit; (4) creating green jobs and meeting carbon reduction goals; and (5) implementing and administering the new City income tax.

Only residents qualifying high incomes (high enough to owe tax) would be required to file with the City. The Department of Financial and Administrative Services (FAS) would be responsible for administering the tax, including the development of more detailed rules for implementation.

Changes from Initial Public Draft

Some of the more substantial differences between CB 119002 as introduced and the initial public draft of the income tax ordinance are described below. This list does not include every change made prior to introduction.

- The definition of “taxpayer” is expanded so that non-grantor trusts (trust funds of which the grantor has given up control) whose beneficiaries reside in Seattle are eligible for the tax (page 6).
- The tax rate table is expanded to cover the IRS filing categories “head of household” and “qualifying widow(er) with dependent child”, both of which are subject to the tax on income above \$250,000 per year (page 6).
- The language governing annual adjustments for inflation of the thresholds for taxability is restructured to be clearer that the \$250,000 per year and \$500,00 per year values are to be adjusted, not the tax rate (page 6).

- One “automatic” six-month filing extension shall be granted for filers who submit a copy of their IRS Form 4968 federal income tax extension application (page 9).
- The Director of Finance is authorized to estimate the amount of tax due when a taxpayer fails to provide tax records but that assessment to subject to appeal (in 5.65.090.D, on page 13).
- The authority to disclose tax information to City agencies for official purposes is limited to cases in which the Director of Finance has determined it is necessary for the administration or enforcement of the tax and penalties are established for improper disclosure by City officials (5.65.230.C.4 and 5.65.230.D, pages 23-24).
- The effective date for the ordinance is clearly stated (the actual timing would have been the same without this).

cc: Kirstan Arestad, Central Staff Director
Dan Eder, Central Staff Deputy Director