Progressive Tax Options for Seattle

The following information and commentary on city revenue options was assembled by the Transit Riders Union and is not formally endorsed by the Revenue Stabilization Workgroup as a whole or by the City of Seattle.

TABLE OF CONTENTS:

1. Introduction

Related to personal income or wealth

2. Capital Gains Tax
3. Income Tax
4. Estate Tax
5. Inheritance Tax
6. Real Estate Capital Gains Tax
7. Wealth Tax

Related to business activity

8. JumpStart Payroll Expense Tax
9. CEO Pay Ratio Tax
10. B&O Tax Increase or Restructure
11. Professional Services Excise Tax
12. Digital Advertising Tax
13. Luxury Taxes
14. Lodging or Hotel-Motel Tax
15. Square Footage Tax
16. Tax on Rental Income
17. Other Excise Taxes

Related to property, land, or transportation

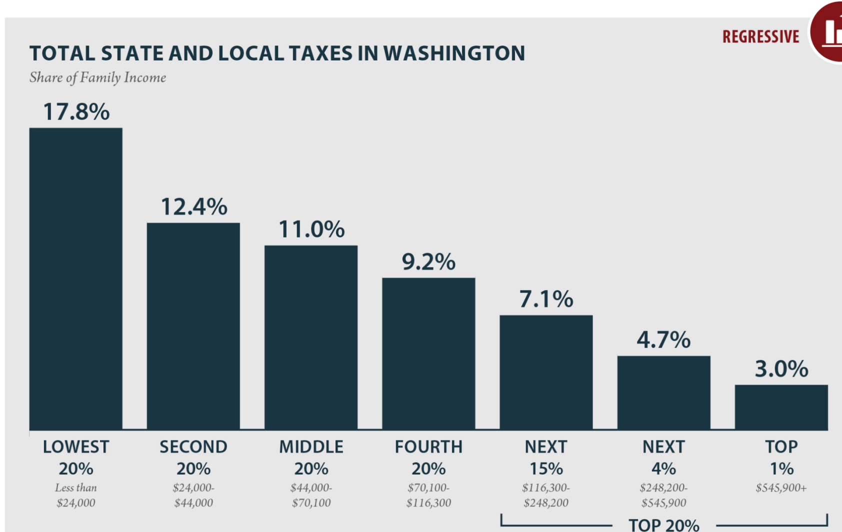
18. Vacancy Tax or Fee
19. Mansion or Real Estate Excise Tax
20. Developer Impact Fees
21. Congestion Pricing
22. Non-Residential Parking Tax
23. Package Delivery Tax or Fee
24. Auctioning Development Rights
25. Traffic Fines Based on Income
26. High Value Property Tax with Rebate
27. Land Value Tax

1. INTRODUCTION

The most inequitable tax system

The Institute on Taxation and Economic Policy (ITEP) periodically publishes a report called *Who Pays: A Distributional Analysis of the Tax Systems in All 50 States*. This distributional analysis of tax systems in all 50 states and the District of Columbia assesses tax fairness by measuring effective state and local tax rates paid by all income groups. A progressive tax system is one in which higher-income households contribute a greater portion of their income in taxes. By contrast, according to ITEP:

> *"If taxpayers in the top 1 percent are left with a higher percentage of their pre-tax income to spend on their day-to-day living and to save for the future than low- and middle-income taxpayers, the tax system is regressive."*



ITEP has repeatedly ranked Washington State's tax system the #1 most regressive and least equitable in the nation. According to the most recent *Who Pays?* report (6th edition, 2018), Washington households in the bottom quintile of income pay nearly 18 percent of their income in state and local taxes, while households in the top one percent pay only three percent.

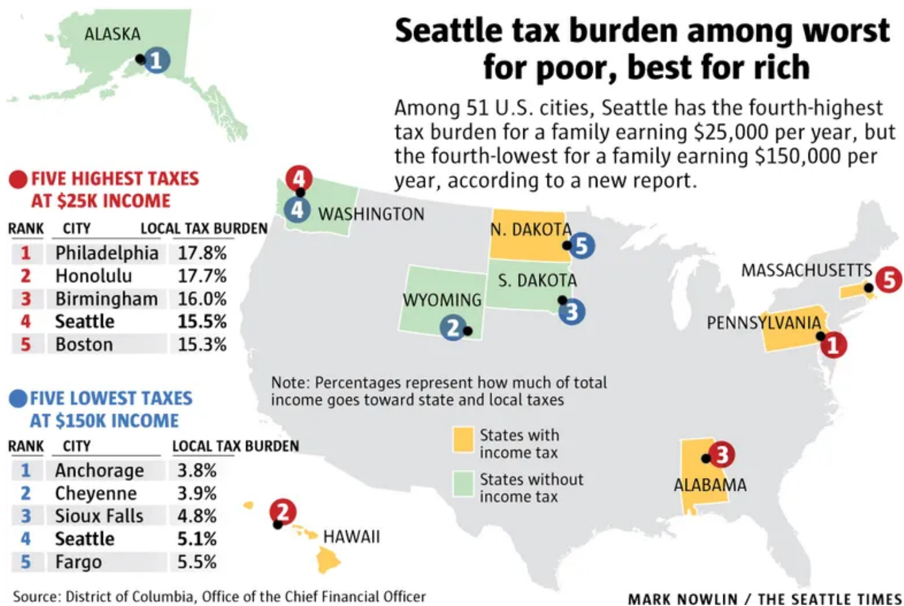
One major contributor to the regressivity of our tax system is the fact that Washington is one of only a handful of states with no income tax. This has resulted in a heavy reliance on sales taxes, property taxes, and various (mostly regressive) excise taxes.

Our state's tax system also ranks low in transparency, and for similar reasons. While income taxes make it relatively easy for people to estimate how much they are paying, sales and excise taxes tend to be paid in small amounts from day to day, obscuring an individual's total tax bill. A study by economist Dick Conway ranked Washington State #49 in transparency, ahead only of Alaska.

Finally, this situation has created steep challenges for the adequacy of tax revenue in Washington State, which shows up in subpar funding for public goods such as K-12 and higher education and mental health services. As reported in a 2017 article in Crosscut:

> *"'We [Washington] are on a course from being a relatively high-tax state to being a low-tax state, on par with some of the southern states,' says economist Dick Conway… From 1995 to 2015, however, Washington slid from being 11th highest among states to 36th place in effective state and local tax rates as a percentage of personal income."*

How about the City of Seattle, specifically? [A December 2017 study] produced by the municipal government of Washington, D.C. compared the tax burdens in 51 cities. Researchers assessed state and local taxes for the largest city in every state, including Washington, D.C., using 2015 data. For a low-income family of three with a household income of $25,000, Seattle had the fourth-highest tax burden among the 51 cities. For the same family making $150,000, Seattle had the fourth-lowest tax burden. As reported in The Seattle Times:

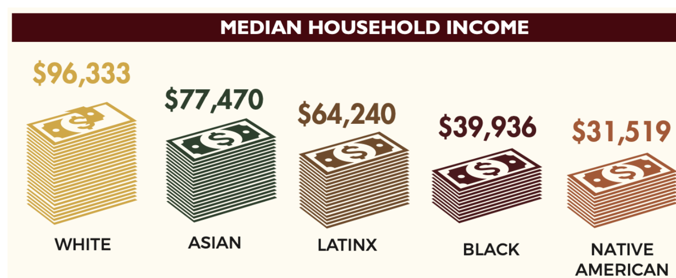


"Low earners in Seattle rank among the hardest-hit by taxes in the U.S. Middle and upper earners here, on the other hand, enjoy one of the nation's most favorable tax burdens. Seattle is the only city to rank both among the best for the affluent and among the worst for the poor."

In 2018, the Economic Opportunity Institute released an analysis of the tax structures in 15 cities throughout Washington State. It concluded that Seattle's tax system was the most regressive of all, having the largest gap (12.6 percentage points) between the effective tax rates on high- and low-income households.

The inequity of our state and local tax systems has an acute racial dimension, extending and exacerbating many other forms of systemic racial oppression and discrimination. As ITEP notes:

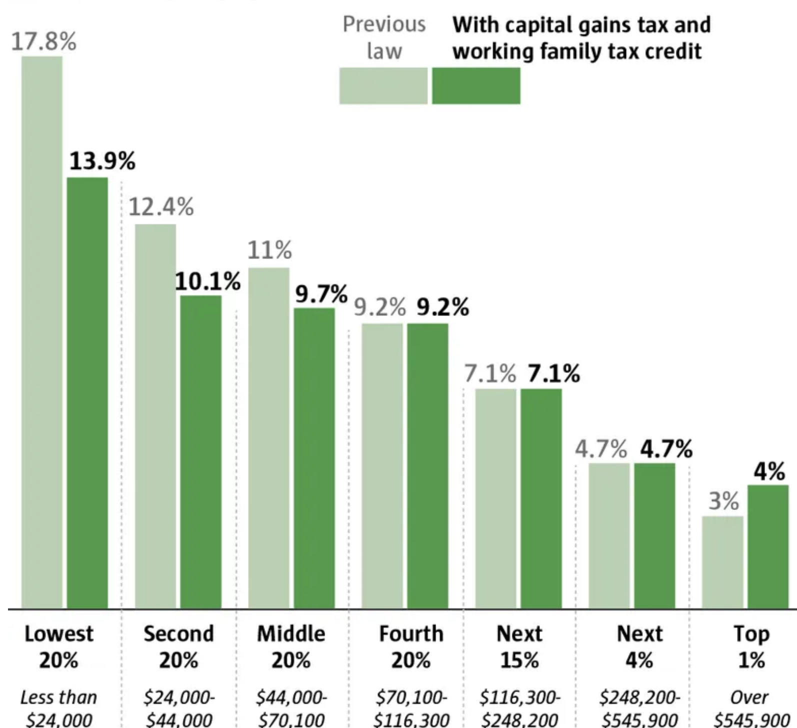
> *"[A] disproportionate share of Black, Hispanic, Indigenous and other households of color are in lower-income groups due to the legacy of racist public policies and ongoing discrimination. So, policies that disadvantage low-income individuals and families—like heavy reliance on sales and excise taxes—have a disproportionately negative effect on people of color. Wealthier white families, who enjoy systemic advantages that have positioned them to save and build their wealth, tend to pay lower sales and excise tax rates since the portion of income set aside into savings is only taxed after a lengthy delay, if at all."*



According to a 2021 report by Prosperity Now on the racial wealth divide in Seattle, Black, Latinx, Native American, and Asian households, compared to White households, have a lower median household income; own homes at lower rates; are more likely to be cost-burdened as renters; and are more likely to go without health insurance.

The beginnings of progress

While this situation sounds, and is, dire, recent efforts to tilt our state and local tax systems in a more progressive direction, while also raising new revenue to fill vital needs, have begun to show results.



At the state level, after more than a decade of organizing by advocates and efforts by lawmakers, the Legislature passed a statewide capital gains tax in 2021. This seven percent excise tax on the sale or exchange of stocks, bonds and other assets above $250,000 was upheld by the Washington State Supreme Court in 2023. Early projections estimated that Washington could raise $248 million in the first fiscal year of capital gains tax payments, but actual collections suggest the figure could be $849 million, more than triple that amount. These funds are slated for public schools, early childhood education, and building and repairing school infrastructure.

Also in 2021, the Legislature approved funding for a Working Families Tax Credit program. Starting in 2023, this credit provides qualified families up to a $1,200 cash refund of retail sales or use tax every year. This is another targeted approach to making our state's tax system more equitable: not just raising taxes on the wealthy, but lowering the effective tax rates for those least able to pay.

Significant progress has also been made in Seattle. In 2017, a coalition came together to champion an income tax on high-income households, which was passed unanimously by the Seattle City Council that July. As expected, the ordinance immediately faced several lawsuits. These challenged the tax as unconstitutional because it levied a graduated tax on income; if income is considered property, then this would violate the constitutional requirements for taxes on personal property to be uniform and not in excess of 1 percent. They also challenged the authority of a city like Seattle to impose such a tax.

Advocates hoped that the Washington State Supreme Court would use this opportunity to review and reverse antiquated court decisions from the 1930s that considered income to be a form of property. The Court declined to hear the case in 2020, leaving in place the 2019 state Court of Appeals ruling. While

this ruling struck down the tax on constitutional grounds, it marked progress in another respect. The Court of Appeals affirmed Seattle's authority to impose an income tax (as long as it is uniform and not in excess of 1 percent) and in general argued for cities' broad taxing authority under state law:

> *In the optional municipal code, RCW 35A.11.020 grants general taxing authority to cities. "Within constitutional limitations, legislative bodies of code cities shall have within their territorial limits all powers of taxation for local purposes." A related statute provides "[p]owers of. . . taxation . . . may be exercised by the legislative bodies of code cities in the manner provided in this title or by the general law of the state where not inconsistent with this title." And the legislature's statement of purpose for chapter 35A.1 1 ROW is unambiguously broad: "The general grant of municipal power conferred by this chapter and this title . . . is intended to confer the greatest power of local self-government consistent with the [c]onstitution of this state and shall be construed liberally in favor of such cities." ROW 35A.11.020's unambiguous language demonstrates the legislature's intent to provide a "general grant of taxing power" to raise revenue for local purposes.*

This echoed another recent case. In 2017, the Washington State Supreme Court upheld Seattle's tax on gun and ammunition sales, emphasizing Washington's adoption of "home rule" – "the presumption of autonomy in local governance" – and holding this to be "particularly important with respect to local taxation authority." Together, these two rulings challenged the commonly held conception that cities in Washington State need explicit and specific authority from the State to levy any given tax. While there are still many areas where state tax law clearly preempts or constrains cities' actions, many other areas are unclear or arguable. This point is relevant to some of the tax options discussed herein.

In fall 2017, the Seattle City Council, under pressure from advocates to raise funds for affordable housing, shelter, and services to address the homelessness crisis, began considering a tax on large businesses. The council created a Progressive Revenue Taskforce on Housing and Homelessness, which met and issued recommendations in early 2018. In May the council passed an employee hours tax (EHT) of $275 per full-time-equivalent employee on businesses with gross revenue of at least $20 million, expected to apply to about 3 percent of businesses in Seattle and generate about $47 million annually. The tax would have transitioned to a more progressive structure, calculated as a percentage of a business's total payroll, once the City was able to set up the administrative infrastructure.

Who would be taxed?

The proposed Progressive Tax on Business only impacts the biggest businesses in Seattle, those making $20 million a year or more. That's about 3% of all businesses in the city.

Employee Hours Tax, Starting 2019

These big businesses would pay an additional $0.26 per hour for each employee working in Seattle or $500 per employee / year. For example, if a company paid an employee $40 / hour, the company would end up paying $40.26 / hour instead.

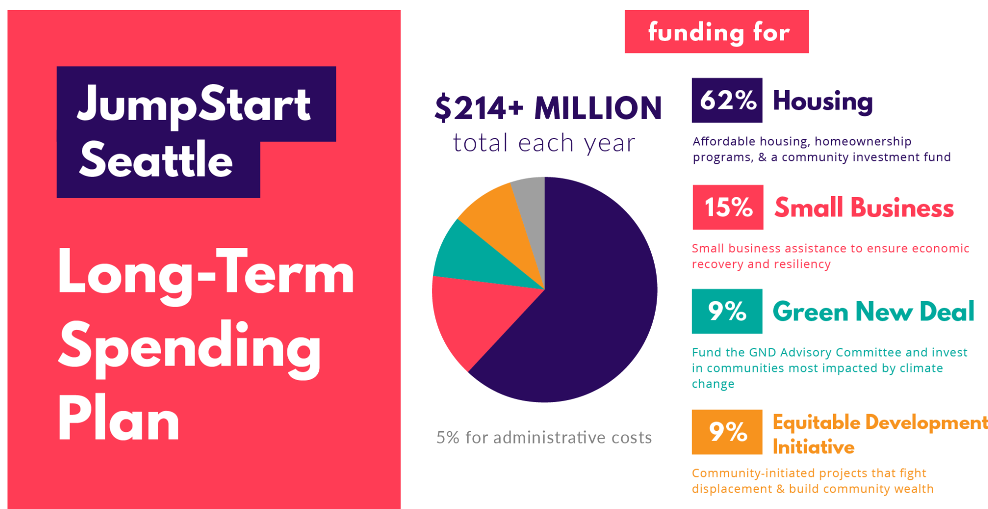
Replaced by a **Payroll Tax,** Starting 2021

Beginning in 2021, the Employee Hours Tax will be phased out and replaced with a progressive Payroll Tax, which will tax higher salaries more than lower ones, raising roughly the same total amount of money: $75 million / year.

This legislation represented a paring down of the taskforce's recommendation and the sponsoring councilmembers' original proposal of $75 million, following intense opposition from Amazon and other business interests. Those same interests immediately funded a repeal campaign in alliance with anti-tax activists, and in June 2018 the council reversed course and repealed the tax.

After continued organizing and advocacy and under the pressure of the COVID-19 pandemic and recession, in 2020 the Seattle City Council again took up a proposal for a revenue-raising corporate tax. This resulted in the passage that July of the JumpStart Seattle payroll expense tax, targeted at businesses with a high-paid workforce, with progressive rates graduated by both salary level and total payroll. (The tax is paid by the business, not by employees.) The structure of the tax was partly inspired by a proposal in the state legislature to give King County the authority to levy a similarly targeted tax. The fact that in 2018 the City and the progressive revenue taskforce did not consider such a structure reflects the fact that there is no comprehensive, shared and uncontested understanding of the scope of Seattle's authority and options when it comes to taxation.

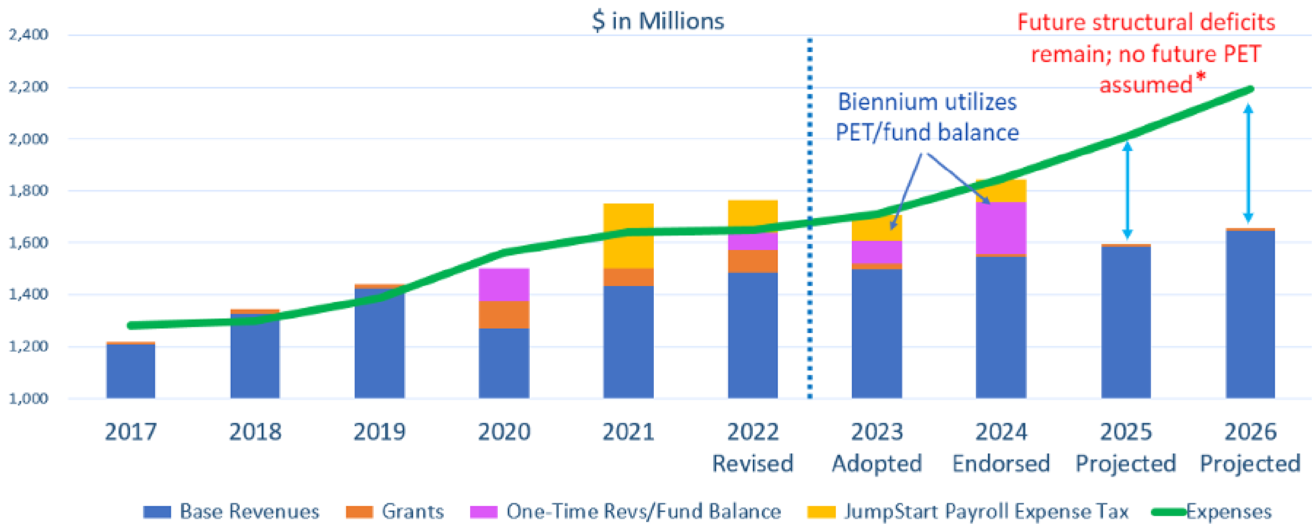
The Seattle Metropolitan Chamber of Commerce sued the City in an attempt to overturn the JumpStart tax, but it was upheld in court. JumpStart was initially projected to raise over $200 million annually, but actual receipts in the first couple years were closer to $300 million – many times greater than the anticipated revenue from the EHT that was passed and then repealed in 2018. This revenue has sustained core city services through the COVID-19 pandemic, provided relief for struggling renters and small businesses, contributed to dozens of affordable housing and equitable development projects throughout the city, and more.



Where are we now?

In its 2021 budget process, the Seattle City Council passed Statement of Legislative Intent (SLI) FG-002-B-001, expressing "the City Council's commitment to work with the Mayor to review Seattle's tax structure and identify ways to make it more equitable and to raise new progressive revenue." The stated focus of the SLI was to find funding for 2022 proposed budget priorities that lacked an ongoing revenue source, including but not limited to "the Equitable Community Initiative (ECI) investments, the Participatory Budgeting (PB) program, community safety investments previously authorized by the Council (Community Safety RFP and Community Safety Initiative), and some homeless services, in 2023 and beyond."

In 2022, however, new revenue projections revealed that the City is heading toward a structural deficit in the General Fund of over $200 million annually beginning in 2025. Assessing new revenue options as a strategy to help address this budget shortfall became the main focus of the Revenue Stabilization Work Group that was announced in October 2022.



In the early meetings of the work group, City staff shared information about the City's budget and the General Fund shortfall. Notably, the mismatch between expenses and base revenues flowing into the General Fund first appeared in 2020, but this gap has been masked by temporary infusions of revenue such as federal grants, one-time revenues, fund balances, and Council-authorized transfers from the JumpStart payroll expense tax. In real dollars, General Fund base revenues have not yet recovered to pre-pandemic levels, let alone to their expected trajectories in the absence of a pandemic. This gap is also partly due to the current period of high inflation, which has greatly increased the costs of providing city services. Some of the City's revenue streams do not keep pace with inflation, notably the property tax that makes up about a quarter of the General Fund; state law limits increases in property taxes by individual taxing districts to just one percent annually, plus new construction.

Beyond addressing the General Fund shortfall, TRU believes that establishing a better understanding of Seattle's revenue options is crucial to continuing to move our tax system in a more equitable direction. It's also crucial to raising adequate funds to support public goods and services and address longstanding needs and crises (such as affordable housing and homelessness) and economic and racial disparities, many of which have been exacerbated by the rapid economic growth that Seattle has experienced in recent decades. The explosion of tech wealth in our city has widened the gulf between winners and losers in our economy, and it is the role of government to fix this problem.

Accordingly, TRU has compiled information on a range of tax options that the City of Seattle may be able to pursue, including but not limited to those considered in detail by the Revenue Stabilization Workgroup.

About the tax options

This report does not contain an exhaustive list of the tax options available to the City of Seattle. In general it does not attempt to describe the various taxes that are already in place, except when (as with the JumpStart Seattle payroll expense tax) these taxes are notably progressive and could be increased. There are probably many other tax options out there that the authors of this report are unaware of or haven't imagined.

While we are calling these "progressive tax options for Seattle," not all of them are straightforwardly progressive; in some cases it depends on details of how the tax is structured, and in other cases it is arguable. While the basic concept of progressive taxation is simple, determining how a particular tax actually impacts households of different income levels can be complex and controversial.

For example, property taxes tend to be slightly regressive among the class of homeowners, who pay a flat percentage on the assessed value of their homes. But how about renters? It's obvious that rent payments cover the property taxes on rental properties. But does every increase in property taxes lead to a commensurate increase in rents, as opposed to being absorbed in other ways such as decreasing landlords' profits? The answer may depend on specific features of local and regional rental markets. The complexity mounts when you consider that a significant portion of property taxes are paid on commercial properties. How does this component ultimately fall on individual households? Different models may yield different results.

Thus, while we have tried to focus on progressive tax options in this report, more analysis is needed to assess the equitability of some of the listed options along economic, racial, and other dimensions. Moreover, while we judged all of these options worthy of further discussion and research, some would likely face significant legal and practical obstacles to implementation. We tried to note such obstacles in our summaries, but may not have entirely succeeded.

The most "shovel-ready" progressive tax options for Seattle appear to be a city-level Capital Gains Tax and upward adjustments to the JumpStart Seattle Payroll Expense Tax. The latter could be focused on corporations that exceed a certain ratio of top executive pay to median or lowest worker pay, making this a vehicle for a CEO Pay Ratio Tax. Other options the authors of this report believe deserve further policy development and analysis in the near future include: Income Tax, Vacancy Tax, Estate Tax, Inheritance Tax, Professional Services Excise Tax, Digital Ad Tax, and Congestion Pricing. Most of these could generate robust revenue streams, but more work is needed to establish administrative feasibility, minimize legal risk, and eliminate or mitigate regressive impacts.

With all its limitations, we hope that this report can serve as a resource for future work to make Seattle's tax system more equitable, and to raise new revenue to fund public goods and to make our city and society as a whole more equitable. We hope it will also be useful to people in other cities and states, despite differing legal and political environments.

The following TRU members contributed research and/or writing to this report: Amy Richards, Andrew Coak, Eric Keto, Katie Wilson, Naishin Fu, Nina Pascucci, Ron Davis, Tom Barnard, and Wes Mills. We benefited from conversations with people at a number of organizations that work on tax policy, including the Washington State Budget and Policy Center, Economic Opportunity Institute, Institute on Taxation and Economic Policy, Center on Budget Policy and Priorities, and Action Center on Race and the Economy; as well as with other workgroup members and City staff. All errors are our own.

August 1, 2023

2. CAPITAL GAINS TAX

OVERVIEW

City excise tax on long-term capital gains above a certain threshold.

ESTIMATED REVENUE

City staff estimated $25-$30 million annually for a 1 percent tax on capital gains over $250,000, modeled on the state tax. However, since then it was reported that the state tax has generated more than triple the projections for year one, so the actual revenue could be significantly higher.

SEATTLE & WA CONTEXT

In 2021, the Washington state legislature passed a capital gains tax that imposes a 7 percent excise tax on capital gains above $250,000. This was challenged in court as an illegal graduated tax on income (considered property). In 2023, the Washington State Supreme Court ruled that the state capital gains tax is an excise tax and is therefore legal, paving the way for Seattle to adopt its own local capital gains tax.

OTHER PRECEDENTS

40 out of 50 states have some kind of capital gains tax. In many states, capital gains are treated as income and taxed according to the state's income tax. Several states have capital gains tax rates over 10 percent, with California being the highest at 13.3 percent in 2023. There are localities outside of Washington that tax capital gains as a component of their income tax, but there may be no precedent in the U.S. of a local capital gains tax in the absence of a local income tax. (Geekwire)

Federal tax rates on long-term capital gains are 0 percent, 15 percent and 20 percent, depending on your income. These rates are typically much lower than the ordinary income tax rate. This is a regressive feature of the federal tax code.

CONSIDERATIONS

- A capital gains tax with an exemption threshold similar to the state tax ($250,000) would be very progressive, affecting only a small number of wealthy households.
- Seattle could implement a local capital gains tax through council action, without a public vote. The City could consider adding an increment of 1 percent, 2 percent, or more to the 7 percent state tax.
- A high local capital gains tax could incentivize people to establish residency outside Seattle to avoid tax liability, which could have secondary impacts on other tax revenues, such as sales. Out-migration could also decrease property values/home prices and in turn increase property tax bills within Seattle.

3. INCOME TAX

OVERVIEW

Seattle could impose a flat tax of up to 1% on the personal income of Seattle residents.

ESTIMATED REVENUE

Based on recent IRS data and realized and projected income growth, City staff estimate that a 1% flat tax on the total income of Seattle residents could generate $670+ million per year, as of 2023.

SEATTLE & WA CONTEXT

In Washington state, a statewide graduated income tax passed by citizens' initiative in 1932. It was overturned by the State Supreme Court in 1933, on the grounds that income is a form of property and therefore can only be taxed at a uniform rate according to our state constitution. Since then, Washington has had no state or local income taxes.

In 2017, Seattle passed Ordinance 125339, establishing a tax on high-income households. In 2019, the Washington Court of Appeals ruled the law unconstitutional, but acknowledged the city's authority to impose a uniform income (property) tax of up to 1%.

OTHER PRECEDENTS

Municipalities in ten states levy personal income taxes. A 2015 report from the National League of Cities outlines those jurisdictions:

- **Alabama**: 19 cities
- **Delaware**: Wilmington only
- **Indiana**
- **Kentucky**
- **Maryland**: Baltimore city/county
- **Michigan**: 22 cities
- **Missouri**: Kansas City and St. Louis only
- **New York**: New York City and Yonkers only
- **Ohio**
- **Pennsylvania**

In addition, counties in states including **Maryland**, **Oregon**, and **Kansas** levy income taxes, as do school districts in **Iowa**. The city of **Philadelphia**, in addition to levying an earned income tax and a net business profit tax, levies a 3.79% tax on certain forms of unearned income.

At present, every state where municipalities have enacted local income taxes also has a state income tax. Nine states do not have an income tax: **Alaska**, **Florida**, **Nevada**, **New Hampshire** (taxes investment earnings), **South Dakota**, **Tennessee**, **Texas**, **Washington**, and **Wyoming**. **Kentucky**, which has levied local income taxes since 1947, recently enacted legislation to lower and eventually

eliminate its state income tax.

Among states with local income taxes, the tax base and tax rate structure are often delineated by state law, and in many cases the state co-administers the tax, though this need not necessarily be the case. In many cases the tax base is limited to wage and salary income for individuals employed within the jurisdiction; in other cases it is more inclusive of both earned and unearned income (often conforming to state or federal definitions of adjusted gross income or taxable income); and in select cases it is limited to only unearned income such as dividends and interest. Taxing only wage and salary income results in a less progressive outcome than would be the case if income from interest, dividends, capital gains, and other income sources are included in the tax base.

To enhance income tax progressivity, some localities have adopted refundable tax credits which offset tax liability and can provide a cash refund when granted in excess of tax liability. **New York City** provides a local earned income tax credit against local income tax. Montgomery County, **Maryland** and San Francisco, **California** offer local earned income credit grants. Additional localities have experimented with local earned income tax credits in the past. At the state level, states including **Illinois**, **Indiana**, **Michigan**, **Colorado**, and **Massachusetts** have paired flat income taxes with refundable earned income tax credits and/or child tax credits. Beginning in 2023, **Washington** offers a credit based on the federal earned income tax credit, the Working Families Tax Credit.

Localities in a select number of states also levy payroll taxes.

Additional ITEP resources:

- The Pitfalls of Flat Income Taxes
- Promoting Greater Economic Security Through A Chicago Earned Income Tax Credit: Analyses of Six Policy Design Options (Example illustrating a local EITC)
- State Income Tax Reform Can Bring Us Closer to Racial Equity
- ITEP local tax policy project

CONSIDERATIONS

- This tax could be implemented by council action, without a public vote.
- A flat income tax is not progressive and would be burdensome to the lowest-income households. To make this tax equitable, it would be desirable to create a tax credit, rebate, or basic income program, or some similar mechanism to redistribute some of the revenue.
- Implementing a standalone local income tax in a single city, without a statewide income tax, would involve significant technical and administrative challenges. City staff believe that implementation may require a change in state law, and that a 2-3 year lead time would likely be required to set up the infrastructure to collect the tax.
- Could lead to out-migration, which would have secondary impacts on other revenues and property values.

4. ESTATE TAX

OVERVIEW

An estate tax is a tax on property (cash, real estate, stock, and other assets) transferred from deceased persons to their heirs. An estate tax is levied on the estate (not the beneficiary like an inheritance tax) based on total assets after allowable expenses and debts have been paid.

Washington has an estate tax with a graduated rate schedule ranging from 10 to 20 percent; Seattle could consider layering a city-level estate tax on top of that.

ESTIMATED REVENUE

City staff estimate that a 10% "surcharge" on the current state estate tax applied to Seattle estates would generate between $5 million and $10 million annually.

SEATTLE & WA CONTEXT

Before the passage of Washington's capital gains tax, the estate tax was one of the few progressive revenue sources in our regressive state tax system. Less than 1 percent of residents who pass away are wealthy enough for their estates to be taxed. (Brief from Economic Opportunity Institute)

Washington's current estate tax was enacted in 2005 by the Legislature. It was challenged in 2006 by an initiative for its repeal, but that initiative was defeated with 62 percent of the vote. In 2013, the Legislature passed an increase for estates in excess of $4 million, with the voters again approving.

In 2023, tax rates range from 10% to 20%, in graduated tiers based on estate value in excess of $2.193 million.

The state tax allows for the deduction of charitable bequests. It is thereby possible for holders of large estates to avoid paying much tax by transferring assets to a foundation, even one over which their family retains total control. House Bill 1465, introduced in the 2021 legislative session, would have partly closed this loophole by applying the state estate tax to charitable bequests above a certain amount, and also would have made the tax more progressive by exempting small estates, reducing estate taxes on medium estates, and increasing the estate tax on larger estates.

A bill introduced in 2023 (HB 1795) also aimed to make the estate tax more progressive, raising the exclusion amount and adding new tiers up to a 40% tax for value in excess of $1 billion.

OTHER PRECEDENTS

14 states and DC currently have an estate tax. Virginia has a similar "probate tax," with cities and counties permitted to impose a local probate tax in an amount equal to one-third of the state tax.

The modern federal estate tax was enacted in 1916. Starting in 1926, federal tax law allowed a dollar-for-dollar tax credit against estate taxes levied by states, up to a maximum amount. Every state

took advantage of this incentive to enact an estate tax at least as large as the "pick-up" tax until the 2001 Bush tax cuts phased out the federal credit. In many of the states that based their tax on the federal credit, this meant that the state's estate tax also ceased to exist in 2005. (ITEP report)

CONSIDERATIONS

- Very progressive – a tax on generational wealth. Likely minimal economic impact but could lead to various tax avoidance schemes.
- Little credible evidence supports the claim that an estate tax harms a state's economy by causing elderly people to leave the state. The revenue loss from reducing or eliminating the estate tax, in contrast, reduces a state's ability to make public investments that undergird economic growth (source). It's more plausible that a city-level tax could result in some movement of estates to other cities, but this has not been studied.
- City staff state that "City authority does not exist in state law" and that state approval would be needed to enact a local estate tax. However, recent court decisions including the Court of Appeals' 2019 ruling on Seattle's income tax passed in 2017 suggest that the City may have broader taxing authority and be able to pass a local estate tax without state approval:

  In the optional municipal code, RCW 35A.11.020 grants general taxing authority to cities. "Within constitutional limitations, legislative bodies of code cities shall have within their territorial limits all powers of taxation for local purposes." A related statute provides "[p]owers of. . . taxation . . . may be exercised by the legislative bodies of code cities in the manner provided in this title or by the general law of the state where not inconsistent with this title." And the legislature's statement of purpose for chapter 35A.1 1 ROW is unambiguously broad: "The general grant of municipal power conferred by this chapter and this title . . . is intended to confer the greatest power of local self-government consistent with the [c]onstitution of this state and shall be construed liberally in favor of such cities." ROW 35A.11.020's unambiguous language demonstrates the legislature's intent to provide a "general grant of taxing power" to raise revenue for local purposes.

- However, state legislation may be necessary if Seattle wants the state to assist in administering the tax, for example by collecting Seattle's portion and passing it along to the City. This cooperation may be challenging to obtain.
- Rather than simply adding an increment onto the existing state estate tax, the City could consider structuring a local estate tax differently to be more progressive and/or to raise more revenue. For example, it could be modeled after House Bill 1465 noted above to close the charitable bequest loophole and adopt a more steeply graduated structure.

5. INHERITANCE TAX

OVERVIEW

Despite often being confused with estate taxes, inheritance taxes are a slightly different mechanism for taxing the transfer of wealth after a death. Inheritance taxes are paid not by the estate of the deceased, but by the inheritors or beneficiaries of the estate. For example, an estate worth $5 million is divided among five people who will inherit. An estate tax is levied on the whole $5 million and subtracted from the value of the estate before being transferred. An inheritance tax, by contrast, is levied on the five individuals' receipt of $1 million each.

Applied to Seattle, an inheritance tax would be paid by individuals residing in the City who receive an inheritance (possibly from out-of-state), as opposed to being paid by estates located in Seattle.

ESTIMATED REVENUE

Predicting revenue for a Seattle inheritance tax is difficult as there is no filing obligation for City residents in regards to property transfers at death. However, revenue could be significant. City staff ran a ballpark estimate based on revenue figures in Pennsylvania (pop. 13 million), which collected $750 million in 2022. Scaled to Seattle (pop. 750,000), that equals $45 million.

SEATTLE & WA CONTEXT

Washington State first established an inheritance tax in 1901, with tax rates from 1 percent to 12 percent. For the next 80 years, the Legislature adjusted rates and increased exemption levels. In 1981, Initiative 402 abolished the inheritance tax and enabled the state estate tax. (Source)

OTHER PRECEDENTS

Six states currently levy an inheritance tax: Iowa, Kentucky, Maryland, Nebraska, New Jersey, and Pennsylvania. (Source) In two of these states, localities receive revenue from inheritance taxes. In Maryland, the inheritance tax is collected by the Register of Wills located in the county where the decedent either lived or owned property. Nebraska has county-level inheritance taxes with graduated rates ranging from 1% to 18%, authorized under state law.

CONSIDERATIONS

- Implementation, administration, and enforcement could be very challenging. There is federal tracking of estate size and beneficiaries for tax purposes, so in principle the IRS knows who inherits assets and how much. Seattle could seek a data sharing agreement with the IRS.
- Another way to tax inherited wealth that could either complement an estate or inheritance tax or stand on its own would be to eliminate the "stepped-up basis" for taxing capital gains, which often shields a significant share of accrued gains on inherited assets (such as stocks, bonds, and real estate) from taxation. (Source, with more details here)

6. REAL ESTATE CAPITAL GAINS TAX

OVERVIEW

An excise tax on capital gains earned in a real estate sale.

ESTIMATED REVENUE

Difficult to estimate.

SEATTLE & WA CONTEXT

- In 2021, Washington state passed a capital gains tax, which was upheld by the state Supreme Court in 2023. This tax exempts all capital gains from sales of real estate.
- Washington state also has a Real Estate Excise Tax (REET) on real property transactions.

OTHER PRECEDENTS

- The federal capital gains tax applies to profits from the sale of assets held for more than a year. Rates are 0, 15, or 20 percent depending on income and filing status; these are lower than federal income tax rates. Capital gains from real estate are included, but for sale of a principal residence there is an exemption for the first $250k (or $500 for joint filers).
- Many states tax capital gains, generally at the same rates as other income. Many appear to mirror federal tax law by exempting gains up to $250k (or $500k for joint filers) from the sale of a primary residence. But unlike Washington state, they do not exempt real estate capital gains altogether.
- No precedents found for a tax specifically on capital gains from real estate.

CONSIDERATIONS

- If Seattle considers a city-level capital gains tax, it could consider trying to include capital gains from real estate in the tax base (most likely mirroring the federal exemption). However, this would likely require extra infrastructure for reporting and enforcement, as the city would be departing from the pattern set by the statewide capital gains tax.

7. WEALTH TAX

OVERVIEW

A wealth tax is a tax on the net amount of wealth held by a person. In contrast to an income tax, a wealth tax is calculated on total assets minus debts, with a percentage assessed. Proposals to tax wealth vary widely, with some governments taxing all net holdings and others focusing on specific asset types.

ESTIMATED REVENUE

According to the Economic Opportunity Institute, a Washington State wealth tax of one percent on intangible financial assets (such as publicly traded options, futures contracts, and stocks and bonds) in excess of $1 billion would raise nearly $2 billion annually. If the exempt amount were lowered to $15 million, the tax would raise $6.5 billion a year. It's unclear how much of this revenue would be generated from wealthy individuals within the City of Seattle.

Philadelphia's 2022 proposal for a 0.4% tax on "intangible wealth" held by that city's residents was estimated to generate more than $200 million annually.

SEATTLE & WA CONTEXT

There is no precedent in Washington for a city-level wealth tax. In the Legislature in 2021, HB 1406 was proposed to "[improve] the equity of Washington state's tax code by creating the Washington state wealth tax and taxing extraordinary financial intangible assets." This one percent tax would have exempted the first $1 billion of assessed value. A new version proposed in 2023 (HB 1473 and SB 5486) lowered the exemption to $250 million and was estimated to raise $3 billion annually.

These proposed statewide wealth taxes have not been passed. Washington State did pass a statewide capital gains excise tax, which is based on the net proceeds of a sale of certain types of assets, rather than their possession.

OTHER PRECEDENTS

As noted above, a city-level wealth tax has been proposed for Philadelphia (source). According to the Pennsylvania Budget and Policy Center:

"The Commonwealth of Pennsylvania has taxed intangible wealth (that is, wealth that is not real property–such as the houses and apartments people own) since 1831. From that time until 1913, the state collected the tax and turned over a share of the revenue to counties. Between 1913 and the repeal of the tax throughout the state in the 1990s, the tax was collected by counties who retained all revenue—with the exception of the years from 1935 to 1943 when the state added an additional emergency tax on intangible wealth."

Alongside Washington, California, Minnesota and several other states introduced wealth tax bills in 2023. At the federal level, several wealth taxes proposals have been introduced in Congress since 2019 (source). None of these proposals passed into law.

Outside the U.S., wealth taxes are generally seen at the national level. According to the EOI policy brief:

"In 1990, twelve Organization for Economic Cooperation and Development (OECD) countries had wealth taxes and as of 2021 only three of those countries still have their wealth tax in law. Those countries are Switzerland, Spain, and Norway. European wealth taxes are very differently structured than those introduced in the U.S. The biggest differences are that European wealth taxes tax middle-class wealth and feature many exemptions."

CONSIDERATIONS

A wealth tax, whether passed at a state or local level, would almost certainly face legal challenges. One question is whether a wealth tax is a property tax, and in this case whether exempting a certain amount of wealth creates a nonuniform tax that would be unconstitutional.

A city-level wealth tax would likely face additional challenges arguing that the City lacks authority to impose such a tax.

Implementing and administering a city-level wealth tax would be challenging, as Seattle has no infrastructure for the collection and enforcement of taxes based on household income or assets.

8. JUMPSTART PAYROLL EXPENSE TAX

OVERVIEW

Seattle could raise substantial additional revenue by making adjustments to its existing payroll expense tax. This could include increasing the rates, altering the payroll and salary thresholds, and/or expanding the number of businesses paying the tax.

ESTIMATED REVENUE

Depends on what adjustments are made, but could be substantial.

SEATTLE & WA CONTEXT

In 2020, Seattle passed legislation for a Payroll Expense Tax known as the “JumpStart Seattle” tax. It is a payroll-based tax on businesses focusing on those with high-paid employees, with rates graduated by salary level and total payroll expense. Based on the first years of implementation, revenue appears to be about $300 million annually at the current tax rates.

OTHER PRECEDENTS

N/A

CONSIDERATIONS

- The graduated structure of this tax makes it very progressive, focusing, for example, on big tech corporations rather than retail stores.
- Dialing up the payroll expense tax is a convenient option to raise additional revenue because it doesn’t require designing and implementing a new tax.
- The City would have to consider how some businesses might change their behavior to avoid increased rates, for example by shifting employees out of Seattle or keeping salaries just below the threshold; and the potential impacts of increased rates on some businesses in a period of slower economic growth or even recession.
- It may be possible to combine this option with the idea of a CEO Pay Ratio Tax, by assigning significantly higher rates to those corporations that surpass a ratio (for example, 100:1) of highest executive pay to median or lowest worker pay.
- As now structured, this revenue source is very concentrated. In 2021, 10 companies were responsible for 75% of total Payroll Expense Tax revenues. This means the revenue stream is potentially volatile, as it depends on the financial performance of relatively few companies.

9. CEO PAY RATIO TAX

OVERVIEW

Corporations that pay their top executives exorbitant amounts could be required to pay an extra tax or fee, or a surcharge on an existing tax or fee.

ESTIMATED REVENUE

Variable depending on details. Portland collected $5.2 million in 2019 (source), while San Francisco's tax is expected to generate between $60 million and $140 million per year.

SEATTLE & WA CONTEXT

In Washington State, HB 1681 (2019-20) proposed funding the working families tax exemption by imposing a surcharge on publicly traded companies providing excessive executive compensation.

A tax or fee of this type has not been attempted in Seattle, although Seattle's JumpStart payroll expense tax does impose different rates on aggregate payroll based on salary levels.

Most likely, Seattle would not be able to copy Portland or San Francisco exactly. The closest analogy would be to add a surcharge to Seattle's B&O tax for qualifying businesses, but state rate limitations and the B&O model ordinance constraints make this a challenge. A change in state law would be necessary.

However, Seattle could use the JumpStart payroll expense tax as a vehicle instead. For example, the tax rates for corporations that pay their top executives more than 100 times their lowest paid worker could be raised. Some of these corporations may not currently pay any JumpStart tax if they don't have high-paid employees in Seattle. An additional "layer" could be added to JumpStart, consisting of a tax on *total* payroll applying only to corporations that exceed the CEO pay ratio.

OTHER PRECEDENTS

Portland Pay Ratio Surtax (passed in 2016, in effect since 2017)

- 10% Business License Tax surcharge on public companies with a CEO:lowest-paid-worker ratio from 100:1 up to, but not including, 250:1.
- 25% Business License Tax surcharge on companies with ratios 250:1 and higher.

San Francisco Overpaid Executive Tax (passed in 2021, in effect starting 2022)

- Imposes an additional gross receipts tax of 0.1% to 0.6% on businesses in which the highest-paid managerial employee, within or outside of San Francisco, earns more than 100 times the median compensation of employees based in San Francisco.

- For companies headquartered in San Francisco, there is an additional surcharge to the Administrative Office Tax.

There have been a number of proposals for federal legislation based on corporate pay ratios, and state legislation has been proposed in CA, CT, IL, MA, MN, RI, and WA. (Source)

CONSIDERATIONS

- In Portland, only public companies are subject to the tax; public companies must disclose CEO pay ratios per a 2015 Securities and Exchange Commission rule required as part of the Dodd-Frank Act of 2010.
- In San Francisco, all companies public or private are subject to the tax. They are required to disclose executive compensation as part of their annual business tax filings.
- The qualifying threshold could be the ratio of CEO pay to the salary of the company’s lowest-paid worker, to the salary of the company’s median paid worker, or to Seattle’s minimum wage; or some other measure entirely.
- Taxing corporations based on excessive executive pay is likely to be a popular idea. For example, in a 2022 poll of 1,037 people, 81% of Democrats and 71% of Republicans said the CEOs of the largest American companies were paid "too much."
- Depending on the details of the tax, there could be some unintended economic impacts. Businesses may pass some costs to consumers and/or workers, making the tax less progressive. Firms may move out of Seattle, which would also have secondary impacts on other revenues, property values, and where workers choose to reside.

10. B&O TAX INCREASE or RESTRUCTURE

OVERVIEW

Seattle's Business and Occupations Tax currently taxes the gross revenue of businesses at rates that vary by industry. The B&O tax could be increased with voter approval. It's also possible that the tax could be restructured to reduce its impact on smaller businesses, or to function more like a tax on net income or profits.

ESTIMATED REVENUE

According to city staff, raising the B&O tax rates to 0.233% and 0.448% (a 5% increase) would generate $16-17 million annually.

The main goal of restructuring the B&O tax would be to make it more equitable and less regressive. A restructure could be paired with a rate increase to raise additional revenue.

SEATTLE & WA CONTEXT

Washington state has a state-level B&O tax, and state law governs local B&O taxes; cities and towns levying a B&O tax on the value of products, gross income, or gross sale proceeds must adopt the provisions of the statewide model B&O tax ordinance. (Source)

Seattle is already at its maximum councilmanic B&O tax rates: 0.222% or 0.427%, depending on classification. The city can increase the rates above these maximums only with voter approval.

RCW 35.102.040 states that apart from certain mandatory provisions, "a city may adopt its own provisions for tax exemptions, tax credits, and tax deductions." This creates the possibility for Seattle to restructure its B&O tax to be more equitable and less regressive.

One possibility for restructuring Seattle's B&O tax is similar to a recommendation of the Washington state legislature's Tax Structure Work Group, to convert the state B&O tax into a modified gross receipts tax called a "margin tax" modeled after Texas's franchise tax. This would allow businesses to deduct certain costs, such as payroll or cost of goods sold, or some portion thereof, from their gross receipts so that the tax functions more like a tax on net income or profits.

Seattle could also increase the small business B&O tax exemption. Currently, businesses with annual taxable gross revenue less than $100,000 do not pay the tax. This threshold could be raised.

Alternatively, Seattle's tax could be modified to include a standard deduction of some amount for all businesses subject to the tax. This would help to avoid creating a "cliff" where businesses go from paying nothing to paying tax on their total gross revenue when they cross the exemption threshold.

Any of these strategies would need to be accompanied by a voter-approved rate increase to ensure that the restructure is at least revenue-neutral. This would have the effect of shifting the B&O tax burden from smaller to larger businesses, or from lower-margin to higher-margin businesses.

OTHER PRECEDENTS

A number of cities around the country, including San Franciso, collect a gross receipts tax from businesses. Others, such as Philadelphia, combine a gross receipts tax with a tax on net income.

Texas levies a Franchise Tax that is structured as a margins tax.

CONSIDERATIONS

The current B&O tax is considered regressive because businesses are assumed to pass costs on to consumers, and it disproportionately burdens smaller and lower-margin businesses. For this reason, an across-the-board B&O tax increase would not be a progressive revenue option.

On the other hand, one advantage of the current approach is its broad tax base and generation of relatively stable revenue.

The margins tax concept could have several downsides:

- In the short run, over the course of a single business cycle, it would likely be significantly more volatile than the broader-based B&O tax as it's currently structured. Especially during economic downturns, it could fluctuate significantly.
- In the long run, the base of the margin tax was projected to grow more slowly than that of the B&O tax, meaning it could exacerbate chronic long-term revenue shortfalls.
- In the first few years following implementation, shifting to a (state-level) margin tax was projected to cost billions of dollars in forgone business tax resources, due to timing and compliance issues.
- It may need to be based on Federal/IRS defined tax bases, introducing unpredictability into revenue and administration.
- Allowing an unlimited deduction for payroll expenses could incentivize excessive compensation of CEOs and other highly paid workers. One way to avoid this might be to specify a cap on the payroll per employee or the percentage of total payroll that can be deducted.
- A margins tax, with its added complexity, opens more possibilities for businesses to game the system through creative accounting.
- It's not clear that Texas's Franchise Tax actually ends up being much more progressive than Washington's B&O tax. A tax incidence study from the Texas Comptroller finds that state's margins tax to be *regressive* (see page 55, pdf page 61). The analysis of Texas's tax system by ITEP (Institute on Taxation and Economic Policy) comes to a similar conclusion.

11. PROFESSIONAL SERVICES EXCISE TAX

OVERVIEW

The city could impose an excise tax that raises revenue from some types of business activity that are currently exempted from the sales tax, including realtors, architects, accountants, consultants, and other professional services.

ESTIMATED REVENUE

Unclear but could be substantial. In 2016, the Washington State Department of Revenue estimated that repealing the sales tax exemption on "personal and professional services" could generate an extra $2.4 billion in state revenue and $1.1 billion in local revenue in FY 2019. A rough calculation based on this report and on actual tax receipts suggests that removing this exemption entirely could boost total sales tax revenues by 20 percent or more. City staff have estimated that a 0.1% sales tax within the City of Seattle generates approximately $36 million annually. We can therefore estimate that an excise tax of 0.1% applied all "personal and professional services" that are exempt from the sales tax could generate about $7 million annually; a tax of just 1% could generate $70 million.

SEATTLE & WA CONTEXT

In Washington State, "the retail sales tax originally applied only to the sale of tangible personal property and thus, by definition, excluded services from the tax base. Since 1935, some services were added to the tax base, including:

- services to tangible personal property (e.g., repair services) in 1939;
- construction in 1941;
- rental of tangible personal property in 1959;
- certain amusement and recreation activities in 1961; and
- landscape maintenance, physical fitness and certain miscellaneous personal services in 1993." (Source)

That leaves many "personal and professional services" exempt. For example, you pay sales tax when you hire a plumber, but not an architect, realtor or accountant. According to a 2016 study:

"The primary reasons that services were excluded from retail sales tax may have included:
(1) to maintain simplicity by taxing only one class of property, i.e. tangible goods;
(2) to conform to the practice of other states at the time;
(3) to minimize tax administration costs by not requiring service providers to collect the tax; and
(4) recognition that services did not represent a very large share of the state economy in the 1930s."

None of these seems like a strong reason to maintain this exemption today, when services represent a much larger portion of the economy. An excise tax on professional services could partially close this loophole at the local level.

Professional services are classified with other services for the purposes of the B&O tax, so they pay the same rate as other services that are subject to the sales tax. Seattle can't change its B&O tax categories, so adjusting the B&O tax rate specifically for professional services is not an option without a change to state law.

In 2019, the Washington state legislature passed the Workforce Education Investment Act, funded through an 0.25% increase in the B&O tax rate for "Service and Other Activities" grossing more than $1 million annually. While not targeted specifically to professional services, this did result in a higher state B&O tax rate for firms offering such services.

OTHER PRECEDENTS

- The states of New Mexico, South Dakota, and Hawaii impose sales tax on professional services. (Source)
- States differ widely in what kinds of services, if any, are taxed. Professional services are "the least taxed service area, in large part because professional groups have powerful lobbying presences." (Source)

CONSIDERATIONS

- To the extent that professional services are disproportionately used by higher-income people and businesses, this is likely to be a very progressive tax, even if it is wholly passed on to the purchasers of such services.
- However, some "personal and professional services" are used by lower-income people or provided by small low-margin businesses, such as hair dressers and nail salons. One could exclude such services and businesses, either by more narrowly specifying types of services that are subject to the excise tax, or by specifying a dollar amount below which transactions are not subject to the tax (but see the warning below regarding similarity to the sales tax).
- The City would have to consider the possibility that some providers of professional services might relocate outside of city limits to avoid the tax.
- City staff warn against structuring an excise tax too similarly to the sales tax: "*If the City were to try to base this tax as a percentage of the sales value/invoiced costs, then this would likely be interpreted as a violation of the state exemption on the sales tax applying to services. Providing a threshold exemption below $250, or whatever, wouldn't change that basic interpretation issue."*
- City staff warn against structuring an excise tax too similarly to the B&O tax: "*For the City to enact an excise tax directly on professional service businesses that does not exceed statutory rate caps (B&O), the measure of tax must be something other than the 'gross receipts' or the 'gross income' of the business."*

  If a professional services excise tax calculated based on gross receipts or business income would be construed by the courts as a B&O tax, and therefore subject to its constraints on rates, categories of businesses, the model ordinance, etc., then imposing such a tax would likely require changes to state law.

  An alternative structure worth considering would be to specify a flat amount of tax per billable hour, since professional services are generally billed by the hour. This structure could make the tax less progressive since lower-cost services would end up being taxed at a higher rate (per dollar value) than higher-cost services. A graduated structure based on hourly cost could be considered to mitigate this, but that might also increase the similarity to a B&O tax.

12. DIGITAL ADVERTISING TAX

OVERVIEW

A tax on digital advertising services or ads on a digital interface, including banner advertising, search engine advertising, interstitial advertising, and other comparable advertising services. A digital interface is any type of software, including a website, part of a website, or application, that a user is able to access.

ESTIMATED REVENUE

In 2021, $183 billion was spent in the US on digital advertising, a 30 percent increase over the previous year (source). Approximately 0.22 percent of the US population lives in Seattle, so we can estimate that $403 million was spent on digital advertising within Seattle. A five percent tax on this revenue would generate **over $20 million annually**.

Alternatively: Maryland's digital ad tax was projected to raise about $250 million annually. Seattle's population (734K) is about 12% the size of Maryland's (6.165M), so we can estimate that a similar tax in Seattle could generate **about $30 million annually**. (In the first three quarters of 2022, Maryland's tax brought in about $100 million, much less than projected; however, the Comptroller attributed that to noncompliance rather than incorrect projections. Source.)

SEATTLE & WA CONTEXT

Digital advertising services are not subject to Washington sales tax. Digital advertising services are only subject to Business and Occupation (B&O) tax at the 'service and other activities' tax rate.

A digital ad tax has not been officially proposed or implemented in Seattle or Washington State, though a state bill may have been drafted in 2020. (Source)

On a related theme, HB 2107 (2021-2022) would have imposed an excise tax on the collection of data by commercial data collectors.

OTHER PRECEDENTS

Digital Advertising Gross Revenues Tax – Maryland: A levy of 2.5-10% on the revenues derived from digital advertising services in the state of Maryland earned by companies with global annual gross revenue above $100 million. This is the nation's first digital ad tax, passed in 2021.

Opponents including Verizon Communications Inc. and Comcast Corp. sued. The law was struck down in county court on the grounds that it violates the Supremacy Clause, Commerce Clause, and First Amendment of the U.S. Constitution, and the Internet Tax Freedom Act (ITFA). In May 2023, the Maryland State Supreme Court reversed this ruling. (Source.) Another challenge by trade groups including the U.S. Chamber of Commerceis is working its way through federal courts; the case is pending in United States Court of Appeals for the Fourth Circuit.

In 2021, digital advertising taxes were proposed but not enacted in Washington D.C., Connecticut, Indiana, Massachusetts, Montana, New York, Texas, and West Virginia.

ACRE (Action Center on Race & the Economy) has proposed a Chicago-only digital advertising tax on large corporations like Google, Facebook, Amazon, and Twitter. ACRE estimates that a 13% tax would produce $193 million a year in new revenue. (Source)

CONSIDERATIONS

- Big Tech corporations like Amazon, Facebook, and Google profit by collecting personal information to sell targeted digital ads to users. Digital ads are projected to grow to a $300 billion industry by 2025, by extracting and monetizing users' private information without compensation. This industry has so far largely avoided regulation and taxation.
- There are good policy reasons for a digital ad tax, including the increasing evidence of harmful impacts of social media consumption, especially on youth, and other adverse effects such as the ways in which social media firms have weakened the journalism industry.
- A tax could be structured like Maryland's, based on gross revenue, though this may be challenging given the constraints on Seattle's B&O tax authority. Alternatively, a tax could be structured as a fraction of a penny per ad impression within the city of Seattle, or in some other way.
- The legal challenges to Maryland's tax are not yet fully resolved, and depending on the outcome it may be necessary to change aspects of Maryland's approach to reduce legal risk. For example, one could tax all advertising, but set a revenue threshold high enough to effectively exclude print ads.
- There may be substantial practical challenges to implementing this tax, particularly at a local level. It may be difficult to determine the location of taxable advertising, for example by sourcing to the viewer's location. The viewer's IP address may not identify exactly where that person is, and VPNs and other methods of connecting to the Internet render IP addresses unreliable for evidencing geography. It may be necessary to consider a proxy for customer location or source to the advertiser's location. (Source)

13. LUXURY TAXES

OVERVIEW

An excise tax placed upon luxury goods or services, such as high-priced cars and boats, jewelry, etc.

ESTIMATED REVENUE

Depends on what specific goods are taxed and at what level.

SEATTLE & WA CONTEXT

It appears that no luxury taxes have yet been implemented in Seattle or Washington State.

Since 2008, Washington has used the destination-based sales tax system, also known as the "streamlined sales tax." Under this system, the point of sale (the location where sales tax is calculated) is considered to be the point of delivery or where the buyer receives or takes possession of the merchandise (i.e. the destination). (Source)

If a luxury tax used this same rule, it could partially solve the problem of Seattle residents traveling outside the city to purchase luxury goods, as long as the luxury tax is specific to goods that are impractical to take possession of outside one's city of residence.

OTHER PRECEDENTS

Atlantic City Luxury Tax:

- Applies to sales of alcoholic beverages for on-premises consumption, cover and entertainment charges, room rentals, rentals of beach chairs, cabanas, rolling chairs, and tickets of admission within Atlantic City.
- While it's called a "luxury tax," these are arguably not true luxury goods.
- Raised $94.6M during the three years 2019 - 2021 (source, pg 66)

Federal Luxury Tax:

- Enacted by Congress in 1991 and signed by (GHW) Bush but repealed by Clinton in 1993. Imposed a 10 percent luxury surcharge tax on boats over $100,000, cars over $30,000, aircraft over $250,000, and furs and jewelry over $10,000.
- The impacted industries, particularly yacht makers, said the tax killed their revenues and caused them to lay off workers. It's difficult to find a trustworthy analysis of the impacts of the tax and its repeal, especially since it went into effect in the wake of a recession. Although the recession of 1990-91 was relatively mild, it was characterized by a sluggish recovery, with unemployment continuing to rise through mid-1992. Declining sales of luxury goods could be at least partly attributed to this larger economic context, even though it was politically convenient to blame the luxury tax.

CONSIDERATIONS

- The City could tax distributors of certain luxury goods, similar to Seattle's sweetened beverage tax.
- Some goods, such as luxury cars or jewelry, may be easily purchased outside the city and therefore may not be the best candidates for a local luxury tax.
- Other goods generally have to be delivered to a location in Seattle, making it harder to evade a tax. Luxury appliances and goods needed for high-end home construction or renovation could be good candidates.
- It could be challenging to define a luxury good clearly. Does it need to exceed a certain price threshold? It may be a good idea to try to identify high-end goods according to their codes within the US Tariff Schedule, so that the definitions and details of such goods do not need to be written into the Seattle Municipal Code.
- Revenue from luxury taxes could be volatile, as they target items that consumers can choose not to purchase.
- Cities like Los Angeles are leaning towards "mansion taxes" vs. goods/services luxury taxes since they can't be as easily dodged. It's hard to argue that they negatively impact industries the same way luxury taxes on goods/services may, and expensive real estate is constantly bought and sold. New York passed a real estate luxury tax in 2019, for example. Los Angeles's law goes into effect April 1.

14. LODGING or HOTEL-MOTEL TAX

OVERVIEW

The City could push for state action to begin to divert lodging tax revenues away from the WA State Convention Center and toward affordable housing or other purposes; or to raise lodging tax rates.

ESTIMATED REVENUE

Annual lodging tax revenue generated in Seattle in 2019 (including the additional 2% tax referred to below) and directed to WSCC was on the order of $100 million. While revenue plunged during the pandemic, it is now recovering swiftly.

A 2% increase in Seattle's lodging tax could probably raise $20-30 million annually.

SEATTLE & WA CONTEXT

Lodging tax revenue from hotel stays in Seattle (7% tax) and the rest of King County (2.8% tax) flows to the Washington State Convention Center. However, Convention Center activity was estimated to generate only about 7% of room-night stays in Seattle and 3.5% of room-night stays in King County in 2017.

WSCC also receives an additional 2% tax on hotel stays in Seattle (imposed pursuant to RCW 36.100.040(5)), which is credited against the state sales tax.

This revenue is being used to service and pay off the bond issuances that are funding the WSCC expansion. As these bonds are retired, it makes sense to divert this revenue stream to more urgent and socially beneficial uses such as the construction and operation of affordable housing to address the housing and homelessness crisis.

OTHER PRECEDENTS

Many states and cities impose lodging taxes for various purposes, including affordable housing.

CONSIDERATIONS

- Raising or altering the purpose of the lodging tax would require state authorizing legislation.
- Diverting existing lodging tax revenue may be a longer-term idea since it may be necessary to pay off WSCC bonds before diverting lodging tax revenue. However, it's possible that a small portion could be diverted at first, growing larger as the bonds are paid off.

15. SQUARE FOOTAGE TAX

OVERVIEW

Seattle could impose a square footage tax on all or some classes of businesses.

ESTIMATED REVENUE

Seattle's square footage tax introduced in 2008 (see below) was designed to generate $22.3 million; it was probably raising significantly more than that by the time it was repealed, effective in 2016.

A King County Study from 2016 indicates there are 60 warehouses in Seattle south of Safeco Field that are 100,000+ square feet. A warehouse-specific square footage tax at the same rate as Auburn's ($0.10 per quarter) would therefore raise more than $2.4 million annually.

SEATTLE & WA CONTEXT

Washington state law authorizes cities to impose business & occupation (B&O) taxes based on square footage, as well as on gross receipts, number of employees, or some other basis (source).

Seattle: "On January 1, 2008, new state mandated procedures for the allocation and apportionment of B&O income took effect. These procedures were expected to reduce Seattle's B&O tax revenue by $22.3 million in 2008 according to an analysis prepared by the Washington Department of Revenue. On January 1, 2008, the City imposed a square footage business tax to recoup the $22.3 million by taxing a portion of the floor area of businesses that received a tax reduction as a result of the new allocation and apportionment procedures. The new tax was structured so that no business would pay more under the new combined gross receipts and square footage business tax than it did under the pre-2008 gross receipts B&O tax." (Source) This square footage tax was repealed in 2015, effective in 2016 (source).

Bellevue has a Square Footage B&O tax intended to complement its gross receipts tax. The square footage B&O tax rate for 2022 is $0.2789046 (27.89 cents) per taxable square foot per quarter or $1.1156185 ($1.12) per taxable square foot per year. This rate is adjusted each January based on the change in the Consumer Price Index. A Bellevue retailer who sells both in and out of Bellevue may deduct the percentage of office space used to support activity subject to the gross receipts tax.

Kent has square footage B&O tax that complements its gross receipts tax. The square footage tax only applies to businesses with an office, warehouse, outdoor warehouse, or other place of business in Kent.

Auburn has a square footage warehouse tax that was implemented to tax those businesses who lease, own, occupy, or otherwise maintain a warehouse or outdoor warehouse within the city for purposes of engaging in business activities in the city. The tax rate is currently $0.10 per quarter.

OTHER PRECEDENTS

In 2021, Los Angeles proposed a warehouse tax in response to e-commerce booming during the pandemic, this tax was also meant to reduce emissions from freight trucks and improve air quality. This has been stalled - because the measure specified the new revenues would have been dedicated to public street renovation, the city needed two-thirds of voters to approve the tax. If the measure had been written so the tax supported the general fund, it would have needed only a simple majority to pass.

CONSIDERATIONS

Square footage taxes in King County cities generally appear to have been designed to tax business activity that is missed by those cities' gross receipts taxes because it does not generate revenue that is collected within the city.

Seattle could consider bringing back a square footage tax, but perhaps with modifications such as applying it only to distribution centers and warehouses. In the context of recovery from the COVID-19 pandemic and the continuing shift to remote work, a square footage tax applied (for example) to downtown office space could be counterproductive. If the City reconsiders a square footage tax, it should pay attention to what types of business activity are less impacted by other business taxes and also to ways to use such a tax to encourage better land use.

16. TAX ON RENTAL INCOME

OVERVIEW

An excise tax on income earned from renting and leasing commercial and/or residential real estate.

ESTIMATED REVENUE

Uncertain but could be very substantial.

SEATTLE & WA CONTEXT

Washington state and Seattle currently levy sales tax, B&O tax, and lodging taxes on short-term rentals, but no tax is levied on long-term rental of commercial or residential real estate at the state or local level. Seattle requires landlords to register rental housing units. As of 2022, there were approximately 150,000 rental housing units in Seattle.

When Washington state first enacted a B&O tax in 1935, there was an exemption not only for real estate sales, but also for real estate renting and leasing. In 1959, the Legislature added a B&O tax on income from real estate renting and leasing to RCW 82.04.280. In 1960, the State Supreme Court ruled the tax unconstitutional in *Apartment Operators Ass'n of Seattle v. Schumacher*, 56 Wn. 2d 46 (1960), and the following year the Legislature repealed the B&O tax on rental income.

The Schumacher Court held that a tax on rental income from real property constituted a property tax rather than an excise tax, and specified two ways in which the tax violated the state Constitution's uniformity requirement: (1) Properties that were not rented were not subject to the tax; and (2) Properties that generated income of less than $300 were not subject to the tax.

However, the Schumacher decision is an outlier, and it is hard to predict how today's State Supreme Court would rule on the imposition of an excise tax on real estate rental income, especially given the recent ruling upholding the new state capital gains excise tax. The Legislature could test this by passing legislation that explicitly subjects real property rental income to the B&O tax and argues that this is an excise tax.

The City of Seattle could attempt something similar, either through its B&O tax or as a separate (and perhaps differently structured) excise tax specifically on rental income or the act of renting. There may be questions of local authority as well as the question of whether it is a property or an excise tax. It's also possible that, as in the case of Seattle's 2017 tax on high-income households, the State Supreme Court could decline to hear the case, leaving the Schumacher question unreviewed.

OTHER PRECEDENTS

In 2020, Los Angeles studied a gross receipts windfall rent tax, taxing rental income that exceeds a specific threshold. Study authors estimated the tax could raise $18-$84 million and would cost 15% of the value of the tax to administer.

In 2016, City of Berkeley voters passed a business license tax on gross receipts applying to owners of five or more residential rental units at a rate of 2.880%. The measure prohibits landlords from passing the tax to sitting tenants.

CONSIDERATIONS

This tax would help to close a significant loophole in the B&O tax, which would have been closed by the Legislature in 1959 but for the court decision discussed above.

In assessing how progressive a tax on rental income would be, the City should consider whether and how it may be passed along to tenants, commercial and/or residential. It may be possible to design a more targeted tax that would focus on higher-end rentals.

This option carries significant legal risks, so the City would have to be prepared to defend the tax in court and could not depend on collecting revenue in the short term or possibly ever.

Exploring creative ways to structure a tax could help to reduce legal risk. For example, perhaps the tax could be a fixed amount per rental unit, but graduated based on monthly rental cost, square footage, or some other metric.

17. OTHER EXCISE TAXES

OVERVIEW

Seattle, as a first class city, has broad taxing authority under Washington State law, including the authority to impose excise taxes.

ESTIMATED REVENUE

Variable and unknown.

SEATTLE & WA CONTEXT

In 2023, the Washington State Supreme Court ruled that the statewide excise tax on capital gains passed in 2021 by the Legislature is constitutional and valid. This ruling may expand previously held assumptions about what counts as an excise tax.

Seattle could consider some creative ideas for imposing excise taxes on transactions and transfers that are currently not subject to taxation. For example:

- An excise tax on bonuses paid to corporate executives.
- An excise tax on transfers to individuals who are partners in an LLC.
- An excise tax on non-cash transfers between corporate entities, the kinds of transactions that do not show up in sales or profits.
- An excise tax on transfers of assets from an estate to a foundation controlled by the individual or family transferring the assets; or to any foundation. This could partially or wholly close a loophole in the state estate tax, which exempts assets that are so transferred.
- An excise tax on real estate commissions: Realtors typically capture 6% of home sales prices (3% for seller agent, 3% for buyer agent), an amount far in excess of existing real estate excise taxes. These commissions could be subject to additional taxation, directing a portion of profits from rising housing costs into programs which address the impact of these costs.

OTHER PRECEDENTS

Further research needed.

CONSIDERATIONS

The City would have to expect legal challenges. Depending on the details, there could be significant challenges of implementation and enforcement.

18. VACANCY TAX OR FEE

OVERVIEW

A tax on vacant units, residential and/or commercial, within the City of Seattle. Beyond raising revenue, the intent would be to discourage landlords from holding back empty units, which they may do to encourage higher scarcity/rents or reduce month-over-month volatility/seasonality across a portfolio; and to penalize the holding of property purely as a speculative investment.

ESTIMATED REVENUE

If Seattle has at least 174,000 rental units and a vacancy rate of 6 percent in 2022 (per Kidder Williams report cited below), that's about 10,000 vacant units. Supposing that only a quarter of these units are vacant according to whatever definition of prolonged vacancy is specified by the law, and assuming a $6,000 flat fee similar to Oakland's, this tax would raise more than $15 million annually.

City staff estimate revenue of $5 to $20 million depending on definitions, rules and tax/fee level.

SEATTLE & WA CONTEXT

There is no direct precedent for a vacancy tax in Seattle or Washington State, though it has been proposed by advocates, most recently in 2022 by Shaun Scott in The Stranger.

Vacancy rates aren't high anywhere in Washington State. Lack of supply tends to be the primary driver of higher rents, which are growing especially fast in rural and smaller cities.

However, it's been reported that some large landlords in Seattle are using YieldStar software that encourages them to hold back vacant units. How a Secret Rent Algorithm Pushes Rents Higher — ProPublica: *"The company had been seeking occupancy levels of 97% or 98% in markets where it was a leader, Winn said.* ***But when it began using YieldStar, managers saw that raising rents and leaving some apartments vacant made more money****."*

Industry research shows Seattle vacancies are trending up:

MARKET BREAKDOWN

	4Q22	3Q22	4Q21	Annual % Change
New Construction	2,325	3,789	2,073	12.16%
Under Construction	33,844	34,110	32,306	4.76%
Vacancy Rate	6.0%	5.7%	4.9%	22.45%
Average Asking Rents	$1,843	$1,884	$1,793	2.79%
Average Price / Unit	$372,151	$340,972	$340,353	9.34%
Cap Rates	4.6%	4.7%	4.1%	12.20%
Net Absorption	592	1,630	1,665	N/A

OTHER PRECEDENTS

Vancouver, B.C. has a Speculation and Vacancy Tax that went from 1% of assessed value in 2017 to 1.25% in 2020 and 3% in 2021. In 2023, an increase to 5% was considered but rejected, though other changes were made to improve the "fairness and effectiveness" of the tax. The tax is based not only on a property's vacancy status or use, but also on the property owner's residency status and where property owners earn and report their income. According to the BC government, in the fourth year (2021 tax year) of the tax:

- More than $78 million will help fund affordable housing projects where the tax is applied.
- 57% of the revenue comes from foreign owners, satellite families, Canadians living outside B.C. and "other" non-B.C. resident owners.

Oakland, CA has a Vacant Property Tax of $3,000 or $6,000 per vacant parcel (or unit under separate ownership) that generated $7 million in 2020. This tax does not appear to apply separately to every vacant unit in a multifamily apartment building.

San Francisco's "Empty Homes Tax" passed with 54.5% of the vote in November 2022. It imposes a tax on property owners for each unit left vacant for more than 182 days in a given year, starting in 2024. It applies to buildings with three or more units, not to single-family homes or duplexes. Estimated revenue is $15 million by 2026. Landlords and property owners have sued.

Local governments in California are authorized to impose special "parcel taxes" on different types or classes of property. The parcel tax is the vehicle California cities have used to enact vacancy taxes. Washington state does not have this same mechanism.

CONSIDERATIONS

A vacancy tax or fee might encourage speculative owners to rent vacant properties or sell properties rather than pay. This may encourage more people to live in Seattle, bringing economic activity.

According to the City of Vancouver, "there were 160 fewer properties declared vacant between 2020 and 2021 and about 130 fewer properties declared vacant between 2021 and 2022, representing a 20% drop in vacant declarations year-over-year for both cycles." While this may be attributed to the 3% vacancy tax, "the earlier effects of the pandemic on housing supply and demand may also be a major contributing factor." (Source)

A Seattle vacancy tax would need to be designed so that it does not violate the constitutional uniformity requirement for property taxes in Washington state:

- A vacant unit tax may have to apply to commercial as well as residential properties.
- The City could explore ways to structure it as an excise tax or a license fee.
- Another approach that could be considered is a property tax increase coupled with a rebate or credit only for non-vacant units.

Successful implementation would require a robust reporting and monitoring system, in the case of apartments building on Seattle's existing rental registration and inspection program.

City staff estimate that it would likely require 9 to 18 months to develop the tax/fee (definitions, director's rules, etc.), do outreach, and develop the tax or licensing and regulatory system.

19. MANSION or REAL ESTATE EXCISE TAX

OVERVIEW

Seattle's Real Estate Excise Tax (REET) could, with state authorization, be modified to generate more revenue from sales of mansions or other high-value properties. Additional tiers with higher rates could be added for property sales in excess of $5 million or $10 million. Alternatively, a surcharge could be added specifically for 'McMansion' sized homes, typically defined as greater than 3,000 square feet.

ESTIMATED REVENUE

In the last year, 751 homes that were worth over $1.125 million and between 3,000 and 7,500 square feet were sold in Seattle, according to Redfin. A one percent tax on the total value of these mansion sales would generate over $8 million.

In the last year, 22 Seattle homes sold for between $5 and $10 million and two sold for over $12 million, according to Redfin. A higher REET tier similar to that proposed in the 2023 legislative session (see below) likely would have raised an additional few million dollars from these sales.

City staff estimate revenue potential of $7 to $14 million annually, assuming a surcharge on property sales above $5 million. Alternatively, an additional 0.25% in overall local REET (not focused only on high-value properties) could generate $34 million annually. However, REET is highly dependent on economic conditions/housing market and can be volatile.

SEATTLE & WA CONTEXT

Starting in 2020, Washington State introduced a progressive structure to its Real Estate Excise Tax, with graduated rates for a property's sale value in excess of $500,000 (1.28%), $1.5 million (2.75%), and $3 million (3%). The state reduced the rate to 1.10% for sale value up to $500,000.

In the 2023 legislative session, House Bill 1628 proposed adding an additional higher tier to the state REET, imposing a 4% tax on property sale value in excess of $5 million. This bill did not pass.

In addition to the state REET, local jurisdictions like Seattle are authorized to impose REETs, but their amount and purpose are regulated by state law. (Source) The City currently imposes the maximum local REET authorized of 0.5%.

OTHER PRECEDENTS

In 2022, Los Angeles voters passed Measure ULA, which imposes a 4 percent tax on property sales above $5 million, and a 5.5 percent tax on property sales over $10 million. The tax went into effect on April 1, 2023. The measure passed with 57 percent of the vote and is expected to raise over $600 million annually to fund affordable housing projects and provide resources to tenants at risk of homelessness.

San Francisco has a progressive transfer tax with graduated rates rising to 6 percent on property sales above $25 million.

New York City's Mansion Tax is a buyer closing cost which ranges from 1% to 3.9% of the purchase price, applicable on residential purchases of $1 million or more in New York City.

New Jersey's mansion tax imposes an additional fee of one percent of the sale price of homes sold for $1 million or more. New York, Connecticut, Hawaii, Vermont, and the District of Columbia also levy higher taxes on higher-priced real estate transactions.

CONSIDERATIONS

- Requires a change in state law to authorize higher local REET rates.
- Very large homes underutilize urban space. In the U.S., average house sizes are increasing, but the number of people living in them is decreasing. When a large home is built it can set off a chain reaction for other larger homes to be built in that neighborhood (source). In addition to generating revenue, implementing taxes on these properties could help to limit development that does not support denser city growth.
- As an alternative to altering the existing REET structure, Seattle could explore imposing taxes or fees on the construction of new mansions.

20. DEVELOPER IMPACT FEES

OVERVIEW

Impact fees are one-time charges assessed by a local government against a new development project to help pay for new or expanded public capital facilities that will directly address the increased demand for services created by that development. Seattle and other local jurisdictions planning. (Source)

RCW 82.02.050-.110 and WAC 365-196-850 authorize counties, cities, and towns planning under the Growth Management Act (GMA) to impose impact fees for: Public streets and roads; Publicly owned parks, open space, and recreation facilities; School facilities; and Fire protection facilities.

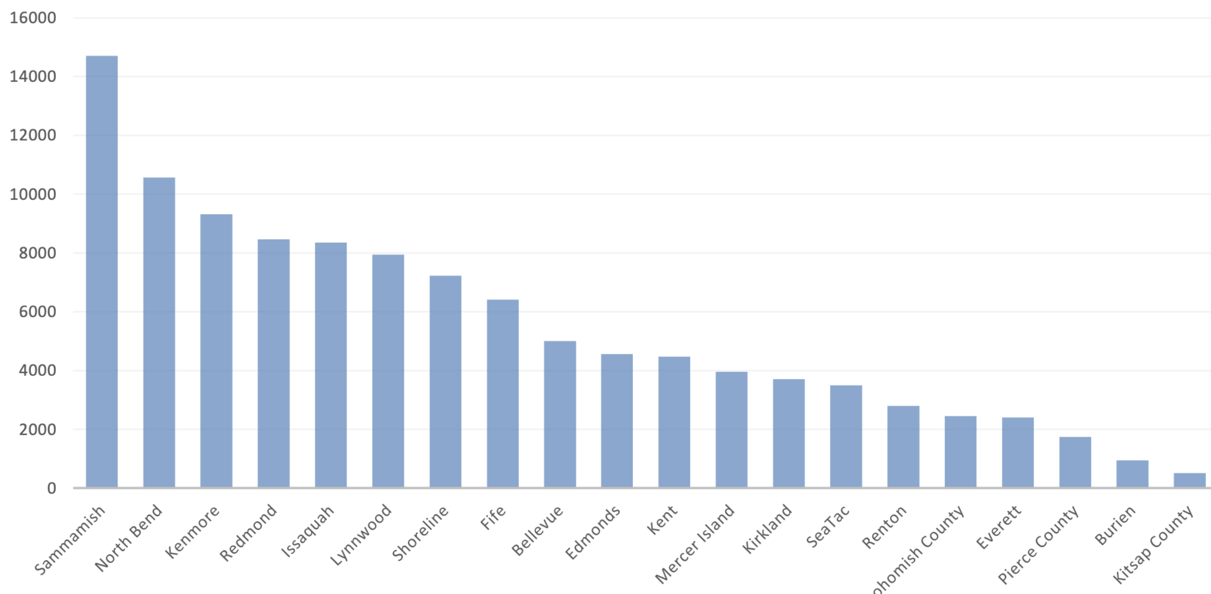
ESTIMATED REVENUE

Revenue generated depends on the rates set and on the pace of development. If Seattle imposed transportation impact fees at rates comparable to nearby jurisdictions *and* construction growth continued at a pace similar to the past decade, the fees could generate as much as $50 million annually. But if rates are set lower and/or growth slows, the fees will generate less revenue.

For comparison, the City of Tacoma, which was considering impact fees in 2021, estimated $156-520M in a twenty-year projection. Kirkland, which is about an eighth the size of Seattle in area and population, collected over $5 million in road and park impact fees in 2016.

SEATTLE & WA CONTEXT

Most urban jurisdictions in Washington state have implemented developer impact fees, with widely varying rates; transportation and school impact fees are by far the most prevalent types of impact fees assessed. (Source: 2018 presentation) So far, Seattle has no impact fees:



The City of Sammamish, charging the highest impact fees in King County, collects roughly $30,000 for every new single-family home built. City officials assert that growth is paying for growth, and it plans to use road impact fees to fund 87 percent of a $16.5 million street-widening project.

Seattle began planning and policy development work for an impact fee program starting in 2015, with a focus on Transportation Impact Fees starting in 2018. This work was held up in a SEPA (State Environmental Policy Act) appeal. An updated study was completed in 2023. Implementation steps would include amending the Comprehensive Plan and then developing policies and regulations for the program. (City website with links to documents)

OTHER PRECEDENTS

Impact fees are widely used in jurisdictions across the country.

CONSIDERATIONS

- Impact fees depend upon development projects, which will cause revenue to fluctuate over the years.
- The potential influence of fees on future development is an important consideration in setting rates. Excessively high fees could affect decisions about the type and scale of development, or even prevent development.
- As Seattle enters what seems likely to be a period of slower development, some other existing sources of revenue for transportation projects, such as the Real Estate Excise Tax, are trending down. Impact fees could help to keep vital multimodal infrastructure projects on track, even if slower growth means that impact fee revenue is less than once anticipated.

21. CONGESTION PRICING

OVERVIEW

Congestion pricing is a strategy some cities around the world use to improve mobility by charging a fee or toll for single-occupancy vehicles to travel in a certain area of the city or to use specific downtown streets. The result is reduced traffic volumes and new revenue that can be used, for example, to expand public transit options. Congestion pricing tools include low-emissions zones (LEZ), congestion charges (CC), area licensing schemes (ALS), electronic road pricing (ERP), and GPS-based road pricing (GPS ERP).

ESTIMATED REVENUE

Cities similar in size to Seattle have generated about $100 million annually from congestion fees. Stockholm (~200k larger population than Seattle) generated about $150 million in annual revenue; Gothenberg (~100k smaller population than Seattle) generated about $90 million in annual revenue.

SEATTLE & WA CONTEXT

In 2019, the Seattle Department of Transportation conducted a study on congestion pricing. This study compared a variety of pricing tools used in other cities, and identified four top options based on applicability to the Seattle context and likely influence in four focus areas: equity, climate and health, traffic congestion, and implementation. The four top options identified were:

- Cordon Pricing: Traveling to or from a zone
- Area Pricing: Traveling to, from, and within a priced zone
- Fleet Pricing: Targets specific vehicle types, such as ride-hailing or commercial vehicles
- Road Usage Charge: Charge based on vehicles miles traveled

Since the issuance of this study, no specific proposal has been put forward for Seattle.

OTHER PRECEDENTS

Singapore was the first country to introduce congestion pricing on urban roads in 1975. Since then other cities have followed, including London, Stockholm, Milan, and Gothenburg, Sweden, as well as smaller towns, such as Durham, England; Znojmo, Czech Republic; and Valletta, Malta. (Source)

Congestion pricing has been slower to take hold in North America. New York City's plans to implement congestion pricing have been delayed until at least 2024; Vancouver BC's plans were canceled in 2022. A study in San Francisco was paused in 2021.

Stockholm, London, and Milan all saw a 30 percent reduction in traffic delays and greenhouse gas emissions were reduced by 14 to 20 percent. Businesses in Stockholm and London saw an increase in sales after the change, suggesting positive economic benefits.

CONSIDERATIONS

- 66 percent of Seattle's carbon emissions come from road transportation.
- While cities in other countries have pointed to increased downtown sales, it's unclear what the economic impacts could be in the context of COVID recovery. Congestion pricing could discourage trips downtown during a sensitive period.
- According to years of research, when a city prepares to adopt congestion pricing, residents are largely against the effort. But once the new charges are in place public opinion shifts, sometimes dramatically, in favor of the new reality. (Source)
- A congestion pricing program in Seattle would require voter approval. The Seattle Transportation Benefit District was established in 2010, and the state authorizing legislation for transportation benefit districts provides the authority to charge vehicle tolls within the boundaries of the district. However, tolls may not be imposed without the approval of a majority of the votes in the district voting on a proposition at a general or special election.
- There will be serious equity concerns about penalizing lower-income residents and workers who may have no realistic alternative to driving, especially workers who may have been displaced from Seattle due to high housing costs and now commute into the city for work. Any proposed program should mitigate potential impacts by offering discounts or exemptions and/or using program revenue to improve public transit access and other equitable transportation initiatives.
- Seattle's phase 1 study in 2019 found that higher income people are more likely to drive in Seattle, though it could not determine the magnitude of the impact on lower-income drivers. Variable pricing and targeted exemptions could help make this tax more progressive.
- City staff point to administrative and technical challenges and anticipate a long implementation period, citing 2-13 years in other cities worldwide.
- According to City staff, a congestion pricing program may require State approval:

  It's possible that the Transportation Commission may agree that some future congestion pricing approach has no significant effects on State Routes, and in that circumstance State approval may therefore not be needed. However, RCW 36.73.040(3)(d) suggests that whether on a State Route or local or county streets and roads, there can be a State approval hurdle to implementation. Part of this declaration that it would require State action is based on the assumption that any access controlled or otherwise "tolled" downtown zone or area would include the waterfront, which then makes it likely that the tolling would affect the "operation of any [S]tate facility," such as the SR99 tunnel and the State-operated ferries. So it seems likely that the City would need to seek the review and approval of the Transportation Commission and possibly the Legislature if somehow the zone created implied a toll or had other undefined "significant effects" on SR 99 through the waterfront tunnel.

22. NON-RESIDENTIAL PARKING TAX

OVERVIEW

Square footage or per-stall tax on non-residential, privately owned parking facilities, e.g. at malls and big box stores.

ESTIMATED REVENUE

Based on revenue estimates by the Victoria Transport Policy Institute, it seems realistic that a NRPT could easily match Commercial Parking Tax revenue (or double it in case of replacing the CPT). Seattle's CPT generated around $50 million in 2019 and around $30 million in 2021.

SEATTLE & WA CONTEXT

Currently, Washington State allows cities, counties and districts to levy a Commercial Parking Tax (CPT) under RCW 82.80.030. The City of Seattle levies a CPT of 14.5%, which is added to the fee drivers pay to park in commercial parking lots. Revenue is used to fund transportation projects and programs. The NRPT could complement or replace the CPT and would widen the parking tax base.

In 2016, a bill (HB 2186) was introduced in the Washington State legislature to grant local authority for a Non-Residential Parking Tax. That bill and the concept were discussed more fully in this 2016 article in the Seattle Transit Blog.

A non-residential parking tax was recommended for Seattle and analyzed in detail in a 2010 report by the Victoria Transport Policy Institute.

OTHER PRECEDENTS

- Non-residential parking taxes are used in Canada and Australia, where they're called a Parking Levy.
- For example, in New South Wales the Parking Space Levy raises around $100 million AUD (approximately $70 million USD) each year for public transport infrastructure projects. In 2023, the charges for parking spaces in urban areas are $2,930 or $930 AUD per space depending on location.

CONSIDERATIONS

- Almost certainly requires state legislation to authorize localities to impose this tax.
- Could encourage better land use, and a shift toward public transportation, by disincentivizing excess parking space.
- Costs may be passed on to consumers, so it's unclear how progressive a tax this would be.
- This idea could be combined with an "impact fee" on the construction of new parking spaces.

23. PACKAGE DELIVERY TAX or FEE

OVERVIEW

A tax or fee on packages or orders delivered by vehicle to Seattle addresses.

ESTIMATED REVENUE

City staff speculatively estimate that a fee of $1 per package could raise $32 - $43 million annually, based on a range of 45 to 60 packages per person per year in Seattle.

SEATTLE & WA CONTEXT

No precedent in Seattle or Washington State. Online packages are subject to sales taxes, and the seller can also add delivery charges on products that are subject to sales tax.

OTHER PRECEDENTS

- On July 1, 2022, Colorado imposed a $0.27 retail delivery fee on all deliveries by motor vehicle to a location in Colorado with at least one item of tangible personal property subject to state sales or use tax. Revenue goes to transportation infrastructure.
- In Pennsylvania in 2021, the Transportation Revenue Options Commission considered "recommending charging a package delivery fee of 25 cents to $1 paid for every package delivered in the state by e-commerce giants Amazon, FedEx and UPS as well as local grocery stores and restaurants" to raise revenue for transportation. (Source)
- In 2020, a Brooklyn Assemblyman proposed a $3 fee per order within New York City, to encourage shopping at small businesses and to fund public transit. (Source)
- The New York State Assembly's 2023-24 budget proposal includes a proposed $0.25 fee that would be applied to any delivery transaction in New York State. Exemptions would be made for medicine, medical supplies, food, diapers, and baby formula. The collected fees would be spent on transit systems within the state. (Source)

CONSIDERATIONS

- Implementation and enforcement may be challenging, especially in a single city.
- This tax is not especially progressive, as it would likely be passed on to consumers, and it could penalize people with limited mobility who must have necessities delivered.
- However, there are other policy reasons to consider this tax, including reducing vehicle miles traveled and related traffic congestion and carbon emissions.

24. AUCTIONING DEVELOPMENT RIGHTS

OVERVIEW

A certain development envelope would be allowed “by right” (e.g. a FAR of 1.5), probably in line with existing zoning envelopes plus the new state minimums, but additional rights would only be obtainable through government auction, up to some limit per parcel (e.g. a FAR of 4 in a particular zone). FAR = floor area ratio, the ratio of a building's total floor area to the size of the piece of land upon which it is built.

ESTIMATED REVENUE

Like Seattle’s Mandatory Housing Affordability (MHA) inclusionary zoning program, the amount would vary based on market conditions. But it would capture much more of the value created by upzoning than does MHA. It is more likely to mimic a mature transfer-of-development program, which captures ~50% of the price paid per developable square foot, *vastly* more than inclusionary zoning. One estimation suggests that this could raise between $225 to $450M per year, though that estimate was generated during a booming real estate market.

Auctioned development rights also raise capital much sooner, because the fees are paid at the time of auction, not at the time of development. Because the cost of building public goods increases faster than inflation, bringing money forward earlier allows the city to accomplish more with the money raised.

SEATTLE & WA CONTEXT

N/A

OTHER PRECEDENTS

In the US, this is not an existing practice, although it has been very successful in Sao Paulo. However, in the US we do have analogs for such government auctions when it comes to auctioning off spectrum, or carbon permits, and for how such a market might work, when it comes to transfer of development rights, even here in Seattle.

CONSIDERATIONS

How progressive is it? While it does not involve a formal progressive tax ladder, it is extremely redistributive from the wealthy to the public. It vastly increases the value captured by the city from land-owners sitting on desirable properties. Because it also allows pricing to respond to market conditions, it also makes it much less likely that the value capture scheme will cause developments to fail to “pencil out” in a downmarket, meaning it will have less of a negative affect on housing production, which should also have a progressive net impact.

What are the risks? Seattle is a small market and it may take some time for this kind of market to mature, and poorly designed auctions tend to disappoint. Existing development capacity could

compete, though there does not seem to be an excess of this, and where existing inclusionary zoning options are present, they could represent an additional source of competition that would discipline prices. Presumably these would either need to be removed, which would be a large political lift, or tapped out before the program would raise a lot of money. The program also needs legal analysis for compliance with state law, and additional analysis for the cost of administration, though the overall cost seems lower than the administrative costs associated with manually trying to price MHA each year.

25. TRAFFIC FINES BASED ON INCOME

OVERVIEW

Seattle could impose graduated fines based upon income for various traffic and parking violations. This approach has been successful in European countries at both generating revenue and reducing traffic violations that endanger residents' safety.

ESTIMATED REVENUE

In Seattle, the fine for red-light running violations is currently $139, while school zone speed violations are $237. Combined city revenue from these fines in 2023 is anticipated to be about $17.5 million (source).

Depending on how income-based fines are structured, the change could be revenue neutral (raising fines for higher-income drivers and lowering them for lower-income drivers) or it could result in additional revenue.

SEATTLE & WA CONTEXT

N/A.

OTHER PRECEDENTS

Apart from some short-lived pilots in the 1980s (source), income-based fines have not yet been implemented in the United States.

In Finland, speeding fines are linked to salary. The Finns run a "day fine" system that is calculated on the basis of an offender's daily disposable income – generally their daily salary divided by two. The more a driver is over the speed limit, the greater the number of day fines they will receive. Going about 15 mph over the speed limit gets you a multiplier of 12 days, and going 25 mph over carries a 22-day multiplier. The maximum multiplier is 120 days. As one extreme example, a Finnish businessman Reima Kuisla (with declared income of $6.5M) was issued a ticket for going 65mph in a 50mph zone that calculated to $54,000. (source)

There are also "day fine" systems in Germany, Denmark, Macau, Sweden, and the United Kingdom. Switzerland uses a similar system and the UK introduced tougher speeding penalties in 2017, fining up to 175% of a person's weekly income.

There is a pilot in Chicago in 2022 to *reduce* current traffic violation fines based on income for residents earning less than 300% of the poverty threshold (~$41,000 for a single person). (Source)

CONSIDERATIONS

Income-based fine schedules could help to mitigate some of the equity impacts of flat traffic fines

described in a May 2023 report on automated traffic enforcement from the Whose Streets? Our Streets! workgroup convened by Seattle Neighborhood Greenways. As the group notes:

"A recent SDOT analysis of the program revealed that existing cameras have been placed disproportionately within Seattle's communities of color, reflecting historic disinvestment in the safe design of roadways that run through those communities. While automated ticketing can reduce speeding and collisions, the cost of a speeding ticket – currently $237 – can also cause significant financial distress for low-income Seattle residents."

Implementing income-based fines in the United States, and especially in a single city, would involve significant challenges of administration and enforcement. In the countries that have "day fine" systems, the government entity issuing the fine generally has access to a federal tax database or other reliable information about an individual's income that does not depend on the individual self-reporting. With no income taxes in Seattle or Washington state, it's difficult to imagine how a program could be implemented here that did not rely on the honesty of participants.

One option worth considering is to base the fine on vehicle value, which could be easier to estimate. Vehicle value is not a perfect proxy for income; but one could also imagine including a process for lowering a fine by providing some proof of lower income.

26. HIGH-VALUE PROPERTY TAX w/ REBATE

OVERVIEW

While Washington's state constitution requires uniform taxation of property, the City could explore passing a special property tax levy which applies, for example, only to home value in excess of $1 million by implementing a rebate system or some other means to effectively reimburse homeowners for their additional tax up to this threshold. A second-home tax could be instituted in a similar way.

ESTIMATED REVENUE

Roughly, a levy of $0.20 per $1000 assessed value could raise on the order of $45 million annually. Assumptions: 362,809 housing units (source); 33% of homes over $1 million (source); additional home value distribution data taken from Redfin.

SEATTLE & WA CONTEXT

Washington state allows for exemptions on property taxes for seniors and people with disabilities below a certain income threshold, and a bill to expand eligibility passed in 2023. In 2021 House Bill 1494 was introduced to exempt the first $250,000 in home value from property taxes but did not pass. Seattle has a number of property tax levies, but none that offer a rebate.

OTHER PRECEDENTS

No US jurisdiction appears to have graduated property tax rates for homes, though according to the Center on Budget and Policy Priorities, "Some states and localities have begun to consider… setting a higher rate for high-value properties." The District of Columbia does have a higher marginal rate for commercial and industrial property valued over $3 million (source), with the first $3 million taxed at 1.65% and any value over $3 million taxed at 1.85%.

CONSIDERATIONS

A rebate program raises concerns about gift of public funds prohibitions. Due to these restrictions, many existing rebate programs apply only to households below 80% of area median income. It's also not clear that this approach would avoid uniformity challenges. If the program was simply returning to taxpayers an amount they just paid in taxes, a court might rule that this still constitutes a non-uniform tax and therefore violates the state constitution.

To the extent that this tax applies to owner-occupied homes, it would be progressive. But if it's also applied to multifamily rental properties, it would be important to consider whether the tax would likely be passed on to renters. The uniformity requirement would probably mean that the tax would have to be applied to commercial as well as residential properties.

This tax would require voter approval to lift Seattle's property tax levy lid; any increase would still have to be within the city's overall allowed levy capacity.

27. LAND VALUE TAX

OVERVIEW

A land value tax is a levy on the value of unimproved land, not the value of structures or improvements made to the site. The burden of an LVT is borne by landowners who control the most valuable parcels in a given area. An LVT has been shown to decrease land speculation and encourage development. A split-rate (or two tier) property tax system is a step towards a full LVT.

ESTIMATED REVENUE

Uncertain

SEATTLE & WA CONTEXT

Currently, no municipality in Washington levies an LVT. Property in King County does include two categories of assessment: land value and improvement value. For example, the hole across from City Hall downtown has a very high land value and no improvement value.

OTHER PRECEDENTS

Some jurisdictions in the U.S. use a two-tier tax system in which the land value of a parcel is taxed at a considerably higher rate than the improvement value of said parcel. The City of Allentown, PA taxes land value at a rate of 5.038% and building value at a rate of 1.072%.

Harrisburg, Pennsylvania adopted a two-tier property tax system in 1980, with land value taxed at a considerably higher rate. Outcomes have included increased housing production, a decrease in vacant structures, an increase in taxable properties, and an increase in tax revenue (source). A growth management boundary has the potential to bolster these outcomes.

In May 2023, Detroit's mayor proposed a land value tax to reduce taxes on homeowners and spur development in Detroit (source).

According to Wikipedia, "Land value taxation is currently implemented throughout Denmark, Estonia, Lithuania, Russia, Singapore, and Taiwan."

CONSIDERATIONS

While an LVT would appear to violate the uniformity clause in our state constitution, Sightline has argued that a well-written LVT could be ruled constitutional by the State Supreme Court based on the fact that the MFTE (multi-family tax exemption) involves a two-tier tax rate and is considered legal. It is also unclear if an LVT could be administered at the city level; King County administers property taxes for our region. Adopting an LVT or a split-rate system would involve substantial changes to our current tax system.