

Seattle: Creating the Pathway to a Statewide Income Tax

Our state is confounded by the lack of a progressive income tax. This absence starves off the resources needed for education, higher education, early learning, and social services. We are in a perpetual public fiscal crisis, regardless of whether the private economy is doing well or not.

It is a given that the Legislature will not put in place an income tax. We also know that a statewide initiative is very unlikely to pass.

And yet, as a result of the November elections, we have reinforced a sympathetic Supreme Court, one that has found the state in contempt for failure to fund the paramount duty - the education of all children. This is a good and strong context in which to bring forward an income tax challenge to the court.

One approach to systemically remedy the regressive nature of our current tax regime is to begin at the local level with an income tax. We tried this in Olympia this past election, with the Opportunity for Olympia initiative to the people. And while we did better than any previous vote on an income tax - 47.78% support - we, like Democratic down-ticket candidates, were pushed back by the Trump wave.

But that is not the end of the story. Much of the legal back-and-forth necessary to get Opportunity for Olympia on the ballot provides us with the necessary and rich background to successfully pursue local income taxes in 2017. If passed, whether by city council action or by initiative, such ordinances will be immediately challenged by income tax opponents as unconstitutional.

This is what we want, as it provides a pathway to the state supreme court, enabling that court to review and reverse their decisions from 1935 and 1933 in which they equated income to property and thereby disallowed a progressive income tax which had been overwhelmingly approved by the people.

Let's consider Seattle:

We can be forthright in Seattle about the need for a state income tax and the pathway which could be pursued by the city to enable that.

We can also be forthright about the need to replace federal funding in the event of the Trump administration penalizing our sanctuary city, as well as the need for more funding for public services, such as pre-kindergarten, child care workers' compensation, access to higher education, housing, health coverage, homelessness, and numerous other underfunded or unfunded public services.

In Seattle, the City Council can pass an ordinance for an excise tax based on unearned income above a certain threshold, or such an ordinance could be voted through by initiative. If an ordinance for a tax based on unearned income is passed into law, and is found constitutional by the state supreme court, then no matter how the state legislature acts for a statewide income tax, **Seattle will have a new funding source available, lessening the city's need to rely on property tax levies.**

Further, such a pathway would encourage and enable other cities to put in place their own taxes based on income above a certain threshold. Seattle would, by law, gain a data sharing agreement with the IRS, to which other cities in Washington state could accrete when they put in place similar tax ordinances based on income.

What revenue is available for the city?

A privilege tax of 2.5% on unearned income (capital gains, interest, and dividends) for households with adjusted gross income in excess of \$200,000 would bring in about \$125 million a year, with about 29,000 households contributing a tax.

We can develop and estimate other iterations. This estimate provides a reality check on what is possible.

Working with Pacifica Law, we have already established the legal template for a local tax on income to fund higher education. The template includes a tax on unearned income for households with total income in excess of \$200,000 and the dedication of such revenues for the provision of community college tuition for all public high

school graduates and GED certificate achievers. In Seattle this tax could fund many other services as well, including making up for the \$85 million annual loss in federal revenue if and when Trump penalizes sanctuary cities.

Iteration of proposed ordinance:

1. Revenue would come from a 2.5% tax on unearned income for household with total income in excess of \$200,000 in the City of Seattle. This will result in about \$125 million annually (2014 IRS data, extrapolated).
2. The ordinance could not be implemented until any legal challenges are resolved, and only when and if such legal challenges are decided in favor of the city.
3. Phased-in implementation would be dependent on actual revenues realized through the tax.
4. The city would pursue a data sharing agreement with the IRS.
5. Absent such an agreement, the city would institute a voluntary method for determination and payment of this mandated tax (much like how filing IRS 1040 forms and payment of determined taxes are now done.)
6. There is a fine of 1% of taxes due for each month for taxes that are not paid.
7. EOI has already developed both the implementation methods for determination and oversight of tax calculation and collection.
8. Dedication of revenues would be first aspirational (in anticipation of the legal pathway to the Supreme Court), and also needs to be hammered out among the constituencies that are interested in pursuing this pathway.

With our people and our city under attack from the Trump administration, federal funding threatened, and health coverage about to be dismantled, we cannot afford to proceed with a business-as-usual attitude. We cannot merely watch and cower before these onslaughts. This passivity breeds despair. **We can be and must be courageous, innovative, and progressive. We can and must create a pathway for progress.**

This graph illustrates how our current tax system favors the wealthy and penalizes the poor and working class citizens of our state and city:

