Who Really Pays:

An analysis of the tax structures in 15 cities throughout Washington State

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Economic Opportunity Institute Many Washingtonians feel they are heavily taxed. They are – if they're working class or middle class. Wealthy residents pay a tax rate many times lower than the rates other people pay. But due to our opaque tax system, it's hard to understand how much we pay in taxes, or how much other people pay.

This report compares the tax obligations of households at the \$25,000, \$50,000, \$75,000, \$100,000, \$150,000 and \$250,000 income levels in Bellevue, Bellingham, Everett, Federal Way, Kent, Olympia, Pasco, Pullman, Renton, Seattle, Spokane, Tacoma, Vancouver, Wenatchee and Yakima. In Seattle, the combination of state and local taxes results in a system which relies much more heavily on taxes on the people least able to pay, while not imposing significantly higher taxes on the wealthy.

This report also compares job growth in states and cities with their income tax structures and effective tax rates on wealthy households. In neither case is there any correlation.

In a system of taxation based on justice and equity it is fundamental that the burdens be proportioned to the capacity of the people contributing.

– Pope John XXIII, May 15, 1961¹

With thanks to John Burbank, Marilyn Watkins, Yoram Bauman and Dick Conway

¹ Pope John XXIII. "Mater et Magistra: Encyclical of Pope John XXIII on Christianity and Social Progress." The Vatican, May 15, 1961. http://w2.vatican.va/content/john-xxiii/en/encyclicals/documents/hf_j-xxiii_enc_15051961_mater.html

Table of Contents

1) Executive Summary	5
2) A Problem that Starts with the State	8
2.1) A System Based on Regressive Taxes	8
2.2) How Unfair is Washington State?	
2.3) Washington's Tax System is Ripe for Failure	14
2.4) Job Growth Is Not Determined by State Tax Systems	
2.5) Higher Pressure on Revenue Sources in the Future	
3) Income Gaps and Regressive Taxes Make Seattle More Unequal than Anywhere Else in Washington	24
3.1) The Seattle Area Has the Highest Income Inequality in the State (Except for the San Juan Islands))24
3.2) The Combination of State and Local Taxes in Seattle Create One of the Most Regressive Systems in the Country	
3.3) EOI Study: The Combination of State and Local Taxes is More Regressive in Seattle than in Othe Washington Cities	
3.4) Tax Obligations Are Increasing Faster for Working- and Middle-Class People Than for the Wealt	hy35
3.5) Seattle Has Exigent Problems to Solve to Help Everyone Thrive	
3.6) Seattle's New Soda Tax is Also Regressive; Seattle Needs New Tools	
3.7) Lower Taxes on the Affluent Do Not Help City Job Growth	
4) How the Income Tax on the Very Wealthy Will Help	45
4.1) What We Can Achieve with a Progressive Tax	
4.2) Seattle's Income Tax on the Very Wealthy Doesn't Hurt Small Businesses	
5) Legal History	
5.1) A Century Ago, When Washington Was More Progressively Minded	
5.2) Recent Efforts for Progressive Taxes	
5.3) Seattle Breaks the Ice on Reimagining Equitable Taxation	51
5.4) Myths About Income Tax Illegality	
5.4.1) Myth 1: Income Taxes Are Outlawed in the Washington State Constitution	
5.4.2) Myth 2: Cities Do Not Have the Legal Authority to Create Taxes Without State Permission	53
5.4.3) Myth 3: Seattle Cannot Specifically Tax Income	53

6) How City Combined Tax Rates are Computed for Comparison of Washington Cities	55
6.1) Property Taxes	
6.1.1) Property Values	
6.1.2) Tax Rates	
6.1.3) Renters	
6.2) Sales Taxes	
6.3) Automobile Taxes	
6.3.1) Yearly Registration Fees	
6.3.2) Gas Taxes	
6.4) Alcohol, Tobacco, Health Insurance Premium and Public Utility Taxes	

List of Tables

Table 1) Ranking of Tax Regressivity in 15 Washington Cities	6
Table 2) Weeks that Low-Income and High-Income Workers Work to Pay State and Local Taxes Across Washington	
Table 3) Expenditures on Non-Alcoholic, Non-Dairy Beverages as Percentage of Income	
Table 4) Possible City Expenditures with Revenue from Income Tax on the Very Wealthy	
Table 5) Assumed Property Values for Washington Households	55
Table 6) Assumed Rents in Washington	57
Table 7) Vehicle Ownership Assumptions	58

List of Figures

Figure 1) Share of Income Captured by Income Level in Washington vs. the United States, 1917-2013	.10
Figure 2) Change in Mean Income by Quintile in Washington, 2010-2016	.11
Figure 3) Effective Individual Tax Rates in Washington (ITEP Model)	.12
Figure 4) Effective Individual Tax Rates in Washington (DoR Model)	.13
Figure 5) Mean Household Incomes by Cohort in Washington 1917-2013	.15
Figure 6) Per Capita Taxable Sales as Percent of Income in Washington State, 1969-2023	. 16
Figure 7) Years for Per Capita Taxable Sales and Per Capita Personal Income to Rebound in Washington	
After Recessions	.17
Figure 8) Real Job Growth by State 1970-2016 vs. Tax Foundation Business Climate Rank (Conway Method)	.19

Figure 9) Relative Job Growth by State 2000-2016 vs. Tax Foundation Business Climate Rank (EOI Method) 19
Figure 10) Relative Job Growth by State 2000-2016 vs. Presence of Personal Income Tax
Figure 11) Relative Job Growth by State 2006-2016 vs. Region
Figure 12) Tuition and Fees at Public Institutions in Washington State
Figure 13) Change in Mean Income by Quintile in Seattle, 2010-2016
Figure 14) Mean Income by Quintile in Washington and Seattle, 2016
Figure 15) Average Income by Cohort in WA Counties (2013)
Figure 16) Captured Share of Income by Cohort in WA Counties (2013)
Figure 17) DC Report Ranking Taxation Levels in States' Largest Cities Across Household Income Cohorts
Figure 18) Seattle Household Incomes vs. Property Values (Owner-Occupied Houses Only)
Figure 19) Percent of Income Going to State and Local Taxes by Income Level in 15 Washington Cities
Figure 20) Ranking of Tax Responsibilities in 15 Washington Cities Across Income Cohorts
Figure 21) Percent of Income Allocated to Various Taxes Across Income Cohorts in Five Washington Cities 34
Figure 22) Percent of Income Allocated to Taxes in Seattle in 2016 vs. a Hypothetical 2018 by Income Cohort 35
Figure 23) Seattle Population v. Per Capita General Fund Expenditures
Figure 24) Amazon Employees in Seattle vs. Mean 1-Bedroom Apartment Rent
Figure 25) Mean Income and Educational Attainment in Seattle
Figure 26) Proportions of Racial and Ethnic Groups in Selected Household Income Brackets in Seattle, 2016 40
Figure 27) Relative Job Growth by MSA of States' Largest Cities vs. Ranking of Effective Tax Rate
for High-Income Households
Figure 28) Relative Job Growth by MSA of States' Largest Cities vs. Tax Rate Levels
for High-Income Households
Figure 29) Initiative 1098 Results by City

1) Executive Summary

As Seattle grows and changes, it faces an increasing number of crises – a lack of affordable housing, people without shelter dying on our streets, families struggling to pay for child care and college, environmental challenges, and streets clogged with traffic. As residents, we want a city where everyone can flourish with world-class schools, diverse neighborhoods, and reliable public transportation.

We could achieve a more prosperous future, with early learning for all our children, tuition-free community college, affordable communities, and green-energy initiatives. But you can't get something for nothing.

If we want major improvements and to maintain the economic and cultural diversity that give Seattle so much vibrancy, we need new progressive sources of public revenue to invest in our future.

Over the past 10 years, Seattle has moved in the opposite direction. Well-educated Seattle residents are becoming wealthier, but everyone else is not. The ability of city government to pay for the public services to keep the city running has become strained. Adjusted for inflation, general fund expenditures have grown from \$1.1 billion in 2008 to \$1.3 billion in 2018. But Seattle's population has grown as well, from 592,000 to 738,000 people. Seattle is actually spending about \$110 less per resident now than it did in 2008, at the start of the Great Recession.

Seattle is trapped by Washington's regressive tax structure. Like other cities, counties, and school districts in the state, Seattle turns repeatedly to the tools at hand – property, sales and automobile taxes – to pay for police, fire fighting, libraries, preschool, health clinics, and transit. This makes it impossible for cities to raise new revenue without increasing the already exceptionally high percentages of their incomes that lower-income and middle-class residents pay in state and local taxes.

Wealthier residents, on the other hand, pay a uniquely low tax rate compared to other major cities in the country. As the state's largest city and the heart of the regional economy, Seattle has unique needs for public services. As regressive taxes pile up, they compound the city's affordability crisis – driving people out of the city or into homelessness.

Multiple studies using a variety of methodologies have documented that Washington's mix of state and local taxes results in the wealthy paying too little and low-income and working-class households paying too much:

- In 2014, the Washington Department of Revenue estimated that a household making \$15,000 per year pays 26.5 percent of its income in state and local taxes, while a household making \$140,000 pays 5.9 percent.
- In 2015, researchers from the Federal Reserve found that the Washington State tax system undoes 13 percent of the income inequality mitigation caused by federal taxes, the tenth highest rate in the nation.
- In 2015, the Institute on Taxation and Economic Policy confirmed that Washington State's tax system is the most regressive in the country, estimating that a household making \$21,000 per year pays 16.8 percent of its income in state and local taxes, while a household making \$507,000 pays 2.4 percent.
- In 2017, the Office of the Chief Financial Officer of the District of Columbia found Seattle's tax system to be the most regressive of the largest cities in every state, estimating that a household making \$25,000 per year pays 14.0 percent of its income in state and local taxes, while a household making \$150,000 pays 5.7 percent.

This report, using more localized data than the DC study, found Seattle's tax system to be the most regressive of major cities in Washington, estimating that a household making \$25,000 per year pays 17.0 percent of its income in state and local taxes, while a household making \$250,000 pays 4.4 percent.

The majority of taxes paid by residents of Washington go to the state. Seattle and other cities raise revenue using the same tax tools, compounding the regressivity of the state tax structure. Even if public expenditures are relatively progressive in nature, city projects are increasingly being built on the backs of those who can least afford to pay for them.

Washington cities lose millions of dollars every year by enacting taxes that mimic the state's tax breaks on the wealthy.

Seattle likes to think of itself as a progressive beacon in the state. But in a beauty pageant among regressive tax structures, it's actually Spokane that comes out on top.

There are some regional trends. Seattle and Bellevue consistently jockey for the highest tax rates at any household income level. Cities in King County tend to have higher tax rates than other cities in Western Washington, driven largely by voter-approved property and sales tax levies for schools, transit, low-income Increasing income inequality has pushed this regressive tax structure to a breaking point. Skyrocketing costs for basic necessities mean more people are turning to public services, but low-income and middle-class residents simply can't afford to pay more in taxes. However, the rich can and should. The gap between the poorest and richest quintiles statewide went from \$152,631 in 2010 to \$192,146 in 2016, adjusted for inflation. In Seattle, it grew from \$193,738 to \$256,249. The income gap between the top and bottom quintiles is more than 25 percent greater in Seattle than it is statewide.

Opponents to progressive taxation say that giving the rich bigger tax breaks than working-class and middleclass people encourages job growth. Statistical analysis shows that this isn't true. Linear regression models show that state tax systems with no personal income taxes or light personal income taxes cannot explain at least 96 percent of state job growth since 2006.

When comparing the largest cities in each state, tax systems that lightly tax the rich cannot explain at least 99 percent of growth.

housing, and other services. Tax rates in Eastern Washington cities overall reflect fewer of these urban services.

Households making \$25,000 pay an extra 7.3 percent of their incomes if they live in Seattle rather than Yakima, while households making \$250,000 only pay 1.9 percent more.

Rank (1st = Most **Effective Tax Rate for Effective Tax Rate for** \$25,000 Household \$250,000 Household City **Regressive**) Seattle 4.4% 1st 17.0% Bellevue 2nd 15.8% 4.6% 13.7% 3.6% Renton 3rd Vancouver 4th 12.6% 2.8% Kent 5th 13.2% 3.6% Olympia 6th 12.9% 3.3% Everett 7th 12.8% 3.4% Tacoma 8th 13.0% 3.9% Pullman 9th 11.7% 3.0% Federal Way 10th 12.5% 4.2% Pasco 11th 11.0% 2.8% Bellingham 12th 12.0% 3.9% Wenatchee 12.0% 4.1% 13th Yakima 9.7% 2.5% 14th Spokane 15th 10.4% 3.4%

 Table 1) Ranking of Tax Regressivity in 15 Washington Cities
 Image: Comparison of Comparison Cities

There is very little, if any, connection between low taxes on the wealthy and a region's ability to generate jobs. Such a claim is simply a localized version of Reagan-style trickle-down economic rhetoric. Moreover, public policy should support economic development that benefits the whole community, not blindly seek new jobs to be filled exclusively by newcomers who drive out once vibrant communities.

When you break down the differences in taxation into calendar days, households making \$250,000 received enough income in 2016 to pay state and local taxes within the first three weeks of January, no matter where they lived. But it took at least five weeks for a household earning \$25,000. In Seattle, it took almost 9 weeks for a low-income household, meaning they worked into March just to pay state and local taxes.

New and increased taxes in the last few years have only increased the disparity in Seattle. The increased Seattle sales taxes, Washington State's revised property tax system, the higher transportation benefit district taxes, and even the new soda tax are all regressive in nature. Using the most recent income data from 2016, a household making \$25,000 now has to work four more days in Seattle, until March 7, to meet state and local tax obligations.

Reliance on sales taxes means public revenues will continue the long term trend of growing more slowly than the economy overall unless tax rates are continually increased. In fiscal year 1979, taxable sales accounted for 59.3 percent of the state's per capita income. By 2016, that shrank to 36.3 percent as the economy shifted increasingly from goods to services. In the past six recessionary periods, taxable sales took on average 2.3 times longer to recover than income in Washington.

While every city has needs, Seattle faces an unprecedented amount of exigent issues – rapidly increasing housing costs, the fourth worst traffic congestion in the country, communities being devastated by gentrification, and elderly people on the verge of homelessness. While median income in the city is increasing for residents with bachelor's and graduate degrees, it's on a downward trend for high school graduates and those with associate's degrees.

Seattleites have repeatedly shown that they want a progressive income tax, even if other parts of the state aren't ready for it. In 2010, Seattle approved Initiative 1098 with 63 percent of the vote. In 2017, a KING-TV poll found that number still stayed strong, with 69 percent approving of the new 2.25 percent tax on income over \$250,000 for individuals or \$500,000 for joint filers, which in turn would lower regressive sales and property taxes.

We all want a Seattle where everyone can live and thrive. But Seattle needs more public revenue to build affordable housing, provide services for the homeless population, improve transit, increase access to affordable childcare, and fund tuition-free community college. Increasing regressive taxes already in place simply increases the burden on low-income residents to fund services that ultimately benefit everybody, while excusing the affluent from contributing proportionally to build the commonwealth of the city.

The Washington Supreme Court decided in 2017 that cities have a right to manage their own affairs when it determined that Seattle's tax on guns and ammunition is authorized under Revised Code of Washington 35.22.280(32), which grants first class cities broad tax powers.

Eighty years ago, the Supreme Court narrowly ruled that income taxes are allowed only if they are not progressive. We no longer have the economy of the 1930s, and the precedents that the Court relied on have all been overturned.

It's time to let citizens decide what's best for themselves. If Seattle wants a tax system that is more equitable and is less rigged in favor of the very wealthy, it's time to let them make that choice.

Note: Figures in this PDF are interactive. Click on them to be taken to the interactive webpage where you can explore the data.

2) A Problem that Starts with the State

People who are wealthier tended to get dramatically more benefits than the middle class or those who are poor, and so [regressive taxation] runs counter to the general trend you'd like to see, where the safety net is getting stronger and those at the top are paying higher taxes. I need to pay higher taxes. I've paid more taxes, over \$10 billion, than anyone else, but the government should require the people in my position to pay significantly higher taxes.

– Bill Gates, founder of Microsoft, February 2, 2018²

Washington taxes working- and middle-class households at astonishingly higher rates than the wealthy because of its ubiquitously regressive system.

2.1) A System Based on Regressive Taxes

In a regressive tax system, low-income households contribute a larger percentage of their income in taxes than high-income households. Regressive taxes contrast with a flat tax, by which households in different income brackets contribute the same proportion of their income, and a progressive tax, by which tax rates are higher on the wealthy than on those who can least afford to pay. Washington State's tax system is almost entirely regressive, with the exception of our progressive estate tax.³ The estate tax, however, is a comparatively small source of revenue. In fiscal year 2016, estate taxes provided \$135 million to the state - 0.7 percent of the state's general fund revenue from taxes.⁴

The federal income tax is one of the farthest-reaching progressive taxes. For single filers who submitted taxes in 2018, everyone paid 10 percent on the first \$9,325 of taxable income, 15 percent on the next income up to \$37,950, and so on up to 39.6 percent on income over \$418,400.⁵ With a standard exemption, someone earning \$22,000 would pay 1 percent of their income in federal income taxes, whereas someone making \$80,000 would pay 15.3 percent. (Although for taxes paid in 2019, it will be less progressive when President Donald Trump's tax cuts come into effect.⁶)

A true flat tax is rare. Only eight states have flat income taxes, with rates ranging from 3.07 percent in Pennsylvania to 5.499 percent in North Carolina.⁷ Income taxes in other states are progressive, with the rich paying proportionally more than middle-class and low-income workers.

⁴ Washington Department of Revenue. 2016 Tax Reference Manual. January, 2016, p. 31. https://dor.wa.gov/sites/default/files/legacy/Docs/Reports/2016/Tax_Reference_2016/2016_TaxReferenceManual.pdf

⁵ https://www.irs.gov/pub/irs-drop/rp-16-55.pdf

U.S. Department of the Treasury. Internal Revenue Service. *Internal Revenue Bulletin 2018-10*. March, 2018, Table 3, Section 1(c). https://www.irs.gov/irb/2018-10_IRB

² King, Alexandra, "Billionaire Bill Gates says he should pay 'significantly higher' taxes." *CNN*, February 18, 2018. https://www.cnn.com/2018/02/18/politics/bill-gates-taxes-cnntv/index.html

³ When the Washington Supreme Court invalidated the estate tax in 2005 because it was not a "stand alone" tax, the Economic Opportunity Institute lobbied for the replacement tax that was passed the same year. EOI also continually advocated against the repeal of the estate tax in Initiative 920, which was defeated in 2006.

For more information, see Watkins, Marilyn. "Discussion Brief: Washington's Estate Tax." Economic Opportunity Institute, 2006. http://www.eoionline.org/wp/wp-content/uploads/tax-reform/WAEstateTax-Sep06.pdf

⁶ For single filers paying taxes in 2019, everyone pays 10 percent on the first \$9,525 of taxable income, 12 percent on the next income up to \$38,750, 22 percent on the next income up to \$82,500, and so on up to 37 percent on income over \$500,000. While there are minor benefits for the middle class, lowering the rate for the very wealthy has a much larger impact.

⁷ Colorado, Illinois, Indiana, Massachusetts, Michigan, North Carolina, Pennsylvania, and Utah have flat income taxes.

Moreno, Tonya, "Which States Have a Flat Income Tax Rate?" *The Balance*, October 11, 2017. https://www.thebalance.com/which-states-have-a-flat-income-tax-rate-3193306

People often mistake taxes on goods for flat taxes. For instance, gas in Washington State is sold with a \$0.494 state tax on every gallon, no matter who you are. This is actually a regressive tax, because in practice it takes up a higher share of income for low-income or middleclass people than for high-income people. In addition, rich people are increasingly more likely to buy electric cars and not pay the gas tax at all.⁸ For the gas tax to be a flat tax, someone making \$250,000 per year would have to buy 10 times as much gas as someone making \$25,000. The Bureau of Labor Statistics' Consumer Expenditure Surveys have consistently shown that to be false. Data from 2016 show that a household making about \$25,000 spends on average \$1,300 on gasoline, while a household making about \$250,000 spends on average 2,900 - just over twice as much.⁹

Whether it be gas, food, clothing, cleaning supplies or entertainment, purchase of goods does not scale proportionally with income. To that effect, when the IRS calculates estimated sales tax expenditures for deductions on the federal income tax, it estimates that a household making \$250,000 spends a little over three times as much in sales tax as a household earning \$25,000.¹⁰ The lack of proportional scaling makes taxes on goods inherently regressive.

Every major statewide tax in Washington is regressive. Gas taxes, sales taxes, alcohol taxes, tobacco taxes, property taxes, utility taxes and health insurance premium taxes – all of these taxes hit the pocketbooks of low-income Washingtonians harder than those of the wealthy. The Business and Occupation Tax is more complicated. As a gross-receipts tax, it functions similarly to a sales tax, with part of it passed on directly to consumers. Because the B&O tax falls on all stages of production, proportionally less of the tax falls on instate consumers. The B&O tax is also applied broadly, so its ultimate distributional impact is different from that of general sales taxes, although some economists treat it as a sales tax.

While it may be less regressive than other taxes in Washington, researchers have still found it to be regressive in its impact on individuals and households.¹¹ The B&O tax is also regressive for businesses – firms with less than \$5 million in total annual income pay a greater percentage towards B&O and other taxes than companies with more than \$25 million.¹²

Some economists even argue that the state lottery is a form of regressive taxation.¹³ In fiscal year 2017, Washington State spent \$14.9 million on promotion and advertising to encourage people to give money to the "Department of Imagination." For every dollar taken in from lottery sales, the state spent \$0.24 for state services, mainly for education, but also building stadiums and fighting gambling addiction. The rest of the money mainly went to administration and prize payouts.¹⁴

⁸ Woodyard, Chris, "Study: Electric car buyers are younger but richer." USA Today, May 4, 2015. https://www.usatoday.com/story/money/cars/2015/05/04/truecar-study-electric-cars-richer/26884511/

⁹ U.S. Department of Labor. Bureau of Labor Statistics. *Consumer Expenditure Survey, 2016.* 2017, Table 1110. https://www.bls.gov/cex/2016/combined/decile.pdf

¹⁰ U.S. Department of the Treasury. Internal Revenue Service. 2017 Instructions for Schedule A (Form 1040). 2018, p. A-18. https://www.irs.gov/pub/irs-pdf/i1040sca.pdf

¹¹ Davis, Carl. "Explaining our Analysis of Washington State's Highly Regressive Tax Code." Institute on Taxation and Economic Policy, 2017. https://itep.org/explaining-our-analysis-of-washington-states-highly-regressive-tax-code/

¹² Washington Office of Financial Management. "Washington Business Tax & Premium Database – Tax and Premium Statistics." https://ofm.wa.gov/sites/default/files/public/legacy/economy/business_tax/tax_and_premium_statistics.pdf.

¹³ Dvorak, Julie, "I despise lotteries, but I bought four Powerball tickets anyway. I'm weak." *Washington Post*, January 11, 2016. https://www.washingtonpost.com/local/i-despise-lotteries-but-i-bought-four-powerball-tickets-anyway-im-weak/2016/01/11/633b1fd8-b86a-11e5-829c-26ffb874a18d_story.html

¹⁴ Washington's Lottery's Finance Department. *Comprehensive Annual Financial Report.* 2017, p. 24. http://www.walottery.com/About/assets/docs/17CAFR.pdf

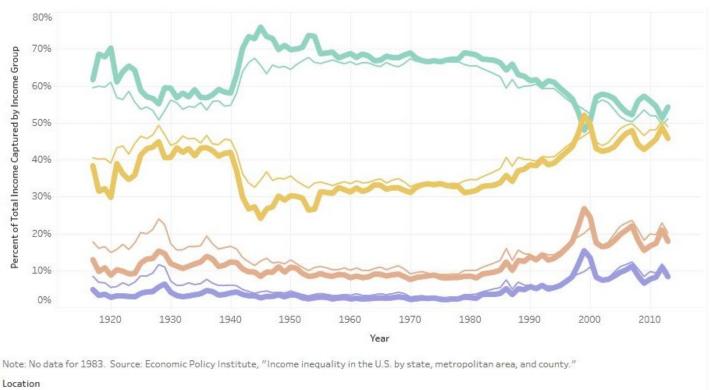
2.2) How Unfair is Washington State?

If you have free trade and free circulation of capital and people but destroy the social state and all forms of progressive taxation, the temptations of defensive nationalism and identity politics will very likely grow stronger than ever in both Europe and the United States.

- Economist Thomas Piketty, 2017.¹⁵

The United States has been in a time of rapidly increasing income inequality since 1980. A 2016 report from the Economic Policy Institute showed that all of the new income generated in Washington between 2009 and 2013 was captured by the top 1 percent.¹⁶ The bottom 99 percent actually saw their incomes decrease by 1.8 percent.

After the Second World War, Washington saw a record high level of income equality - the bottom 90 percent of the population captured 79 percent of the income in 1945, as shown in Figure 1. Through 1979, the bottom 90 retained about 70 percent of income, but the rate has declined steadily since, with the rate of decline accelerating during economic booms and modest





United States

Washington	
Share of Income	
Captured by the Top 0.1%	E Captured by the Top 10%
Captured by the Top 1%	Captured by the Bottom 9

by the Bottom 90%

¹⁵ Piketty, Thomas. "Capital in the Twenty-First Century." Belknap Press, 2017.

¹⁶ The Economic Policy Institute defined income as wages and salaries, investment interest and capital gains, but not Social Security or unemployment benefits.

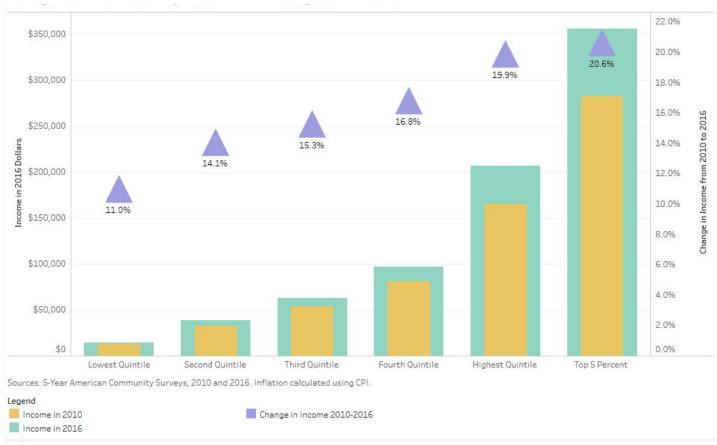
Sommeiller, Estelle, Mark Price, and Ellis Wazeter. "Income inequality in the U.S. by state, metropolitan area, and county." Economic Policy Institute, 2016. http://www.epi.org/publication/income-inequality-in-the-us/

rebounding during recessions. By 2012, the bottom 90 percent of households only received 50 percent of total state income. The other 50 percent went to the top 10 percent of households. The top 1 percent received over 20 percent of all state income in 2012, almost tripling their share since 1979.

Since 2013, real incomes have gone up for many Washingtonians, but the wealthy continue to capture an ever greater share of income in Washington, as shown in Figure 2. From 2010 to 2016, the mean income for the bottom 20 percent of the population increased 11 percent – but the top 20 percent gained 19.9 percent. The annual gap between the poorest and richest quintiles grew from \$152,631 to \$192,146.¹⁷ After Washingtonians are done paying their state and local taxes, the gap between rich and poor becomes even greater. That's because in Washington State, we have one of the most regressive tax structures in the country – if not the most regressive.

Using 30 years of data from the Current Population Survey,¹⁸ researchers from the Federal Reserve compared before-tax and after-tax income inequality among each of the 50 states and the District of Columbia in a 2015 report.¹⁹ They found that while federal income taxes mitigate income inequality, state tax systems tend to increase it. According this study, our Washington's tax system undoes 13 percent of the income inequality mitigation caused by federal taxes, the tenth highest impact in the nation.

Figure 2) Change in Mean Income by Quintile in Washington, 2010-2016



¹⁷ Contrasting with EPI, the American Community Survey considers income from wages or salaries, self-employment, investment interest, Social Security and unemployment benefits, but not capital gains.

U.S. Department of Commerce. U.S. Census Bureau. American Community Survey and Puerto Rico Community Survey 2016 Subject Definitions. 2016, p. 81. https://www2.census.gov/programs-

 $surveys/acs/tech_docs/subject_definitions/2016_ACSSubjectDefinitions.pdf$

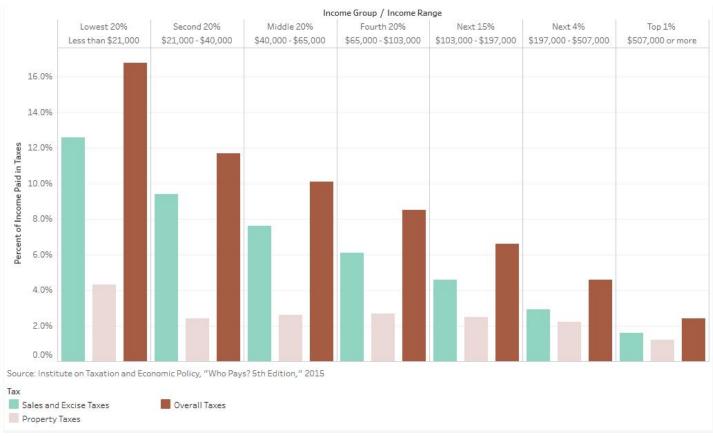
¹⁸ Department of Commerce. Census Bureau and Department of Labor Statistics. Current Population Survey. https://www.census.gov/programs-surveys/cps.html

¹⁹ Cooper, Daniel, Byron Lutz, and Michael Palumbo. "The Role of Taxes in Mitigating Income Inequality Across the U.S. States." 2015, p. 42. http://byron.marginalq.com/cooper_lutz_palumbo_2015.pdf According to this study, the gas tax is the most influential in increasing income inequality. For years, Washington has had the second-highest gas tax in the nation, behind only Pennsylvania.²⁰

The Federal Reserve study measured the difference in incomes for non-elderly people in the 10th and 90th income percentiles, and only for statewide taxes. A separate 2015 study by the Institute for Taxation and Economic Policy analyzed combined state and local taxes and broke the categories down even farther, running simulations for seven income categories. ITEP found that Washington has the most unfair tax system for poor and middle-class taxpayers, as shown in Figure 3. In real dollars, ITEP estimated that a typical Washington household making \$21,000 per year paid \$3,528 in state and local taxes in 2014 (16.8 percent), but a household making \$210,000 paid \$9,660 (4.6 percent). The second household made 10 times as much, but contributed proportionally three times less in taxes.²¹

Across all 50 states, ITEP found the top 1 percent of households paid an average of 5.4 percent in state and local taxes – more than double the 2.4 percent Washington's tax system required.²²





²⁰ Drenkard, Scott. "State Gasoline Tax Rates in 2017." Tax Foundation, January 27, 2017. https://taxfoundation.org/state-gasoline-tax-rates-2017/

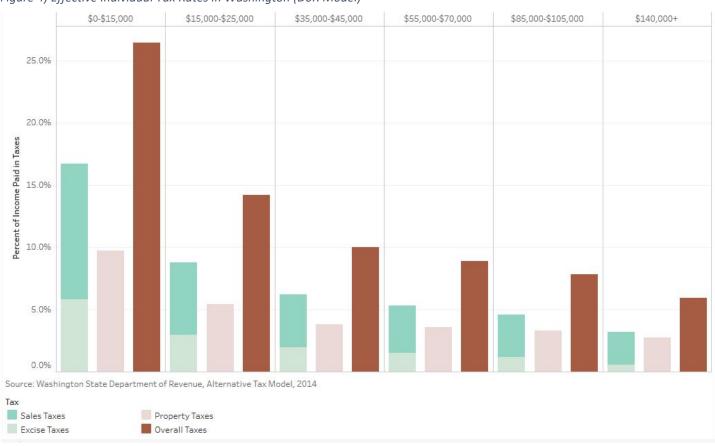
²¹ Davis, Carl, Kelly Davis, Matthew Gardner, Harley Heimovitz, Sebastian Johnson, Robert S. McIntyre, Richard Phillips, Alla Sapozhnikova, and Meg Wiehe. "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 5th Edition." 2015, p. 123. https://itep.org/wp-content/uploads/whopaysreport.pdf

²² *Ibid.,* p. 3.

In a 2014 report, the Washington State Department of Revenue released a model allowing a user to create hypothetical tax situations for places in Washington.²³ In it, they created estimates using the taxes in place at the time, resulting in the exposure of tax disparities even starker than under ITEP's model, as shown in Figure 4, perhaps because the cutoff for the lowest income bracket was \$15,000 instead of \$21,000.

Almost everything about the Washington State system is regressive. It doesn't have a personal income tax. It taxes businesses through a gross receipts tax in lieu of a corporate profits tax. It has a very high reliance on sales taxes and higher rates compared to the majority of states. Washington has relatively high taxes on gasoline, cigarettes and alcohol.²⁴ For property taxes, Washington doesn't offer a "circuit breaker" system to reduce the taxes of low-income taxpayers unless they are elderly or disabled.

Figure 4) Effective Individual Tax Rates in Washington (DoR Model)



²³ Washington Department of Revenue. Research and Fiscal Analysis Division. *Washington State Tax Alternatives Model.* 2014. https://dor.wa.gov/about/statistics-reports/washington-state-tax-alternatives-model

²⁴ The Economic Opportunity Institute backed Initiative 773, approved by 66 percent of voters in 2001. The initiative raised the tax on cigarettes by \$0.60 per pack, in turn expanding basic health to 50,000 low-income people.

For more information, see Brown, Jen. "A Healthier Washington through Increased Health Care Coverage and Reduced Tobacco Use: An Analysis of I-773." Economic Opportunity Institute, 2001. http://www.eoionline.org/health-care/a-healthier-washington-throughincreased-health-care-coverage-and-reduced-tobacco-use-an-analysis-of-i-773/ Perhaps the only positive note is that Washington doesn't tax most food from the grocery store. (Washington has also enacted the Working Families Tax Rebate, but the Legislature has failed to fund it for a decade.)²⁵

Our regressive tax system reinforces the polarization of income, in a vicious cycle which places high taxes on middle- and low-income households, while undertaxing the most affluent. This encourages the migration of income to the elite.

It's hard for most Washingtonians to know this. Reliance on sales and excise taxes means that people don't really know how much they are paying in taxes – or how much other people are. Seattle economist Dick Conway measured the transparency of every state tax system in 2017, based on US Census data. Oregon, which has an income tax and no sales tax, is the most transparent. Washington has one of the least transparent, ahead of only Nevada.²⁶

2.3) Washington's Tax System is Ripe for Failure

For the entirety of the 21st century, Washington State has had a comparatively low effective tax rate – the total percent of income allocated to taxes. In fiscal year 1995, Washington had an effective rate of 11.4 percent, according to Conway.²⁷ In fiscal year 2015, it was 9.3 percent. Without intervention, he estimates that the effective state and local tax rate in Washington will fall to 8.5 percent in fiscal year 2025.

On average, Washingtonians are paying less and less of their income in state taxes – but not all Washingtonians, because taxes are low for the wealthy, but high for the poor. Washingtonians on the whole are getting richer. As shown in Figure 2, every quintile gained income from 2010 to 2016, even though the rich had much bigger gains.

Because Washington taxes people with higher incomes at lower rates, the effective tax rate falls when average income increases. A lower effective tax rate does not mean that people in lower income brackets are paying less in taxes. It's like raising the roof on a house – the ceiling may go up, but that doesn't mean the floor is coming with it.

The mean inflation-adjusted income for the bottom 90 percent of Washingtonians remained almost unchanged between 1969 (\$36,238) and 2013 (\$36,112). For the top 10 percent, however, mean income *almost doubled*, from \$152,101 to \$283,702.²⁸

Growing income inequality compounds the negative impact of our regressive tax system on public revenues. In the 1970s, Washington State had a more robust middle class with less extremes of wealth and poverty, as shown in Figure 1. The distribution of income, even with a regressive tax structure, generated the public revenue for building and maintaining public goods and services for all Washingtonians.

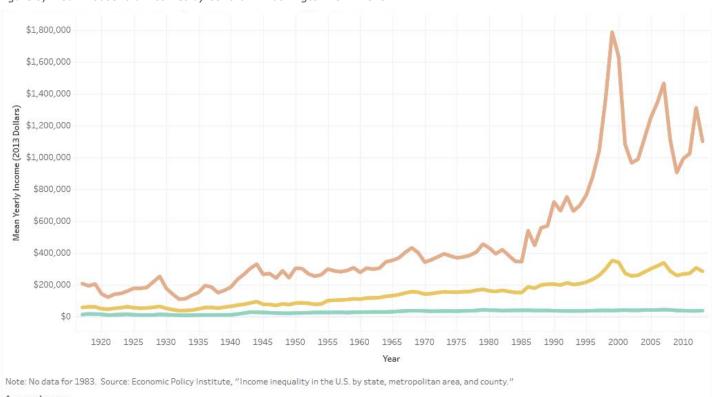
²⁵ Washington Budget and Policy Center. *Working Families Tax Rebate*. http://budgetandpolicy.org/policy-areas/state-revenue/working-families-tax-rebate

²⁶ Conway, Dick. "Washington State and Local Tax System: Dysfunction & Reform." Dick Conway & Associates, 2017, p. 22. https://www.economicforecaster.com/a/visitors/Washington_Tax_System_Dysfunction_and_Reform.pdf

²⁷ *Ibid.*, p. 15

²⁸ Sommeiller, op. cit.

Figure 5) Mean Household Incomes by Cohort in Washington 1917-2013



Average Income

Top 1% of Population Bottom 90% of Population

Washington State's sales tax is the largest revenue generator, accounting for 47.9 percent of the state's general fund revenue in fiscal year 2017.²⁹ But over time, that revenue stream is declining as the economy shifts from goods to services.

Through the middle part of the 20th century, when our economy was based largely on the consumption of goods, sales tax revenues largely kept up with personal income growth. But our economy has shifted from the consumption of things to the consumption of services for decades.³⁰

While the state taxes construction labor, repair services, and some other services, the retail sales tax does not apply to the majority of services.³¹ As Washington gets richer, taxable sales have remained relatively flat, as shown in Figure 6. In fact, in fiscal year 2016, per capita income in Washington was two and half times greater than in fiscal year 1969, but taxable sales were only one and a half times greater.

The increase in online sales is also putting pressure on retail sales tax revenue. Currently, only online retailers that have a physical presence in Washington – Amazon does, eBay doesn't – have to collect sales taxes on sales to Washington residents. In 1998, online commerce accounted for about 0.3 percent of commonly taxable retail trade nationwide. By 2013, online commerce

²⁹ Economic and Revenue Forecast Council. *Washington State Economic and Revenue Forecast, Volume XL, No. 4.* 2017, p. 49. https://erfc.wa.gov/sites/default/files/public/documents/publications/nov17pub.pdf

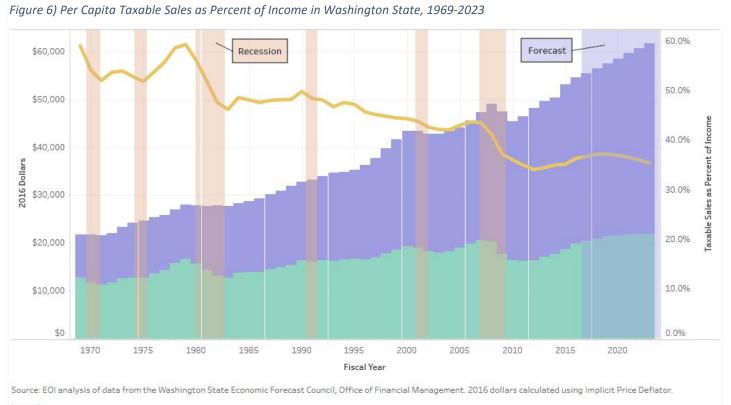
³⁰ Church, Jonathan. "Explaining the 30-year shift in consumer expenditures from commodities to services, 1982–2012." *Monthly Labor Review*, U.S. Bureau of Labor Statistics, April 2014. https://www.bls.gov/opub/mlr/2014/article/explaining-the-shift-in-consumer-expenditures.htm

³¹ Washington Department of Revenue. *Services subject to sales tax*. https://dor.wa.gov/find-taxes-rates/retail-sales-tax/services-subject-sales-tax

accounted for almost 13 percent.³² Washington is trying to stem the tide of decreasing sales tax revenue by forcing online retailers to collect sales tax.³³

Lower-income people use the internet much less than higher-income people, making them less likely to benefit from tax-free online sales. In 2018, 98 percent of adults in households with a yearly income of more than \$75,000 use the internet, compared with 81 percent of adults from households with less than \$30,000 in yearly income.³⁴ Reliance on sales tax also means that the Washington State budget takes longer to recover from recessions, as shown in Figure 7.

Income taxes have been historically more volatile – as income decreases during a recession, so do income tax revenues. On the other hand, people still buy basic consumer goods during a recession, even though they buy less. They take longer to recover, but they dip to a shallower trough. This has tended to make sales taxes more stable and reliable.



Legend Per Capita Taxable Sales Per Capita Personal Income

³³ This is facing legal challenges.

³² "Commonly taxable" excludes motor vehicles and gasoline, which are taxed separately, and grocery store food, which is commonly not taxed.

U.S. Department of Commerce. Census Bureau. 2013 Annual Retail Trade Survey. 2015. https://www.census.gov/programs-surveys/arts/data/tables.All.html.html

Orenstein, Walker. "Online sales-tax money is key part of state budget. Could a lawsuit derail it?" *The Tacoma News Tribune*, June 30, 2017. http://www.thenewstribune.com/news/politics-government/article159109454.html

³⁴ Pew Research Center. "Internet/Broadband Fact Sheet" February 5, 2018. http://www.pewinternet.org/fact-sheet/internet-broadband/

But after the Great Recession, that may no longer be the case. The Urban Institute found that the housing crisis of 2008 caused construction and sales of home furnishings and appliances to drop significantly, hitting sales-tax-reliant states unprecedentedly hard.³⁵

As many states have had difficulty recovering tax revenues since the Great Recession, more have increasingly shifted from reliance on income taxes to sales taxes, seeking the latter's historical reliability. But because revenue from sales taxes is eroding, the Urban Institute predicts sales-tax-reliant states will face anemic revenue growth compared with states that incorporate income taxes into their tax structures.³⁶

According to a study from the Pew Charitable Trusts, Washington took longer to recover tax revenue after the Great Recession than other states.³⁷ While the average state had a pre-recession peak in revenue in the third quarter of 2008 and recovered in the second quarter of 2013, Washington had a peak in the first quarter of 2008 and recovered in the first quarter of 2015.

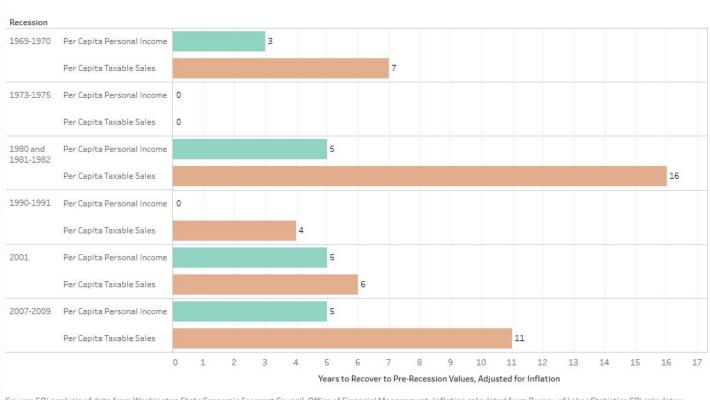


Figure 7) Years for Per Capita Taxable Sales and Per Capita Personal Income to Rebound in Washington After Recessions

Source: EOI analysis of data from Washington State Economic Forecast Council, Office of Financial Management. Inflation calculated from Bureau of Labor Statistics CPI calculator.

³⁵ Francis, Norton and Frank Sammartino. "Governing with Tight Budgets: Long-Term Trends in State Finances." Urban Institute, 2015, p. 9. https://www.urban.org/sites/default/files/publication/66046/2000376-Long-Term-Trends-in-State-Finances.pdf

³⁶ *Ibid.*, p. 10.

³⁷ Pew Charitable Trusts. "Fiscal 50: State Trends and Analysis." March 1, 2018. http://www.pewtrusts.org/en/multimedia/datavisualizations/2014/fiscal-50#ind0

Washington takes so long to recover because it relies so heavily on sales taxes. In the past six recessionary periods, taxable sales took on average 2.3 times longer to recover than income in Washington. This also reflects the influences of the shift from sales of goods to services and the movement of sales from brick-andmortar stores to online.

It's this lagging that points to the vulnerability of sales taxes long-term. While sales taxes erode, income taxes do not. Long-term, sales taxes provide anemic revenue growth compared to income taxes. Sales tax expansions are also extremely unpopular at the polls. For the past few decades, state attempts across the country at expanding the sales tax base to cover more goods and services have failed or been pared down significantly.³⁸

These are the factors that Conway highlighted in rating Washington's tax system the 42nd most unstable.³⁹

2.4) Job Growth Is Not Determined by State Tax Systems

Conservative organizations such as the Heritage Foundation and the Tax Foundation often oppose progressive income taxes, claiming they harm job growth. In its yearly reports, the Tax Foundation ranks the state tax systems that in their view create the best business tax climate.⁴⁰ For 2016, their top five were Wyoming, South Dakota, Alaska, Florida and Nevada – five of the nine states with no personal income tax. The bottom five states were among those with the highest income taxes. Washington placed 17th. The Tax Foundation follows the narrative of opponents of progressive tax reform – Washington's lack of personal income taxes purportedly helps recruitment and makes Washington competitive, with former Microsoft CEO Steve Ballmer saying it's a major advantage for our state over California.⁴¹

But as shown by Conway, statistical analysis shows that states without personal income taxes do not have better job growth than states with them.⁴² Figure 8 uses Conway's methods, showing no relation (R² of 0.001) between real job growth and the presence of a personal income tax, when filtered through the Tax Foundation's 2016 Business Tax Climate Index.⁴³

Comparing full- and part-time wage and salary job growth from 1970 to 2016, some large-population states like California (rank 48), Texas (13) and Florida (4) experienced a lot of the job growth, as one would expect, but they find themselves at either sides of the ranking. Other large states like Michigan (rank 12), New York (49) and Pennsylvania (26) experienced very little of the job growth relative to their size and are also spread throughout the ranking. Of the smallest states, there is virtually no difference in real job growth between North Dakota (rank 30) and South Dakota (2).

But that is just one method of analysis, and using real job growth may benefit states like California, Texas and Florida because they have the largest populations, although other large states are not outliers. Plus, extending the chart all the way back to 1970 may provide too large a time period for effective comparison in current circumstances.

⁴² Conway. *op. cit.,* p. 24.

³⁸ Farmer, Liz. "Why States' Increasing Reliance on Sales Taxes Is Risky." *Governing,* September 22, 2015. http://www.governing.com/topics/finance/gov-urban-institute-taxes-states-income-sales.html

³⁹ Conway, *op. cit.,* p. 17.

⁴⁰ The Tax Foundation no longer hosts the 2016 index online, but includes the 2016 figures in its 2017 report.

Walczak, Jared, Scott Drenkard, and Joseph Henchma. "2017 State Business Tax Climate Index." Tax Foundation, 2017, p. 5. https://files.taxfoundation.org/20170302120920/TF-SBTCI-2017-Final1.pdf

⁴¹ Stewart, Ashley. "Steve Ballmer: City income tax would 'undo' Seattle's economic boom." *Puget Sound Business Journal,* May 25, 2017. https://www.bizjournals.com/seattle/news/2017/05/25/steve-ballmer-city-income-tax-would-undo-seattle.html

⁴³ The Tax Foundation rated DC at the same rank as Iowa for the 2016 report.

[&]quot;2017 State Business Tax Climate Index." op. cit., p. 5.

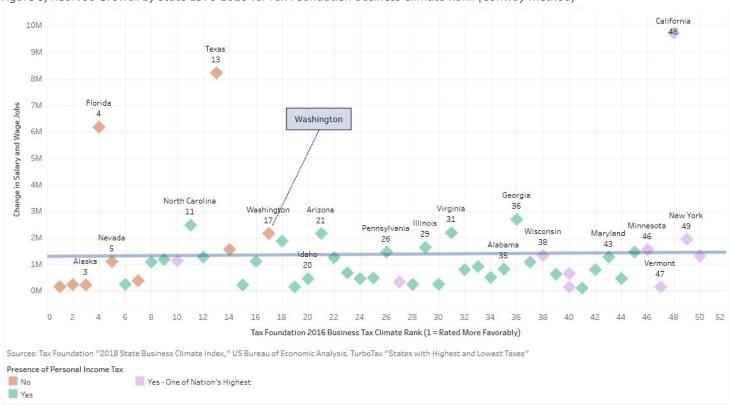
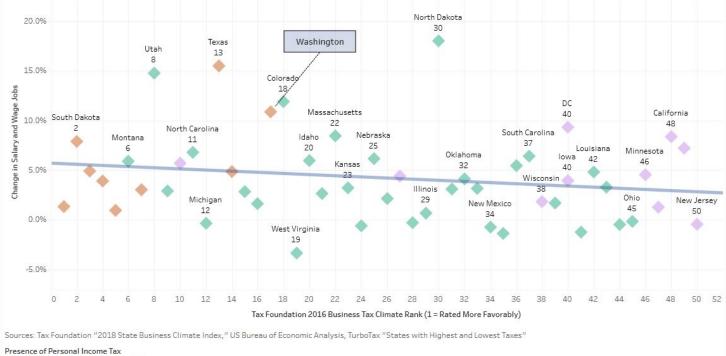


Figure 8) Real Job Growth by State 1970-2016 vs. Tax Foundation Business Climate Rank (Conway Method)

Figure 9) Relative Job Growth by State 2000-2016 vs. Tax Foundation Business Climate Rank (EOI Method)



No Yes - One of Nation's Highest Yes

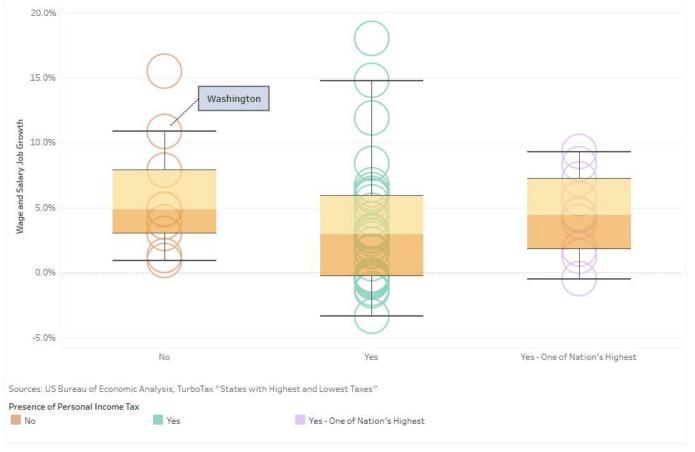
Figure 9 compares relative job growth in each state from the most recent decade of data available – 2006 to 2016 – and the Tax Foundation 2016 ranking.

At first blush, there is indeed a slight correlation between the Tax Foundation's 2016 ranking and a state's job growth (R^2 of 0.036). But the low coefficient of determination means that the Business Tax Climate Index can only explain at most 4 percent of state job growth differences, with *96 percent from other reasons*.

To wit: Sparsely populated North Dakota is an outlier for high job growth, even though it's unfavorably ranked. North Dakota is experiencing an oil boom.⁴⁴ Texas is up there due to primarily mining and manufacturing.⁴⁵ The Utah Chamber of Commerce attributed the state's success to investment in K-12 education programs.⁴⁶ West Virginia's at the bottom, as coal mines shut down, with some parts of the state losing as many as 70 percent of their coal-mining jobs.⁴⁷

Comparing states with no personal income taxes and states with high personal income taxes in a box-andwhisker plot, as shown in Figure 10, the edge of income-tax-free states appears to be a collection of individual cases rather than a trend.





⁴⁴ Silva, Mark. "North Dakota's Oil Boom Fuels Economic Growth." US News, March 3, 2017. https://www.usnews.com/news/beststates/articles/2017-03-03/north-dakotas-oil-boom-fuels-economic-growth

⁴⁵ Bhattacharya, Ananya. "Is Texas America's best state economy?" CNN, June 10, 2015. http://money.cnn.com/2015/06/10/news/economy/texas-big-economic-growth-2014/index.html

⁴⁶ McKellar, Kate. "Utah best performing state in economic growth 2nd year in a row." KSL, February 5, 2015. https://www.ksl.com/?nid=757&sid=33354952

⁴⁷ Cohn, Scott. "In an economic death spiral: West Virginia is America's worst state for business in 2017." *CNBC*, July 11, 2017. https://www.cnbc.com/2017/07/11/west-virginia-americas-worst-state-for-business-in-2017.html Americans have also been moving west for centuries and south since the widespread adoption of air conditioning in the 1970s.⁴⁸ Coincidentally, these states are clustered in high ranks of the Tax Foundation list.

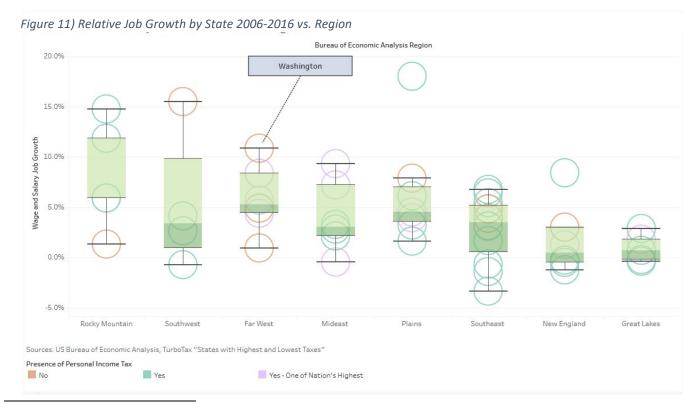
Some people have indeed moved for jobs. But much of it is due to other circumstances. In a 2014 report, the US Census Bureau found that of all people who moved 500 miles or more in 2012 and 2013, fewer than half (48.0 percent) said they moved for employment (including retirement), while more than half said they moved for housing, family or other reasons.⁴⁹

One of the biggest factors affecting migration to the Sun Belt since 2000 is the retirement of the Baby Boomers. Not only are they leaving the workforce, they're also leaving cities. In addition to the attraction of warmer and sunnier climates, that migration could also be partly attributed to the lack of affordable housing in walkable neighborhoods in northern cities that allow seniors to age in place.⁵⁰ Elder caregiving is one of the fastest-growing careers in the United States, and the jobs may be following them.⁵¹

This quickly becomes a chicken-and-egg situation. Are people moving to south and west because there are jobs there, or are there jobs there because people are moving and creating them?

If anything, there's a stronger correlation between regions and job growth, as shown in Figure 11.

If people are moving to Washington for jobs, not all are finding them. In terms of raw numbers, Washington's employment rate ranked 31st in the nation in 2017, below the national average of 78.6 percent.⁵²



⁴⁸ Lester, Paul. "History of Air Conditioning." U.S. Energy Department. https://www.energy.gov/articles/history-air-conditioning

⁴⁹ Ihrke, David. "Reason for Moving: 2012 to 2013." U.S. Census Bureau, 2014, p. 5.

https://www.census.gov/content/dam/Census/library/publications/2014/demo/p20-574.pdf

⁵⁰ Joint Center for Housing Studies of Harvard University. "Projections and Implications for Housing a Growing Population: Older Adults 2015-2035." Harvard University, 2016. http://www.jchs.harvard.edu/housing-a-growing-population-older-adults

⁵¹ Adams, Alice. "Home health care providers face strong demand for services." *Houston Chronicle*, March 9, 2018. https://www.chron.com/jobs/article/Home-health-care-providers-face-strong-demand-for-12742006.php

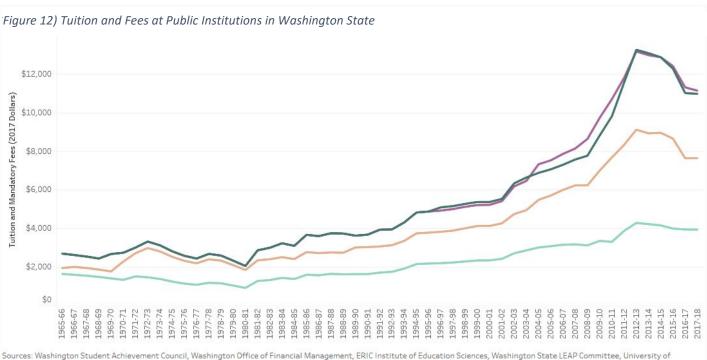
⁵² Pew Charitable Trusts. op. cit.

2.5) Higher Pressure on Revenue Sources in the Future

The combination of legislative inaction and rapid economic change have created a tax system that has not kept up with the times. And as a result: we - as a state - are not able to accomplish the things that we were able to do just a generation ago.

– King County Executive Dow Constantine, February 2, 2018⁵³ Falling state revenues relative to population and economic growth have meant Washington State cannot keep up with the services offered residents in the past, or plan for the pressures of the future.

Higher education spending has plummeted in the past two decades, causing tuition to double at Washington state public universities, colleges and community colleges – after accounting for inflation, as shown in Figure 12. About 16,500 qualifying lower income college students have been excluded from the state need grant.⁵⁴



Sources: Washington Student Achievement Council, Washington Office of Financial Management, ERIC Institute of Education Sciences, Washington State LEAP Committee, University of Washington, Washington State University, Western Washington University, Central Washington University, Eastern Washington University, The Evergreen State College, Washington State Board of Community and Technical Colleges, The Seattle Times.

Institution



University of Washington
Washington State University

⁵³ Constantine, Dow. Twitter, February 12, 2018. https://twitter.com/kcexec/status/963156450645127168

⁵⁴ The wait list was about 24,000 students before the 2017-2019 budget was passed.

Washington Student Achievement Council. WSAC Overview. 2017, p. 18.

http://www.wsac.wa.gov/sites/default/files/2017.01.19.Senate.Higher.Ed.WSAC.Overview.pdf

Washington State Fiscal Information. 2018 Supplemental Reports. 2018. http://fiscal.wa.gov/BudgetOAgy

Our state has underfunded mental health care and recovery, lowering access to care, increasing the prevalence of mental illness, and contributing to the homelessness crisis.⁵⁵ In order to preserve money for higher-priority services, the Legislature has also defunded state parks and privatized park services.⁵⁶

The pressures on state revenues will only worsen. The Centers for Medicare and Medicaid Services project that state Medicaid expenditures, jointly financed by federal and state sources, will increase over 6 percent annually over the next decade.⁵⁷ Higher Medicaid spending affects more than just federal spending; state Medicaid expenditures have increased from less than 13 percent of general fund budgets in 1993 to 19 percent in 2012. ⁵⁸

Despite increasing expenditures on K-12 over the past several years, continuing to improve educational opportunities and outcomes, attract and retain teachers and staff, reduce class sizes and build new class rooms will continue to demand more state resources.⁵⁹

⁵⁵ Atkins, Drew. "Washington trails the nation in mental health treatment." *Crosscut,* July 6, 2016. http://crosscut.com/2016/07/how-washington-is-failing-the-mentally-ill/

⁵⁶ Mapes, Lynda. "At 100, state parks in grim state of disrepair." *Seattle Times*, March 23, 2013. http://www.seattletimes.com/seattle-news/at-100-state-parks-in-grim-state-of-disrepair/

⁵⁷ U.S. Department of Health and Human Services. Centers for Medicare and Medicaid Services. 2014 Actuarial Report on the Financial Outlook for Medicaid. 2014, p. 25.

⁵⁸ National Association of State Budget Officers. "The Fiscal Survey of the States." Spring 2015, p. ix.

⁵⁹ Bazzaz, Dahlia and Neal Morton. "FAQ: Where will Washington state's 7.3 billion education dollars go?" *Seattle Times*, July 7, 2017. https://www.seattletimes.com/education-lab/faq-where-will-the-73-billion-education-dollars-go/

3) Income Gaps and Regressive Taxes Make Seattle More Unequal than Anywhere Else in Washington

We've seen about a \$635 average rent increase in the last six years, and now more than 4,500 people are living on the streets of King County. They are not strangers, they are not out-of-towners, they are not people who have made poor decisions and suffer the consequences. They are our neighbors that we have pushed from their homes due to progress. It is our duty to make sure that as Seattle becomes richer, it becomes richer for everyone.

– Real Change Organizer Tiffani McCoy, July 10, 2017⁶⁰

3.1) The Seattle Area Has the Highest Income Inequality in the State (Except for the San Juan Islands)

Incomes in Seattle are more polarized than in the state as a whole. When comparing increases in mean income by quintile from 2010 to 2016, Figure 2 shows that income for the bottom quintile of the population of Washington increased 11 percent and for the top quintile 19.9 percent, while Figure 13 shows that in Seattle the lowest gained 18 percent and the highest 24 percent.

Because income is rising at more equal rates across cohorts, it may seem like Seattle is trending towards

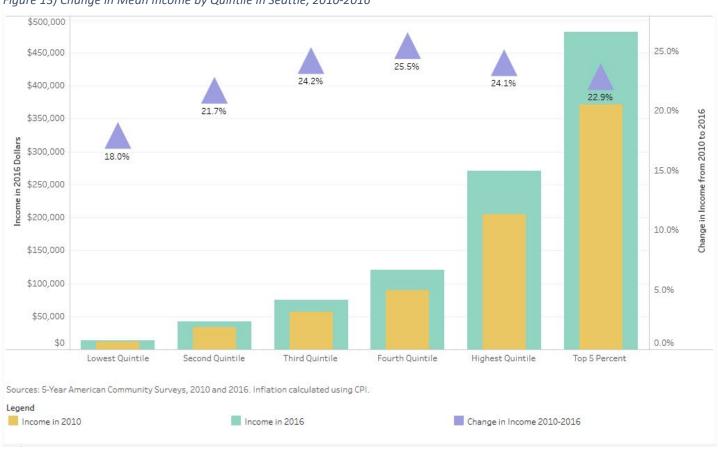


Figure 13) Change in Mean Income by Quintile in Seattle, 2010-2016

⁶⁰ McCoy, Tiffani. Speech at Tax the Rich Rally, June 10, 2017. https://vimeo.com/album/4674918/video/225027163

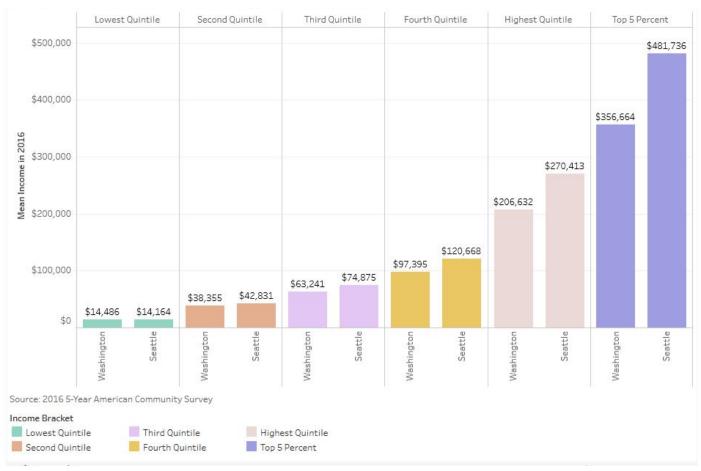
WHO REALLY PAYS: AN ANALYSIS OF THE TAX STRUCTURES IN 15 CITIES THROUGHOUT WASHINGTON STATE

less income inequality, but it isn't. The gap between the poorest and richest quintiles statewide went from \$152,631 in 2010 to \$192,146 in 2016. In Seattle, it grew from \$193,738 to \$256,249. The resulting income gap between the top and bottom quintiles is more than 25 percent greater in Seattle than in the state.

The bottom quintile in Seattle made *slightly less money* than the bottom quintile statewide in 2016, as shown in Figure 14. Generally, that could be a negligible difference, but given Seattle's higher cost of living, that means that for low-income people in Seattle, their income stretches much less far than in other places.

Census data, while giving a general picture of income inequality, are not good for getting into the nitty-gritty of what the very rich are really gaining in income, or how much of the nation's wealth they have. For confidentiality reasons, the Census Bureau has a system of "topcoding" reported income components to prevent the identification of individuals with extremely high incomes. ⁶¹ In effect, any income over \$999,997 is registered as just that: \$999,997.⁶² That's not a great measure for an annual income in the hundreds of millions of dollars, such as Amazon co-founder Jeff Bezos enjoys.⁶³ The census data works to find out how many rich people there are, but not how rich they are.





⁶¹ Crimi, Nicole and William Eddy. "Top-Coding and Public Use Microdata Samples from the U.S. Census Bureau." Carnegie Mellon University, *Journal of Privacy and Confidentiality*, Number 2, 2014, p. 33. http://repository.cmu.edu/cgi/viewcontent.cgi?article=1120

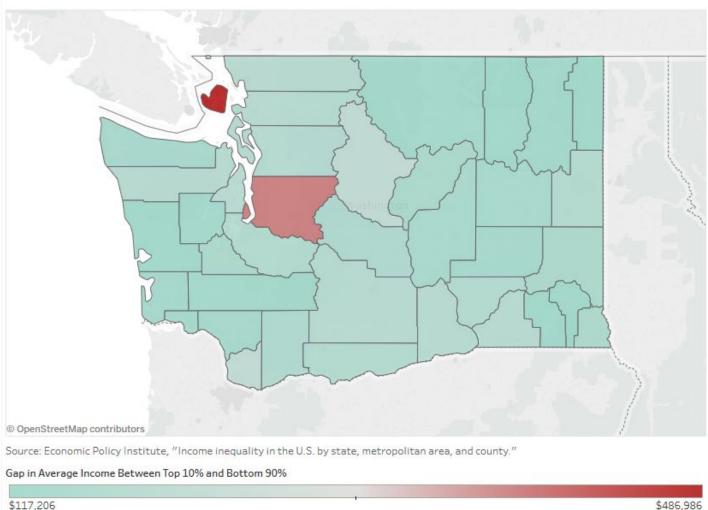
⁶² Flood, Sarah, Miriam King, Steven Ruggles, and J. Robert Warren. "CPS Income and Tax Variables User's Note: Missing Cases, N.I.U. Cases, Top Codes And Bottom Codes." Integrated Public Use Microdata Series, 2017. https://cps.ipums.org/cps/inctaxcodes.shtml

⁶³ Frank, Robert. "Jeff Bezos is now the richest of all time — sort of." *CNBC*, January 9, 2018. https://www.cnbc.com/2018/01/09/jeff-bezos-is-now-the-richest-of-all-time--sort-of.html In 2016, the Economic Policy Institute used IRS data to get a more accurate picture of income inequality in every state, metropolitan area and county.⁶⁴ Through this data, they could pinpoint the average income of a cohort as small as the top 0.1 percent of the population. According to these data, Washington placed 12th in income inequality among the states.

EPI didn't break down the data to the city level – this can be very difficult because the IRS data is based on zip code, and many zip codes do not follow city boundaries. But they did break it down by county, which shows the inequality differences throughout the state. In 2013, San Juan County had the highest gap between the average income of the top 10 percent and the lowest 90 percent: \$486,986. King County was a little behind: \$385,653. Every other county was between \$117,000 and \$223,000, as shown in Figure 15.

In San Juan County, the top 10 percent of the population takes 68.4 percent of the income; the top 0.1 percent takes 24.8. But San Juan County is an outlier. It's one of the least populated counties, with 16,252 people,⁶⁵ a large number of vacation homes, affluent retirees, and many service industry workers. King County has 130 times as many people as San Juan County.



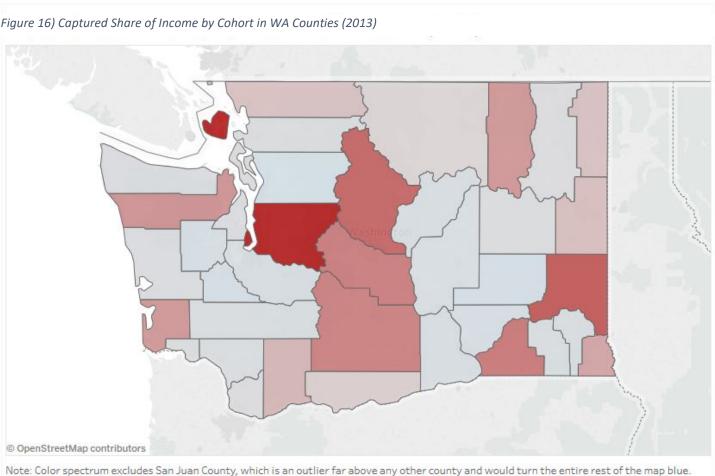


⁶⁴ Sommeiller, op. cit.

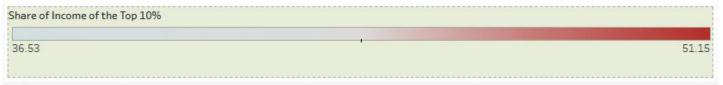
⁶⁵ Current Population Survey, op. cit.

In King County, the state's most populous county with 2.1 million residents, the top 10 percent took 51.2 percent of the income, as shown in Figure 16. Some other counties came close – but not the next most populous counties of Pierce, Snohomish, Spokane or Clark.

The impact on income inequality in King County, with the richest 10 percent taking half the income, creating an income gap of \$385,653, is far greater than the impact on income inequality in Whitman County, with the top 10 percent taking half the income, creating an income gap of \$157,085. The main reason for the disparity in share of income is not due to the top 10 percent as a whole – *it's the disparity with the top 0.1 percent that skews it for everyone else.* In 2013, the top 0.1 percent were the 6,900 highestincome people in the state making an average of \$5.4 million per year,⁶⁶ people like Jeff Bezos and Bill Gates who mostly live in King County.⁶⁷



Note: Color spectrum excludes San Juan County, which is an outlier far above any other county and would turn the entire rest of the map blue. Source: Economic Policy Institute, "Income inequality in the U.S. by state, metropolitan area, and county."



⁶⁶ Sommeiller, op. cit.

Current Population Survey, op. cit.

⁶⁷ Lloyd, Sarah Anne and Sean Keeley. "Where do Washington State's billionaires live? From Bill Gates to Howard Schultz." *Curbed Seattle,* January 10, 2018. https://seattle.curbed.com/maps/washington-state-billionaire-homes-bill-gates-jeff-bezos

Seattle makes up a third of King County's population, and that share is rising. Seattle had a record-breaking 3.1 percent population growth in 2016 – the fastestgrowing big city in the nation. But King County's population outside Seattle increased by just 1 percent, its slowest rate of growth since 2004. Seattle has outpaced its suburbs' growth every year since 2010.⁶⁸

King County also makes up three-tenths of the state's population, meaning that the Seattle area's inequality has big ramifications for the state average.⁶⁹

3.2) The Combination of State and Local Taxes in Seattle Create One of the Most Regressive Systems in the Country

Every year since 1997, the District of Columbia Office of the Chief Financial Officer has published a study comparing the tax obligations of residents in Washington, DC and in the largest cities in every state. This office analyzes the state and local sales taxes, income taxes, property taxes and automobile taxes on households earning \$25,000, \$50,000, \$75,000, \$100,000 and \$150,000 per year. In the study analyzing 2016 taxes, Seattle stood out for its regressive and inequitable tax system.⁷⁰

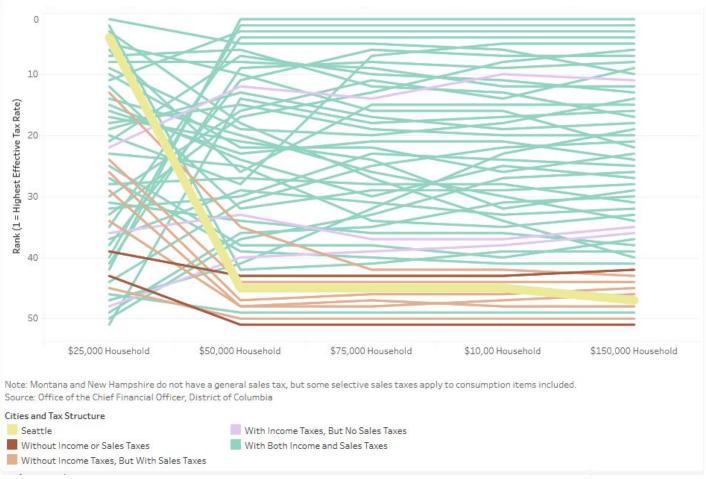


Figure 17) DC Report Ranking Taxation Levels in States' Largest Cities Across Household Income Cohorts

⁶⁸ Balk, Gene. "Seattle added more people last year than all of King County's suburbs combined." *Seattle Times,* June 29, 2017. https://www.seattletimes.com/seattle-news/data/seattle-added-more-people-last-year-than-all-king-countys-suburbs-combined/

⁶⁹ Current Population Survey, op. cit.

⁷⁰ District of Columbia Office of the Chief Financial Officer. "2016 Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison." 2017. https://cfo.dc.gov/page/tax-burdens-comparison

WHO REALLY PAYS: AN ANALYSIS OF THE TAX STRUCTURES IN 15 CITIES THROUGHOUT WASHINGTON STATE

Seattle ranked 4th highest for taxes on a household with an income of \$25,000 (14 percent), and dropped to 47th highest for a household with an income of \$150,000 (5.7 percent), as shown in Figure 17. No other city had such a large gap in rankings. In fact, of the cities where there is no personal income tax at either the state or local level, Seattle still taxed the poor more – Memphis follows at rank 13 (11.4 percent), Las Vegas at 24 (10 percent), and every other income-taxless city is in the bottom half.

The nine cities without a personal income tax filled nine out of ten of the lightest tax ranks at every level over \$75,000/year. But only Anchorage and Cheyenne were among the ten lightest on lower income households. Both Alaska and Wyoming are rich in fossil fuels, allowing them to have low taxes. Alaska is even able to pay dividends to residents who live in the state.⁷¹

Cities where the poorest households paid the lowest taxes functioned progressively because of their state income taxes. Boston, New York, Washington, DC, Denver, Providence, Oklahoma City, Portland, ME, Baltimore, Wichita, Milwaukee, Newark, Bridgeport, Omaha, Boise, Albuquerque, Minneapolis and Burlington all had a negative income tax rate on households earning \$25,000 per year, meaning *they gave money back to them* through an Earned Income Tax Credit.

In fact, Burlington was able to have an income tax rebate of \$4,004 for a household at the \$25,000 level, for an effective tax rate of -5.7 percent. Yet it still didn't chart as one of the highest tax cities for the richest households, taxing those at \$150,000 per year at rank 16 (11.2 percent).

The study assumes that the family with an annual income of \$25,000 does not own a home, but instead rents. Because renters indirectly pay property taxes through their rent, the DC study estimates the percentage of their rent constituting property tax. In a 2017 report, the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence note that states vary in how they tax rental properties in comparison to owner-occupied housing.⁷² New York City taxes rental buildings much more than homes, and some, if not all, of the taxes are passed on to renters. Chicago taxes apartment buildings less than homes.⁷³

For cities with lopsided taxes on renters, some states provided tax assistance through circuit-breaker programs. Taxpayers with incomes below a certain level are given some income tax reduction when their imputed property taxes exceed a certain percentage of their income. These are available for low-income renters of all ages in the District of Columbia, Hawaii, Maryland, Michigan, Minnesota, Montana, Vermont and Wisconsin.⁷⁴ Many others have additional programs only for the elderly. These rebates are all built into their income tax systems, and so have been unavailable to cities like Seattle.

Washington State does offer property tax deferral for *homeowners* who are disabled, low-income or senior citizens.⁷⁵ The loan and interest must be repaid after the sale of the home or the death of the recipient. The state offers small tax exceptions to low-income senior and disabled homeowners,⁷⁶ but only offers monetary

⁷¹ Richards, Heather. "Modest improvements continue in Wyoming economy." The Associated Press, February 1, 2018. https://www.apnews.com/15abc943b9044216b6b91701e66aa74b

Alaska Department of Revenue. Permanent Fund Dividend Division. *Eligibility Requirements.* https://pfd.alaska.gov/Eligibility/Requirements

⁷² The Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence. "50-State Property Tax Comparison Study For Taxes Paid in 2016." June 2017, p. 102. https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2016-full.pdf

⁷³ *Ibid.*, p. 11

⁷⁴ Institute on Taxation and Economic Policy. "Property Tax Circuit Breakers." 2016. https://itep.org/property-tax-circuit-breakers-1/

⁷⁵ Washington Department of Revenue. *Property tax exemptions and deferrals*. https://dor.wa.gov/find-taxes-rates/property-tax/property-tax-exemptions-and-deferrals

⁷⁶ Washington Department of Revenue. *Property Tax Exemption for Senior Citizens and Disabled Persons.* 2018. https://dor.wa.gov/sites/default/files/legacy/Docs/Pubs/Prop_Tax/seniorexempt.pdf

assistance for widows and widowers of veterans who own their home.⁷⁷ King County also offers a property tax reduction/exemption program, but also for only low-income seniors and disabled homeowners.⁷⁸ There are no reductions or exemptions for other low-income people.

Las Vegas, Virginia Beach and Cheyenne have no income tax, yet still provide preferential taxation of rentals (like Chicago does). As some, if not all, of property tax on rental property is passed on to renters, the assumption is that a lower rate will mean lower rents for renters, who tend to be in lower income brackets.⁷⁹ Seattle offers no such difference in classification ratio, and no such relief.

3.3) EOI Study: The Combination of State and Local Taxes is More Regressive in Seattle than in Other Washington Cities

The District of Columbia study uses tax rates from the largest cities in each state, but some of these cities are still quite small. Burlington, Charleston, Cheyenne, and Portland, ME each had fewer than 100,000 people in 2016.⁸⁰ Cities this small do not enable statistically reliable data in the American Community Survey. In order to use reliable and comparable data, the study used Metropolitan Statistical Areas (MSAs) created by the US Census Bureau in calculating property values and rents.

This skews the data for Seattle a little, as the Seattle-Bellevue-Tacoma MSA includes much of urban and suburban King, Pierce and Snohomish Counties. It's hard to get a clear picture of Seattle property taxes while also including house values from Everett, Medina, Tacoma, Puyallup and Edmonds. This EOI research used similar methodology to the District of Columbia report, but took it a step farther. Using city-level data, taxes paid by Seattle residents were compared to residents of 14 other large cities in Washington – four in King County, five in Western Washington outside King County, and five in Eastern Washington. Overall, this covered 30.9 percent of Washington's population in 2016.⁸¹ This section will gloss over some parts of the methodology, but a full description of it can be found in Section 6.

Instead of using mean house values in each city and extrapolating from there (like the District of Columbia Study does), this report uses the mean house values at each income level, better showing the regressivity of property taxes. Income and property value do not increase at a 1:1 ratio – in 2016, home-owning households in Seattle making \$50,000 had a median property value of \$350,000, while a household making \$250,000 had a median property value of \$685,000, as shown in Figure 18. Since the property tax rate itself is constant, this makes property taxes regressive for home-owning households.

All tax obligations were calculated using 2016 data at 2016 tax rates.

⁷⁷ Washington Department of Revenue. *Property Tax Assistance Program for Widows or Widowers of Veterans*. 2018. https://dor.wa.gov/sites/default/files/legacy/Docs/pubs/prop_tax/widowwidowersgrantprog.pdf

⁷⁸ King County Assessor. Common Questions: Seniors. https://www.kingcounty.gov/depts/assessor/Common-Questions/Seniorss.aspx

⁷⁹ "Property Tax Circuit Breakers," op. cit.

⁸⁰ Current Population Survey, op. cit.

⁸¹ Current Population Survey, op. cit.

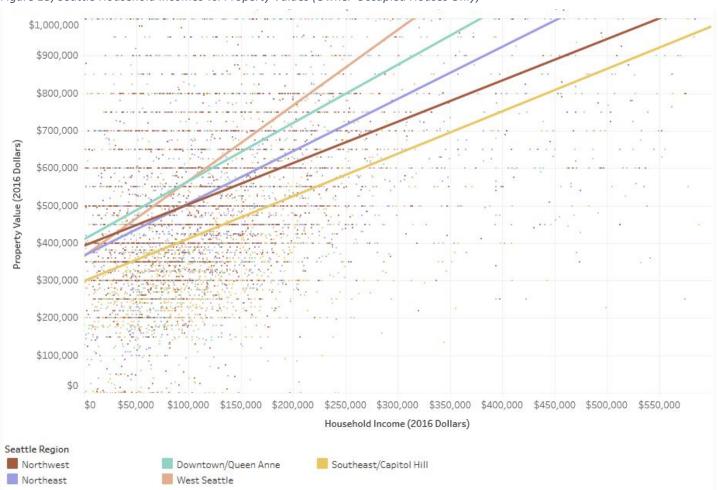


Figure 18) Seattle Household Incomes vs. Property Values (Owner-Occupied Houses Only)

The District of Columbia report assumed that households making \$50,000 a year or more owned a home. In Seattle, that's no longer a reality for many households at that income level. This report includes income brackets for households renting their home at \$25,000, \$50,000 and \$75,000 per year income levels. As in the District of Columbia report, this report uses a property tax equivalent of rent of 15 percent, the reasons for which are in Section 6.

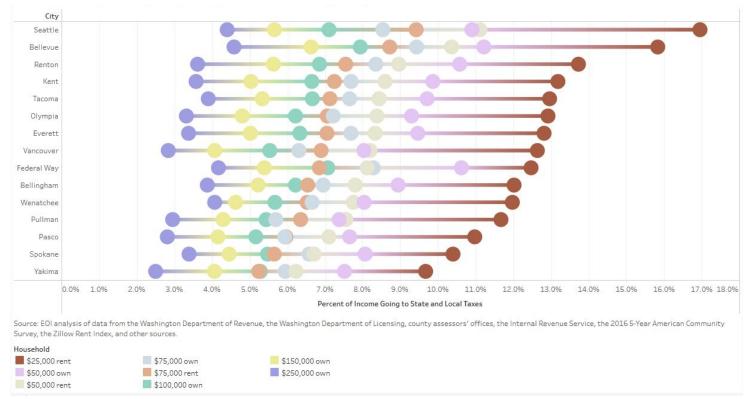
This report also includes a home-owning income bracket at \$250,000 per year to get a better picture of taxation on the very wealthy.

Unlike the District of Columbia report, tobacco, alcohol, health insurance premium and utility taxes are also included for a more comprehensive picture. When compared to other cities in Washington, the combined state and local tax system in Seattle is by far the most regressive, as shown in Figure 19. Seattle had the biggest gap in the tax rate on high- and low-income households of any of the cities – a household making \$25,000 pays 17.0 percent, but a household making \$250,000 pays 4.4 percent. Spokane residents had the smallest, at 10.4 percent and 3.4 percent, respectively.

Because every city adds on its own sales, property, and automobile taxes, every city increases the regressivity of the state tax baseline. But among a series of regressive cities, Spokane manages to be the most progressive.

The spread of taxation also varied widely. No city taxed a household making \$25,000 more than Seattle, and no city taxed a household making \$250,000 less than Yakima. Yet the difference in taxation from city to city amounts to a 7.3 percentage point spread for lowincome families and a 2.1 percentage point spread for the wealthy.





There were also many variations within those extremes.

Bellevue and Seattle have very different levels of regressivity, despite being close neighbors. The lower sales tax rates, car registration fees, property taxes and slightly lower rents (which result in lower imputed property tax payments) gave Bellevue residents at the lower end of the income spectrum lower tax obligations. A household making \$25,000 in Bellevue renting an apartment paid \$3,959 in total taxes while a similar household in Seattle paid \$4,239, a difference of \$280 or 1.1 percentage points.

Nonetheless, Bellevue taxes the wealthy at higher rates than any other city on the list. This is mainly due to property taxes. While a typical home-owning family in Seattle that earned \$150,000 in 2016 had a property value of \$477,500, that same family in Bellevue owned a home worth \$695,000. So even though Bellevue had a lower effective property tax rate in 2016 (0.872 percent vs. 0.925 percent), that household in Bellevue paid 37.2 percent more in property taxes and 17.2 percent more in taxes overall. No city has consistently lower or higher tax rates for any cohort. For example, home-owning households making \$150,000 per year pay less in taxes in Wenatchee than in Bellingham (4.6 percent and 5.2 percent), but that switches when they make \$250,000 per year (4.1 percent and 3.9 percent).

Nonetheless, there are some regional trends. Seattle and Bellevue almost consistently jockey for the highest tax rates at any household income level, as shown in Figure 20. Cities in King County tend to have higher tax rates than other cities in Western Washington, which in turn tend to have higher tax rates than cities in Eastern Washington.

Taken as a whole, the proportions of taxation match up with the statewide reports created by ITEP and the Washington State Department of Revenue. But they also show that the tax system is much more regressive in Seattle than in other cities, and its large population skews the state to be more regressive on average. The culprits are as expected. In 2016, Seattle has much higher property values than most other cities, leading to higher taxes even with a lower property tax rate than everywhere but Bellevue. To finance public transit and other urban services, Seattle has a higher sales tax and more expensive car registration, despite a \$20 rebate for low-income households.

The ranking is not a critique of the higher tax rates in Seattle and Western Washington. It's not a surprise that cities in Western Washington have higher taxes. The cities tend to be larger, with a greater density and demand for services, and are growing faster than Eastern Washington cities. Out of the ten fastestgrowing cities in the state in 2016, nine were in Western Washington.⁸² Growing cities have development needs that require public investment and higher taxes.

The problem is that as Seattle and Western Washington cities work to fund public projects, they rely on regressive taxation methods, compounding the stress placed on lower- and middle-class incomes and broadening the gap between how much they pay compared to the very wealthy. Effective taxes paid by the very wealthy in Seattle are 1 or 2 percentage points higher than in most other cities in Washington. Yet households making \$25,000 can pay 7 percent more of their income in taxes just by living in Seattle. Even if public expenditures are relatively progressive in nature, *city projects are increasingly being built on the backs of those who can least afford to pay for them.*

In Seattle, 10 percent of the income for households making \$25,000 went to property taxes (imputed) in 2016, versus 2.5 percent of the income for households making \$250,000, as shown in Figure 21. Similarly huge discrepancies exist for sales taxes (3.3 percent versus 1.1 percent).

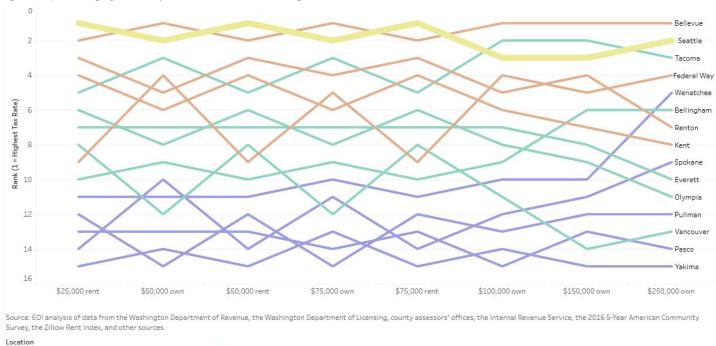


Figure 20) Ranking of Tax Responsibilities in 15 Washington Cities Across Income Cohorts

⁸² Catchpole, Dan. "Everett was the 9th fastest-growing city in the state last year." *Everett Herald*, May 11, 2017. http://www.heraldnet.com/news/everett-was-the-9th-fastest-growing-city-in-the-state-last-year/

Cities in Western Washington but not King County

Cities in Eastern Washington

Seattle

Cities in King County

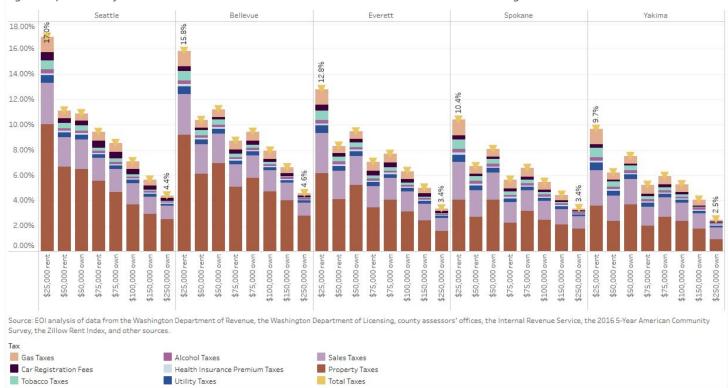


Figure 21) Percent of Income Allocated to Various Taxes Across Income Cohorts in Five Washington Cities

When you break down the differences in taxation into calendar days, households making \$250,000 have received enough income to pay state and local taxes within the first three weeks of January, no matter where they are. But it takes at least five weeks for a household earning \$25,000. In Seattle, it takes almost 9 weeks for a low-income household, meaning they work into March just to pay state and local taxes.⁸³

Table 2) Weeks that Low-Income	and High-Income Worke	rs Work to Pay State and Local	Taxes Across Washington
TUDIE ZJ WEEKS LITUL LOW-ITICOTTE	unu myn-mcome vvorke	is work to Fuy State and Locar	TUNES ACTOSS WUSHINGLON

	Household Making \$25,000 per Year			Household Making \$250,000 per Year		0 per Year
City	Effective Tax	Weeks to Pay State	Equivalent	Effective Tax	Weeks to Pay State	Equivalent Calendar
,	Rate	and Local Taxes	Calendar Date	Rate	and Local Taxes	Date
Yakima	9.7%	5.0	February 4	2.5%	1.3	January 9
Spokane	10.4%	5.4	February 7	3.4%	1.8	January 12
Pasco	11.0%	5.7	February 9	2.8%	1.5	January 10
Pullman	11.7%	6.1	February 12	3.0%	1.5	January 11
Wenatchee	12.0%	6.2	February 13	4.1%	2.1	January 15
Bellingham	12.0%	6.3	February 13	3.9%	2.0	January 14
Federal Way	12.5%	6.5	February 15	4.2%	2.2	January 15
Vancouver	12.6%	6.6	February 15	2.8%	1.5	January 10
Everett	12.8%	6.7	February 16	3.4%	1.8	January 12
Olympia	12.9%	6.7	February 16	3.3%	1.7	January 12
Tacoma	13.0%	6.8	February 16	3.9%	2.0	January 14
Kent	13.2%	6.9	February 17	3.6%	1.9	January 13
Renton	13.7%	7.2	February 19	3.6%	1.7	January 12
Bellevue	15.8%	8.3	February 27	4.6%	2.4	January 17
Seattle	17.0%	8.8	March 3	4.4%	2.3	January 16

⁸³ Dates calculated for a non-leap year.

3.4) Tax Obligations Are Increasing Faster for Working- and Middle-Class People Than for the Wealthy

The figures above use 2016 data because they are the most recent available. But Seattle has experienced major tax increases in the last two years.

The Legislature restructured state and local property taxes in 2017 to lessen reliance on local levies for school funding in its plan to meet the state Supreme Court education order known as McCleary. They increased the state property tax from \$1.88 to \$2.70 per thousand dollars of assessed value. This is expected to bring in \$1.6 billion in new revenue in 2017-2019.⁸⁴

Sales Taxes

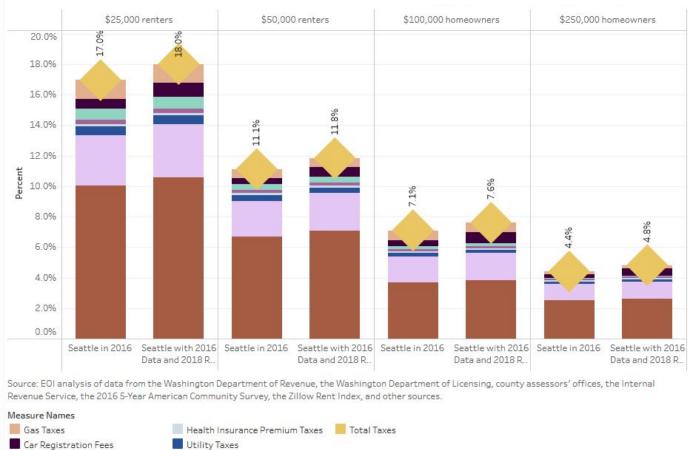
Propery Taxes

While some property owners in districts with relatively low property values will see a reduction in total property taxes, property owners who live in Seattle and the surrounding Puget Sound area, regardless of income, will see significant increases in taxation. This is also likely to drive up the imputed property taxes paid by renters in the form of higher rents.

Homeowners in 85 school districts will have property tax increases of \$200 or more. 24 school districts will have median property tax increases exceeding \$300.

The median single family home in Seattle will see an increase in property taxes of over \$400.⁸⁵





⁸⁴ Washington Legislature. Office of Program Research. *Proposed 2017-19 and 2017 Supplemental Operating Budgets: PSSB 5883 Summary*. 2017, p. 8. http://leap.leg.wa.gov/leap/Budget/Detail/2017/hoSummary_0630.pdf

Tobacco Taxes

Alcohol Taxes

⁸⁵ Washington Legislature. Office of Program Research. *Estimated Impact for the Policies in the 2017-19 Biennial Budget and EHB 2242*. 2017. http://leap.leg.wa.gov/leap/Budget/Detail/2017/hoK12TaxPolicyAnalysis_0629.pdf

In Seattle, the voter-approved Sound Transit 3 measure increased the sales tax from 9.6 percent to 10.1 percent.⁸⁶

The Regional Transit Authority tax for Snohomish, King and Pierce Counties also increased from 0.3 percent to 1.1 percent, significantly increasing car registration costs.⁸⁷

Using 2016 data and factoring in 2018 taxation levels changes the picture significantly, as shown in Figure 22.

The tax rate for households making \$25,000 increased from just under 17 percent to just over 18 percent (1.1 percentage points), while taxes on households making \$250,000 increased from 4.4 percent to 4.8 percent (0.4 percentage points). The 2018 tax system is more regressive than just two years ago. A household making \$25,000 now has to work 4 more days, until March 7, to meet their state and local taxes.

Because they use 2016 data, the hypothetical 2018 calculations do not take into account recent rent and property value increases, which will further increase the gap in affordability and tax rates.

3.5) Seattle Has Exigent Problems to Solve to Help Everyone Thrive

[T] he main thing I point out when people start complaining about homeless immigrants is that the increases in homelessness around here aren't just in Seattle, but all over urban King County. I don't think people come from Alabama or Pennsylvania to Kent or Bellevue for the services, even with pot as an inducement. This leads me to think that probably most of the increase in Seattle, which is commensurate with those other towns' increases, is also not immigration.

– Joe Bernstein, homeless Seattle writer, June 29, 2016⁸⁸

Even as some Seattle residents become wealthier, the ability of city government to pay for the public services to keep the city running has become strained. While the total city budget amounts to \$5.6 billion for 2018, this includes Seattle City Light, other utilities, sewage, recycling, garbage, and other fee-based services.⁸⁹ A more accurate picture involves general fund expenditures, totaling close to \$1.3 billion. These have grown by about \$350 million since 2008, when the general fund budget was \$926 million – or \$1.1 billion in inflation-adjusted dollars.⁹⁰

- ⁸⁹ City of Seattle. 2018 Adopted Budget Summary Charts and Tables. http://www.seattle.gov/financedepartment/18adoptedbudget/documents/summarychartstables.pdf
- ⁹⁰ City of Seattle. 2008 Adopted Budget. p. 13.

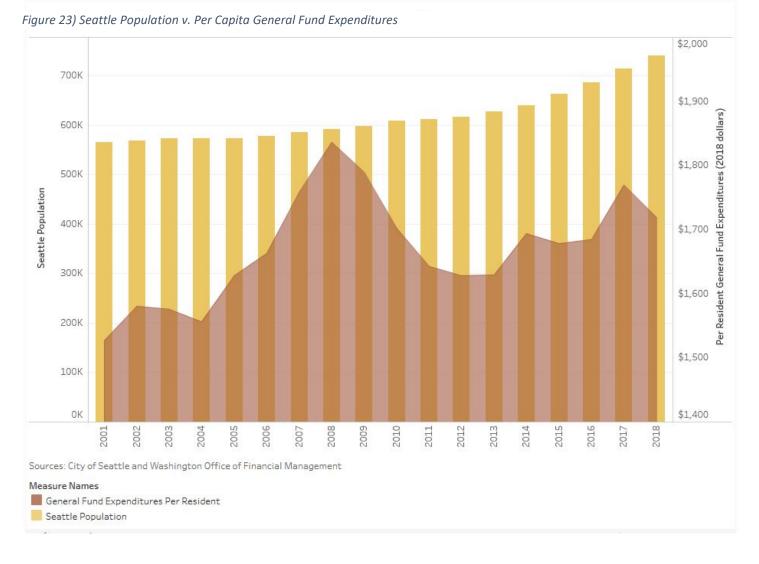
⁸⁶ Lindblom, Mike. "Sound Transit 3 sales-tax increase takes effect Saturday." *Seattle Times,* March 31, 2017. https://www.seattletimes.com/seattle-news/transportation/sound-transit-3-sale-tax-increase-takes-effect-saturday/

⁸⁷ EOI has supported the Sound Transit 3 projects. Counterintuitively, new fees made car registration taxes less regressive, but still increased taxes across the board. Nonetheless, the payoff of having a dependable and far-reaching light rail system outweighs the cost.

For more information, see Burbank, John. "Sound Transit 3 car tab rollback threatens light rail to Everett." Economic Opportunity Institute, April 20, 2017. http://www.eoionline.org/blog/sound-transit-3-car-tab-rollback-threatens-light-rail-to-everett/

⁸⁸ Bernstein, Joe. "I am Joe Bernstein, a homeless man in Seattle: AMA." Reddit, June 29, 2016. https://www.reddit.com/r/Seattle/comments/4qhue6/i_am_joe_bernstein_a_homeless_man_in_seattle_ama/

https://www.seattle.gov/financedepartment/08adoptedbudget/ENTIRE_2008_ADOPTED_BUDGET.pdf p. 13



Seattle's population also grew significantly during that period, from 592,000 to 738,000 people.⁹¹ Between 2008 and 2017, Seattle's population grew by 21 percent and the city budget grew by 16 percent after inflation.

Seattle is actually spending more than \$110 less per resident now than it did in 2008, at the start of the Great Recession, as shown in Figure 23.

Seattle's general fund budget dropped from 2009 through 2012, as the Great Recession reduced revenues, before beginning to rebound in 2013. A favorite ploy of those opposed to robust public services is to measure increases in government spending from the trough, rather than from the period prior to a recession and its subsequent reduction in services. They do this to make it look like government went on a spending spree, rather than simply restoring services cut during the recession due to lowered revenues.

⁹¹ The April 1, 2018 population estimate from the OFM is not yet available, so the Seattle population for 2018 is interpolated from the average growth from 2014 to 2017.

Washington Office of Financial Management *April 1 official population estimates*. https://www.ofm.wa.gov/washington-data-research/population-demographics/population-estimates/april-1-official-population-estimates

Since 2011, the number of people living without shelter has doubled, totaling 3,857 in Seattle in January 2017.92 Tuition has increased 27 percent to almost \$11,000 at the University of Washington, and increased 20 percent at community colleges, with tuition and fees exceeding \$4,000.93

Child care costs for infants in daycare centers in King County average \$17,300 a year.⁹⁴ Seattle now has the fourth worst traffic congestion in the country.⁹⁵

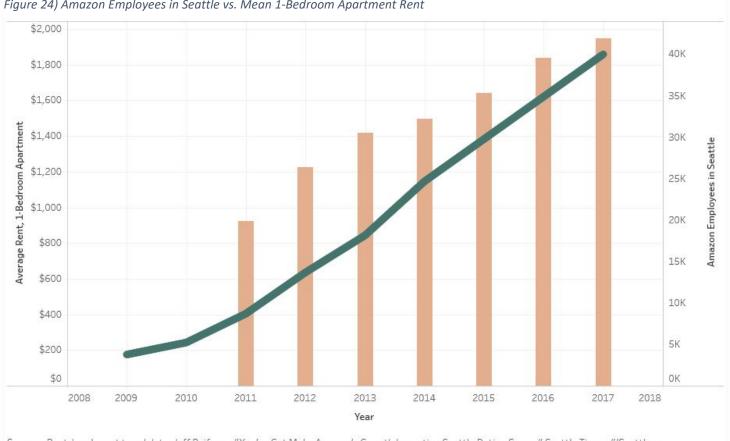


Figure 24) Amazon Employees in Seattle vs. Mean 1-Bedroom Apartment Rent

Sources: Rent Jungle rent trend data, Jeff Reifman: "You've Got Male: Amazon's Growth Impacting Seattle Dating Scene," Seattle Times: "Seattle will always be home': Amazon employees, others react to news of tech giant's second HQ"

Legend

Amazon Employees in Seattle Average Rent, 1-bedroom

⁹² Seattle/King County Coalition on Homelessness. "Summary of the 2010 Unsheltered Homeless Count in Selected Areas of King County." http://www.homelessinfo.org/downloads/2010_ONC%20Street%20Count.pdf

Applied Survey Research. "Seattle/King County Point-In-Time Count of Persons Experiencing Homelessness 2017." All Home, 2016, p. 9. http://allhomekc.org/wp-content/uploads/2016/11/2017-Count-Us-In-PIT-Comprehensive-Report.pdf

⁹³ Economic Opportunity Institute. "Tuition at WA State Public Colleges and Universities." September 15, 2017. http://www.eoionline.org/data/tuition-at-wa-state-public-colleges-and-universities/

⁹⁴ Cook, Caley. "King County's daycare dilemma." Crosscut, September 24, 2014. http://crosscut.com/2014/09/parents-seekalternatives-tough-seattle-childcare/

⁹⁵ Muoio, Danielle. "These US cities have the absolute worst traffic." *Business Insider*, September 21, 2017. http://www.businessinsider.com/13-us-cities-worst-traffic-2017-5

Rents have more than doubled, with the average cost for a single bedroom unit exceeding \$2,000 a month, as shown in Figure 24.⁹⁶ Home prices have doubled, and Seattle has more construction cranes than any other city in the country.⁹⁷

African Americans are being pushed out of the Central District and Columbia City by high prices, ⁹⁸ as are LGBT people from Capitol Hill.⁹⁹ Elderly people in Wallingford are on the verge of homelessness.¹⁰⁰

Heightened income inequality and economic instability strongly correlate with declining health¹⁰¹ and increasing violent crime.¹⁰² In Seattle, instances of rape more than doubled between 2010 and 2016,¹⁰³ violent crime increased by 22 percent,¹⁰⁴ underage prostitution increased,¹⁰⁵ and hate crimes became more frequent.¹⁰⁶ The economy is booming, but not for everyone, as shown in Figure 25. While inflation-adjusted median income is increasing for residents with bachelor's and graduate degrees, it's on a downward trend for high school graduates and those with associate's degrees. At the bottom of the spectrum, residents who did not finish high school have a slightly positive trend, primarily bolstered by the recent increases in the minimum wage.

¹⁰⁰ Butterworth, Meg. "Forget Bingo. Wallingford seniors now fear becoming homeless." *Crosscut*, March 19, 2018. https://crosscut.com/2018/03/wallingford-seattle-seniors-fear-becoming-homeless

¹⁰¹ Pickett, Kate and Richard Wilkinson. "Income Inequality and Health: A Causal Review." Population Health: Behavioral and Social Science Insights. Agency for Healthcare Research and Quality, 2015. https://www.ahrq.gov/professionals/education/curriculum-tools/population-health/pickett.html

¹⁰² Fajnzylber, Pablo, Daniel Lederman, and Norman Loayza. "Inequality and Violent Crime." University of Chicago, *Journal of Law and Economics*, vol. XLV, 2002. https://siteresources.worldbank.org/DEC/Resources/Crime%26Inequality.pdf

Kelly, Morgan. "Inequality and Crime." Massachusetts Institute of Technology, *Review of Economics and Statistics*, vol. 82, issue 4, 2000. https://www.mitpressjournals.org/doi/abs/10.1162/003465300559028

Scheidel, Walter. "The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century." Princeton University Press, 2017. https://press.princeton.edu/titles/10921.html

¹⁰³ Seattle Police Department. Crime Dashboard. https://www.seattle.gov/police/information-and-data/crime-dashboard

¹⁰⁴ U.S. Department of Justice. Federal Bureau of Investigation. Criminal Justice Information Services Division. *2016 Crime in the United States*. 2017, Washington, Table 6. https://ucr.fbi.gov/crime-in-the-u.s/2016/crime-in-the-u.s.-2016/tables/table-6/table-6state-cuts/washington.xls

U.S. Department of Justice. Federal Bureau of Investigation. Criminal Justice Information Services Division. 2010 Crime in the United States. 2017, Metropolitan Statistical Area, Table 6. https://ucr.fbi.gov/crime-in-the-u.s/2010/crime-in-the-u.s.-2010/tables/table-6

¹⁰⁵ Scigliano, Eric. "The struggle to control Seattle's burning underage prostitution problem." *Crosscut,* April 2, 2014. http://crosscut.com/2014/04/sex-exploitation-seattle-homeless-youth-scigliano/

¹⁰⁶ Bush, Evan. "Hate crimes, bias incidents increase in Seattle, police say." *Seattle Times,* September 12, 2017. http://www.seattletimes.com/seattle-news/crime/hate-crimes-bias-incidents-increase-in-seattle-police-say/

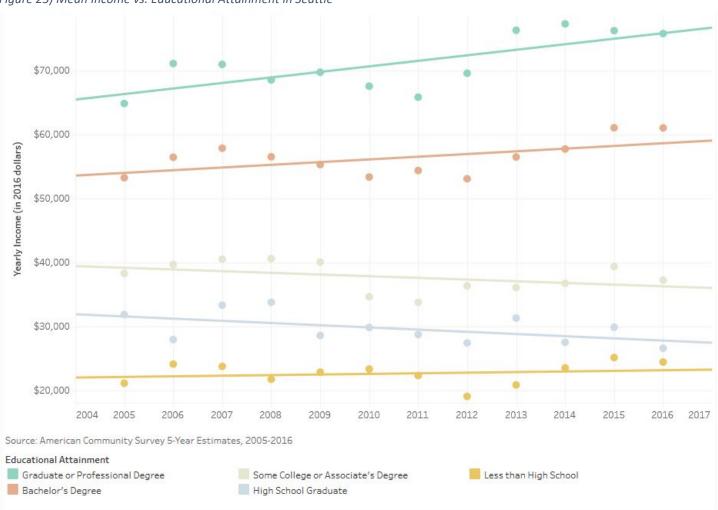
⁹⁶ Rent Jungle. "Rent trend data in Seattle, Washington." https://www.rentjungle.com/average-rent-in-seattle-rent-trends/

⁹⁷ Rosenberg, Mike. "Seattle has most cranes in the country for 2nd year in a row — and lead is growing." *Seattle Times*, July 11, 2017. https://www.seattletimes.com/business/real-estate/seattle-has-most-cranes-in-the-country-for-2nd-year-in-a-row-and-lead-is-growing/

⁹⁸ Adolph, Carolyn. "Black life is draining out of Seattle, Census shows." *KUOW*, May 13, 2017. http://kuow.org/post/black-lifedraining-out-seattle-census-shows

⁹⁹ Streib, Matthew. "Why Is Capitol Hill No Longer The Gay Epicenter Of Seattle?" *KUOW*, December 12, 2014. http://kuow.org/post/why-capitol-hill-no-longer-gay-epicenter-seattle

Figure 25) Mean Income vs. Educational Attainment in Seattle



3.6) Seattle's New Soda Tax is Also Regressive; Seattle Needs New Tools

Today, we are on the march toward being a low tax, low service state. Of course the public feels as if Washington is a high-tax environment because we are irrationally nickeled-and-dimed in a fashion that doesn't track with how people live their lives.

– State Senator Reuven Carlyle, former chair of the Washington House Finance Committee, January 5, 2015¹⁰⁷ To build affordable housing, provide services for the homeless population, improve transit, increase access to affordable childcare, and enable free community college tuition, Seattle needs public revenue. But increasing regressive taxes already in place simply increases the burden on low-income residents to fund services that ultimately benefit everybody, while excusing the affluent from contributing proportionally to build the commonwealth of the city.

Even though Seattleites on average are getting richer, that income is mostly at the top. More than half of

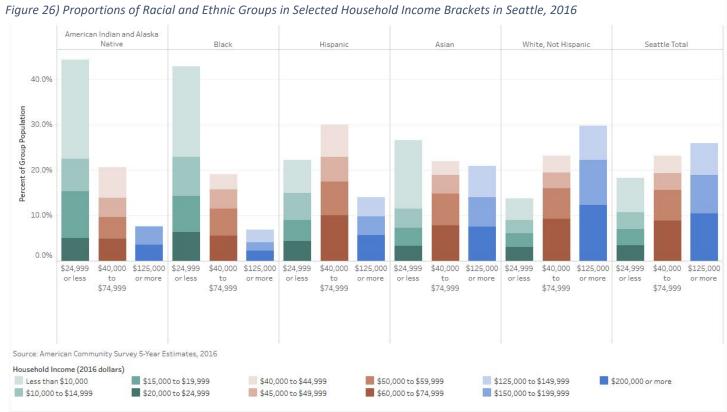
¹⁰⁷ Carlyle, Reuven. "Guest Editorial: Washington State Has a Morally Bankrupt Tax System, and Here's Why." *The Stranger*, January 5, 2015. https://www.thestranger.com/slog/archives/2015/01/05/guest-editorial-washington-state-has-a-morally-bankrupt-tax-system-and-heres-why

WHO REALLY PAYS: AN ANALYSIS OF THE TAX STRUCTURES IN 15 CITIES THROUGHOUT WASHINGTON STATE

Seattleites still make less than \$50,000 per year, according to their federal income tax returns.¹⁰⁸

Not only do regressive taxes impact low-income households more, but they also unevenly affect residents by racial groups because of the correlations between income and race. Seattle is one of the whitest major cities in America,¹⁰⁹ in which white people as a whole are richer than any other race, as shown in Figure 26. More than 39 percent of American Indian and Alaska Native households made less than \$20,160 yearly in 2016, as did more than 36 percent of African American households.¹¹⁰ Being proportionally in lower income brackets means these groups also paid proportionally more in taxes.

But Seattle doesn't have many progressive tax options to supplement or replace regressive taxes. In 2017, Seattle enacted the soda tax to generate \$15 million per vear in revenue in 2018.¹¹¹



¹¹⁰ \$20,160 was the poverty threshold for a family of three in 2016.

¹⁰⁸ Balk, Gene. "A city of riches? Most Seattle filers make less than \$50K, IRS data show." Seattle Times, August 30, 2017. https://www.seattletimes.com/seattle-news/politics/a-city-of-riches-most-seattle-filers-make-less-than-50k-irs-data-show/

¹⁰⁹ Balk, Gene. "Seattle is less white than it has ever been in modern history, new census data show." Seattle Times, September 14, 2017. http://www.seattletimes.com/seattle-news/data/seattle-is-less-white-than-it-has-ever-been-in-modern-history-new-censusdata-show/

U. S. Department of Health and Human Services. Office of the Assistant Secretary for Planning and Evaluation. U.S. Federal Poverty Guidelines Used to Determine Financial Eligibility for Certain Federal Programs. https://www.healthcare.gov/glossary/federalpoverty-level-FPL/

¹¹¹ Beekman, Daniel. "Beverage industry, allies start campaign to stop Seattle's soda tax from spreading." Seattle Times, February 20, 2018. https://www.seattletimes.com/seattle-news/politics/beverage-industry-allies-start-campaign-to-stop-seattles-soda-tax-fromspreading/

The money raised will be dedicated to nutrition and education programs. The tax is also intended to dissuade people from drinking sugary drinks, as the tobacco tax is meant to discourage smoking.¹¹²

survey of 9,865 adults in New York City, the general observations likely hold true for most markets.¹¹⁴

Data from the August 2017 Consumer Expenditure Survey back this up, as shown in Table 3.¹¹⁵

the tax is regressive, hitting poorer people harder. A 2006 Washington State University study of taxes on fatty and sugary foods similar in structure to the Seattle soda tax indicated that these taxes affected low-income families more than higher-income families both generally and because of diet choices. Households with incomes of \$100,000 per year paid \$24.29 in what the researchers called "fat taxes", but households with \$20,000 incomes paid twice as much – \$47.38.¹¹³

Regardless of its health outcomes,

A 2008 study published by the Journal of Urban Health found an association between soda consumption and race, age, and income. The paper found that individuals with low incomes were nearly twice as likely to purchase and consume soda as were those whose incomes were significantly higher. In addition, the proportions of U.S.-born African Americans, Puerto Ricans, and Mexican Americans who reported consuming more than one soda per day was more than twice that of whites. While the paper was based on a

Table 3) Expenditures on Non-Alcoholic, Non-Dairy Beverages as Percentage of Income

Expenditures on Non-Alcoholic, Non-Dairy Beverages as Percentage of Income						
Decile of Income	Annual Income	Annual Expenditures	Percent of Income	Percent of Expenditures		
1st	\$6,502	\$251	3.9%	1.1%		
2nd	\$16,229	\$311	1.9%	1.2%		
3rd	\$24,432	\$318	1.3%	0.9%		
4th	\$33,499	\$327	1.0%	0.8%		
5th	\$43,931	\$336	0.8%	0.8%		
6th	\$57,192	\$379	0.7%	0.7%		
7th	\$73,568	\$385	0.5%	0.6%		
8th	\$94,739	\$539	0.6%	0.8%		
9th	\$127,268	\$483	0.4%	0.6%		
10th	\$269,644	\$602	0.2%	0.4%		

The regressivity of the Seattle sweetened beverage tax is only compounded by exempting expensive highcalorie coffee drinks popular with higher-income people, i.e. anything from Starbucks.

A problem with raising sales and excise taxes is that they can go only so far before people start travelling to avoid them. Residents of Clark County already register their cars and buy goods in Oregon to avoid taxes,

Consumer Expenditure Survey, op. cit.

¹¹² EOI remained neutral on the 2017 Seattle soda tax, but EOI has supported soda taxes in the past, such as the 2010 proposal in the Legislature.

For more information, see Keating, Aaron. "Gimme Some Sugar: Junk food lobbyists keep sweet tax breaks while legislators ponder sales tax increase." Economic Opportunity Institute, March 19, 2010.

http://www.eoionline.org/blog/gimme-some-sugar-junk-food-lobbyists-keep-sweet-tax-breaks-while-legislators-ponder-sales-tax-increase/

¹¹³ Chouinard, Hayley, David Davis, Jeffrey LaFrance and Jeffrey Perloff. "Fat Taxes: Big Money for Small Change." De Gruyter, *Forum for Health Economics & Policy*, vol. 10, issue 2, 2007, p. 22. http://faculty.ses.wsu.edu/LaFrance/reprints/CDLP-BEP-2007.pdf

¹¹⁴ Rehm, Colin, Thomas Matte, Gretchen Van Wye, Candace Young, and Thomas Frieden. "Demographic and Behavioral Factors Associated with Daily Sugar-sweetened Soda Consumption in New York City Adults." Springer, *Journal of Urban Health*, vol. 85, issue 3. http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2329746

¹¹⁵ While the data are from the national survey of 129,000 households, the correlation between Seattle expenditure patterns and national expenditure patterns is very high – a correlation coefficient of 0.993.

costing Vancouver \$4.3 million and the county \$10 million annually. $^{\rm 116}$

The tax on soda encourages residents to leave the city limits to purchase soda.¹¹⁷ This may increase regressivity, as it is not only easier for people on Seattle's borders to purchase elsewhere, it is also easier for people who can afford to travel for shopping.¹¹⁸ This also causes Seattle to lose tax revenue.

For the tax system to sustainably address Seattle's challenges, Seattle cannot continue to become more regressive. Having a progressive tax option would also allow the city to lower regressive tax rates and lessen the tax obligation of lower-income people.

3.7) Lower Taxes on the Affluent Do Not Help City Job Growth

I once met Steve Ballmer when he was [CEO] at Microsoft. If I had the chance to meet him again, I'd tell him that what really makes an "unfavorable business climate" is tents lining our gridlocked highways, threats to our immigrant employees and underfunded schools for our children.

– Ned Friend, tech worker, July 9, 2017¹¹⁹



Figure 27) Relative Job Growth by MSA of States' Largest Cities vs. Ranking of Effective Tax Rate for High-Income Households

¹¹⁶ Sword, Katy. "County, city calculate sales tax loss from 'leakage' to Oregon." *Columbian*, October 23, 2017. http://www.columbian.com/news/2017/oct/23/county-calculates-sales-tax-loss-from-leakage-to-oregon/

¹¹⁷ Westneat, David. "Seattleites making a run to the border for ... Coke?" *Seattle Times,* January 31, 2018. https://www.seattletimes.com/seattle-news/politics/seattleites-making-a-run-to-the-border-for-coke/

¹¹⁸ The Brookings Institution Metropolitan Policy Program. "From Poverty, Opportunity: Putting the Market to Work for Lower Income Families." 2006. https://www.brookings.edu/wp-content/uploads/2016/06/20060718_PovOp.pdf

Brown, DeNeen. "The High Cost of Poverty: Why the Poor Pay More." *The Washington* Post, May 18, 2009. http://www.washingtonpost.com/wp-dyn/content/article/2009/05/17/AR2009051702053.html

¹¹⁹ Friend, Ned. "Tax my income and fix my city. Please." *Crosscut,* July 9, 2017. https://crosscut.com/2017/07/seattle-income-tax-city-ballmer-homeless

Cities that have lower effective tax rates on wealthier households do not have statistically significant better job growth than those with higher effective tax rates. Comparing full- and part-time wage and salary job growth from 2006 to 2016 to the high-income effective tax ranking from the District of Columbia report, there appears to be only the slightest correlation (\mathbb{R}^2 of .009), as shown in Figure 27. That means at least 99 percent of the difference in city job growth is unrelated to taxation on wealthy households.

Not coincidentally, the nine cities that do not have personal income taxes take up nine of the ten slots that tax higher incomes the least. But only Houston, Las Vegas and Sioux Falls were in the top ten for job growth. Memphis and Manchester did not fare nearly so well. Boise and Portland, OR, with two of the highest combined state and local income tax rates on the wealthy, fared better than Seattle. When you compare cities with no personal income taxes and cities with high personal income taxes in a box-and-whisker plot, the hair-thin correlation melts away, as shown in Figure 28.

There is very little, if any, connection between low taxes on the wealthy and a region's ability to generate jobs. Such a claim is simply a localized version of Reagan-style trickle-down economics.

Even if there were a connection, the question becomes one of morality. At what cost do we want more jobs and prosperity? Are job growth and tax cuts for the rich worth it if the byproducts are displaced communities, increases in homelessness, and collapsing infrastructure?



Presence of Income Tax on Households with \$150,000 Yearly Income

None Yes - One of the...

4) How the Income Tax on the Very Wealthy Will Help

Government is more than bureaucracy. Our schools, our parks, our fire stations, our buses, our police and our libraries are how we function as a community. Elementary schoolteachers and firefighters don't benefit from an upside-down tax structure; the very wealthy do.

– Seattle City Councilmember Lisa Herbold, November 16, 2017¹²⁰

4.1) What We Can Achieve with a Progressive Tax

In July 2017, Seattle's City Council took the bold step of adopting a progressive income tax on the city's wealthiest households. The language of the Seattle income tax ordinance creates the parameters for the expenditures of tax revenue. "All receipts from the tax levied in this Chapter 5.65 shall be restricted in use and shall be used only for the following purposes: (1) lowering the property tax burden and the impact of other regressive taxes; (2) addressing the homelessness crisis; (3) providing affordable housing, education, and transit; (4) replacing federal funding potentially lost through federal budget cuts, including funding for mental health and public health services; (5) creating green jobs and meeting carbon reduction goals..."¹²¹

The tax is a 2.25 percent tax on total income (line 22 of the 2017 IRS 1040 Form) in excess of \$250,000 for individuals and \$500,000 for joint filers.¹²² That means a single filer making \$300,000 per year would pay \$1,250 under this new tax.

Note that the Seattle tax on incomes above \$250,000 starts at incomes so high that it would not affect any of the households used in the comparison charts throughout this document. This is a tax extended only to the very wealthy, who already pay a much lower effective state and local tax rate than other residents of Seattle.

Not only will the income tax on the very wealthy help address exigent city needs, it will allow the city to relieve the tax obligations on the people who can least afford to pay.

The City of Seattle estimates the income tax on the very wealthy will raise at least \$140 million a year, that is, exceeding 10 percent of the city's current general fund.¹²³

Table 4 shows programs that could benefit from the tax.

¹²⁰ Herbold, Lisa. "Seattle's progressive income tax must be allowed to stand." *Seattle Times,* November 16, 2017. https://www.seattletimes.com/opinion/seattles-progressive-income-tax-must-be-allowed-to-stand/

 ¹²¹ Seattle City Council. *Council Bill 119002, Ordinance 125339*. Chapter 5.65.010, "Use of tax receipts."
 http://seattle.legistar.com/View.ashx?M=F&ID=5315695&GUID=C89BBC76-9029-44D2-81E6-9AEE417839BE
 ¹²² Ibid.

¹²³ KOMO staff and the Associated Press. "Seattle approves income tax for high-income residents." *KOMO*, July 10, 2017. http://komonews.com/news/local/seattle-to-decide-new-income-tax-for-high-income-residents

Possible City Expenditures with Revenue from Income Tax on the Very Wealthy						
Emergent and Emergency Needs for Public Financing	Funding estimate	Notes				
Build and Preserve Affordable Housing	\$50,000,000	\$160,000 per unit for 312 units. ¹²⁵				
Fund Tiny-House Villages, Housing More Than 1,120 People	\$5,000,000	 \$1.3 million for 560 tiny houses costing \$2,200 each, housing 1,120-2,240 people. \$1 million yearly operating costs. \$2 million for startup utilities costs and site acquisition. \$200,000 for moving costs.¹²⁶ 				
Double Funding for the Equitable Development Initiative to Help Communities Experiencing Displacement Pressures	\$16,000,000	Currently the EDI has a \$16 million capitalization. ¹²⁷				
City Contributions to Community Land Trusts	\$10,000,000	Money to purchase about 90 units and preserve 55 existing units. ¹²⁸				
Extend Seattle HomeWise Weatherization Program to Non-Profit Affordable Rental Housing	\$15,000,000	Would cover 100 buildings of 60 units at \$150,000 cost per project. ¹²⁹				
Energy Efficiency Retrofit for 10 K-8 Schools or 4 High Schools in Seattle	\$5,000,000	Based on costs ranging from \$3.60 to \$8.70 per square foot, and square footage of Seattle schools. ¹³⁰				
Solar Power Installations on More Than 100 Public Buildings	\$8,000,000	\$75,000 per installation. ¹³¹				
Tuition-Free Community College for All Seattle Residents	\$17,000,000	Includes 2 years for 1,600 Seattle high school students attending community college within 2 years of graduation, plus an estimated 2,000 adult 5-year residents. 3,600 participants, \$4,000 per participant. ¹³²				
Universal Pre-K for Seattle Children	\$50,000,000	13,000 children in Seattle ages 3-4, with Seattle covering an average of 40% of the \$10,000 yearly tuition per child, based on a sliding scale. ¹³³				
Transit Passes for K-12 and Community College Students	\$5,000,000	Make permanent Mayor Jenny Durkan's pilot project to extend free transit passes to all public school high school students and students attending Seattle Colleges on city-funded scholarships. ¹³⁴				
Total	\$181,000,000					

Table 4) Possible City Expenditures with Revenue from Income Tax on the Very Wealthy

¹²⁴ Seattle City Council. *Progressive Revenue Task Force Meeting # 1 Agenda*. 2018.

https://www.seattle.gov/Documents/Departments/Council/Issues/ProgressiveRevenueTaskforce/PRTF-all-meeting-agendas-minutes.pdf

¹²⁵ Lee, Sharon. "Tiny Houses: A big help for the homeless." Low Income Housing Institute, January 4, 2017. https://lihi.org/2017/01/04/tiny-houses-a-big-help-for-the-homeless/

¹²⁶ City of Seattle. Office of Planning & Community Development. *Equitable Development Initiative*. https://www.seattle.gov/opcd/ongoing-initiatives/equitable-development-initiative

4.2) Seattle's Income Tax on the Very Wealthy Doesn't Hurt Small Businesses

Opponents to the income tax on the very wealthy like to say it will create hardships for small businesses, when it only affects the very wealthy business owners who choose to take much of their profit as business income in addition to their own salaries.¹³⁴

The tax referencing line 222 of Form 1040 affects the profits of individual (non-corporate) business owners. Those profits are after accounting for nearly all expenses, *including salaries the business owners pay themselves*.

For those taxpayers in the brackets that will be taxed, their business income (i.e., profit) accounts for just 3.4 percent of their adjusted gross income, based on Internal Revenue Service returns.¹³⁵

There is a tax advantage in paying themselves more in salaries and retaining less as profits, since the latter would potentially be taxed again when eventually paid out to the small business owners. To further put this in context of "hardship" for small businesses, about 95 percent of the total income tax revenue Seattle is projected to receive would come from taxpayers with adjusted gross incomes above \$500,000. For those among these very high-income people who take some of their income as business income, they either elect to have very high salaries with smaller profits or they elect to have high salaries and high profits. There isn't much hardship to be seen.

The remaining 5 percent of the income tax revenue would come from individuals earning between \$250,000 and \$500,000. These taxpayers would pay an average of about \$2,500. With business income accounting for about 3.4 percent of their income, that part of their tax would be on average *about \$84* per taxpayer.

But that's with 2017 tax rates. The new Trump Administration tax rates will allow a 20 percent deduction for "pass through" income, where business income is passed through to the owner's individual tax return. This will be reflected on line 22 of Form 1040.¹³⁶

¹³¹ Washington Education Research and Data Center. *High School Feedback Reports*. http://www.erdcdata.wa.gov/hsfb.aspx

¹²⁷ Trumm, Doug. "Seattle Office of Housing Announces \$100 Million Investment." *The Urbanist,* December 19, 2017. https://www.theurbanist.org/2017/12/19/seattle-office-housing-announces-100-million-investment/

¹²⁸ City of Seattle. Department of Housing. Weatherization. https://www.seattle.gov/housing/homeowners/weatherization

¹²⁹ Larsen, Peter, Juan Pablo Carvallo, Charles Goldman, Sean Murphy, and Elizabeth Stuart. "Updated Estimates of the Remaining Market Potential of the U.S. ESCO Industry." Lawrence Berkeley National Laboratory, Energy Analysis and Environmental Impacts Division. 2017, p. 15-16. http://eta-publications.lbl.gov/sites/default/files/revised_market_potential_final_25apr2017_0.pdf

Seattle Public Schools. *Capital Projects and Planning – Facilities Master Plan Project Prioritizations 2015.* https://www.seattleschools.org/cms/One.aspx?portalId=627&pageId=18257

¹³⁰ Emerald Cities Collaborative. "EC Seattle Helps Bring Solar Power to Affordable Housing." October 4, 2017. http://emeraldcities.org/cities/seattle/news/ec-seattle-helps-bring-solar-power-to-affordable-housing

¹³² Washington Office of Financial Management. *Estimates of April 1 population by age, sex, race and Hispanic origin.* https://www.ofm.wa.gov/washington-data-research/population-demographics/population-estimates/estimates-april-1-populationage-sex-race-and-hispanic-origin

City of Seattle. Department of Education and Early Learning. *Seattle Preschool Program Tuition*. https://www.seattle.gov/education/ for-parents/child-care-and-preschool/seattle-preschool-program/seattle-preschool-program-tuition

¹³³ Beekman, Daniel. "All of Seattle's public high school students to get unlimited ORCA passes under new Durkan plan." *Seattle Times,* February 20, 2018. https://www.seattletimes.com/seattle-news/politics/all-of-seattles-public-high-school-students-to-get-unlimited-orca-passes-under-new-durkan-plan/

¹³⁴ Devoe, Philip. "Seattle's New Income Tax Bodes III for the City's Economy." *National Review,* September 17, 2017. https://www.nationalreview.com/2017/09/seattle-income-tax-unconstitutional-bad-economic-policy/

 ¹³⁵ Internal Revenue Service. Statistics of Income Division. Individual Master File System. 2015 data, released in 2017.
 ¹³⁶ Alexander, Rachel. "Tax reform is finalized: A simple explanation on how the GOP tax bill might affect you." *The Spokesman-Review*, December 20, 2017. http://www.spokesman.com/stories/2017/dec/18/the-final-federal-tax-bill-an-explainer/

5) Legal History

When plunder becomes a way of life for a group of men in a society, over the course of time they create for themselves a legal system that authorizes it and a moral code that glorifies it.

– Economist Frédéric Bastiat, 1848.¹³⁷

Washington has a regressive tax system in part because powerful interests have created a system to benefit themselves at others' expense. Lumber magnates and rich businessmen won in the Washington Supreme Court in 1933; they don't have to win again.

5.1) A Century Ago, When Washington Was More Progressively Minded

It was more popular on the ballot than bringing back the sale of beer.

– Geoff Crooks, former commissioner for the Washington Supreme Court, talking about the 1932 ballot initiative to create a progressive income tax during the times of Prohibition.¹³⁸

Washington State used to like progressive taxes. In 1901, the state enacted a progressive inheritance tax, which through the years became the progressive estate tax we have today.¹³⁹ In 1921, the state enacted a progressive gas tax, as only the rich had cars at the time.¹⁴⁰ (That has since become regressive, as the rich move to hybrid and electric cars.)¹⁴¹ In 1913, Washingtonians overwhelmingly supported the Federal Income Tax amendment to the U.S. Constitution.¹⁴²

Property tax, however, was the main revenue source for the state government in the early 20th century, accounting for two-thirds of tax receipts.

Then, during the Great Depression, Washington State fell into fiscal crisis. An income tax proposal passed the Washington State Senate in 1929, but died in a House of Representatives committee. The Legislature provided for the appointment of the Tax Advisory Commission, which Governor Roland Hartley, a lumber magnate, filled with men he thought were in opposition to an income tax.¹⁴³ To his dismay, in 1931, this commission reported to the Legislature their support for a progressive income tax.

The Legislature took this recommendation and passed an income tax, only to have Governor Hartley veto this bill.

The fiscal crisis did not abate and in 1932, a broad coalition of advocates brought forward Initiative 69 to create an income tax.

Existing methods of taxation, primarily based on property holdings, are inadequate, inequitable and economically unsound. Present conditions point the need of a new subject matter for taxation, which should be based on the ability to pay. Earnings for a given period are a fair measure of such ability.

¹⁴³ Spitzer, Hugh. "A Washington State Income Tax-Again?" *University of Puget Sound Law Review*, vol. 16, no. 2, 1993, p. 527. https://digitalcommons.law.seattleu.edu/cgi/viewcontent.cgi?article=1383

¹³⁷ Bastiat, Frédéric. "Economic sophisms." 2nd series, 1848, ch. 1.

¹³⁸ Adolph, Carolyn. "The Strange, Short Story Of Washington State's Income Tax." *KUOW*, October 18, 2015. http://kuow.org/post/strange-short-story-washington-state-s-income-tax

¹³⁹ Washington Department of Revenue. *History of Washington Taxes*. https://dor.wa.gov/about/statistics-reports/historywashington-taxes

¹⁴⁰ Watkins, Marilyn. "Washington's Gas Tax in Historical Perspective." Economic Opportunity Institute, 2005.

http://www.eoionline.org/wp/wp-content/uploads/tax-reform/WashingtonGasTaxHistoricalPerspective-Aug05.pdf

¹⁴¹ Woodyard, op. cit.

¹⁴² Chesley, Frank "Washington Supreme Court declares citizen-approved state income tax unconstitutional on September 8, 1933." HistoryLink, 2004. http://historylink.org/File/5726

The people of the State of Washington, therefore, exercising herein their supreme power and fundamental right, declare their purpose hereby to tax all for annual incomes within the state as such, and not as property.

– Initiative 69¹⁴⁴

Initiative 69 would have established a graduated income tax on taxable income, starting at 1 percent for the first \$1,000 (\$18,800 in 2018 dollars)¹⁴⁵ and stepping up, so that any income in excess of \$12,000 (\$225,300 in 2018 dollars) would be taxed at 7 percent.¹⁴⁶

The Washington State Grange, the Farmers Union, the Farm Bureau Federation, the State Agricultural Council, the Tax Limit League, the Realty Boards, the Title Association, the Savings and Loan League, the Parent Teachers Association, the Education Association, the State Federation of Labor and the Women's Legislative Council signed the voter's guide argument in favor, saying its chief aim was "to relieve the excessive burden upon homes, farms and business properties by transferring a portion of the burden to those now paying little or nothing."¹⁴⁷ No one argued against the tax.

Initiative 69 passed with an overwhelming majority, 70.2 percent in favor. In contrast, 62.1 percent voted to repeal the ban on selling beer.¹⁴⁸

Two businessmen in the downtown Seattle business community sued the state of Washington to overrule the election results and prohibit an income tax, reaching the Washington Supreme Court.¹⁴⁹

In 1933, the Court needed to make a ruling, but a protax judge was ill from a heart condition. Governor Clarence Martin, in favor of the tax, appointed a new judge he was sure would approve it. But the well-paid justices had just received their tax forms in the mail, as had a slew of Washingtonians who were not even eligible to pay the tax. One of the pro-tax judges switched sides, and the Court declared the tax unconstitutional with a 5 to 4 vote.¹⁵⁰

According to the Court majority, *the income tax itself was not illegal*; it was only a progressive income tax that was the problem. The rich should not have to pay more than the poor, the justices said, as that is injustice. Income is a form of property, which cannot be taxed at different levels under the state constitution. The lead dissent, written by Justice Bruce Blake, stated that the majority was engaged in "sheer sophistry" when it equated income with property, predicting fiscal doom for the state.¹⁵¹

The Legislature tried again in 1935, with passage of House Bill 513.¹⁵² The act would have put into place an income tax of 3 percent on income in excess of \$1,000 (\$18,000 in 2018 dollars)¹⁵³ for a single person or \$2,500 for a household (\$45,900), increasing to 4 percent for income in excess of \$4,000 (\$71,800).

¹⁴⁸ Washington Secretary of State. *Elections Search Results*. November 1932 General.

¹⁴⁴ Washington Secretary of State. "A Pamphlet Containing Copies of all Measures 'Proposed by Initiative Petition,' together with 'Amendments to the Constitution Proposed by the Legislature.' "1932, p. 26. https://www.sos.wa.gov/_assets/elections/voters'%20pamphlet%201932.pdf

https://www.sos.wa.gov/_assets/elections/voters %20pamphiet%201

¹⁴⁵ Inflation calculated using Consumer Price Index.

¹⁴⁶ "A Pamphlet Containing Copies of all Measures," op. cit., p. 35.

¹⁴⁷ "A Pamphlet Containing Copies of all Measures," op. cit., p. 48.

https://www.sos.wa.gov/elections/results_report.aspx?e=102&c=&c2=&t=&t2=5&p=&p2=&y=

¹⁴⁹ Spitzer, *op. cit.*, p. 528.

¹⁵⁰ "The Strange, Short Story," op. cit.

¹⁵¹ Culliton v. Chase, 174 Wash. 25 P.2d 81 (1933), p. 389.

http://courts.mrsc.org/washreports/174WashReport/174WashReport0363.htm

¹⁵² Washington Legislature. *Session Laws, 1935.* Chapter 178.

⁽HB 513.) http://leg.wa.gov/CodeReviser/documents/sessionlaw/1935c178.pdf

¹⁵³ Inflation calculated using Consumer Price Index.

The governor signed it, but it was challenged again. The Supreme Court renewed its definition of income as property and shut the challenge down.¹⁵⁴

But the state still needed money, so in 1935 the Legislature passed the first retail sales tax in the state, which has been increased or extended more than 30 times in the past 83 years.¹⁵⁵ Even in the early years, the sales tax was regressive – a 2 percent tax on everything except basic food items. When it became a reality, people at lower income levels started feeling overtaxed, and the movement for a progressive income tax dried up. This cemented the current system where the working class pays an effective tax rate multiple times higher than the rich.



A sales tax token from 1935. Back then, the penny was worth a lot more than it is now. Tax tokens allowed the exchange of fractions of a penny. Image Source: CoinQuest

5.2) Recent Efforts for Progressive Taxes

There have been several efforts at the state level, through legislative actions, constitutional amendments, and initiatives, which have all come up short in rectifying decisions of the 1930s court. The most recent statewide effort was Initiative 1098 in 2010. This initiative was based on the findings of the Washington State Tax Structure Study Committee, established by the Legislature in 2002. The committee had been tasked to examine alternative tax structures that would be more equitable, transparent, and economically neutral for taxpayers – with the caveat that most of the alternatives "contain no income tax.¹⁵⁶

Despite this, the committee recommended a state income tax in its final report due to the "*intrinsic advantages* of the income tax itself, and the *resulting advantages* of replacing an existing tax [emphasis in original]."¹⁵⁷ In turn, it recommended lowering the sales and/or property taxes to create a fairer system.

The 2010 initiative would have put in place a 5 percent tax on income in excess of \$200,000 for individuals and \$400,000 for joint filers, and 9 percent for income in excess of \$500,000 for individuals and \$1,000,000 for joint filers.¹⁵⁸ Initiative 1098 would have also reduced the state property tax, and exempted over 80 percent of businesses from the gross receipts tax on business. It would have raised about \$3 million a year, dedicated to education and health care, while taxing the most affluent 3 percent of Washingtonians.

In the midst of the Great Recession and a fierce opposition campaign, Initiative 1098 was decisively defeated, 64.1 percent to 35.9 percent.¹⁵⁹ But Initiative 1098 did pass in certain municipalities. Seattle overwhelmingly approved it with 63 percent of the vote, as shown in Figure 29. Olympia passed it with 56 percent of the vote, Pullman and Bellingham with 54 percent support, with several other smaller areas such as Port Townsend and Bainbridge Island approving Initiative 1098 as well.¹⁶⁰

https://wei.sos.wa.gov/agency/osos/en/press_and_research/PreviousElections/2010/general/Pages/Results.aspx ¹⁵⁹ *Ibid.*

¹⁵⁴ Spitzer, *op. cit.*, p. 533.

¹⁵⁵ History of Washington Taxes, op. cit.

¹⁵⁶ Washington Department of Revenue. *Tax Alternatives for Washington State.* Chapter 1.

https://dor.wa.gov/reports/tax-structure-final-report

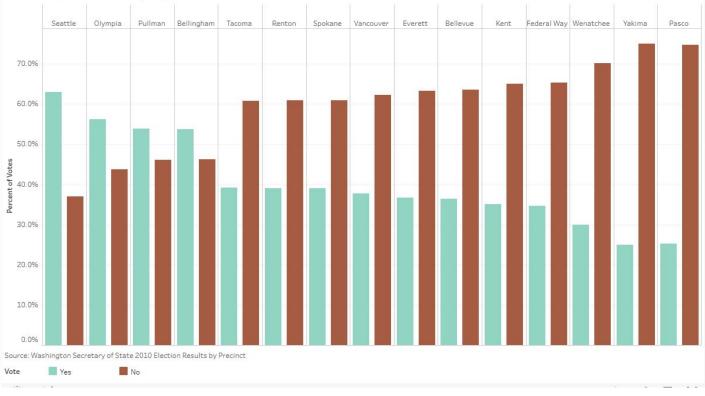
¹⁵⁷ *Ibid.,* Chapter 7.

¹⁵⁸ Washington Secretary of State. 2010 General Election Results.

¹⁶⁰ Ibid.

Figure 29) Initiative 1098 Results by City





In 2016, Olympia voters narrowly rejected an income tax measure with 52 percent of the vote.¹⁶¹

5.3) Seattle Breaks the Ice on Reimagining Equitable Taxation

Soon after the 2016 presidential election, a coalition began forming to shield Seattle from the uncertainty caused by the Trump administration. Catalyzed by the Transit Riders Union, the Neighborhood Action Coalitions and the Economic Opportunity Institute, the Trump-Proof Seattle coalition urged the Seattle City Council to pass a local progressive income tax on the affluent in Seattle. The new revenue would help Seattle fund human services, ranging from housing for the homeless, free community college tuition, green jobs, transit, and early childhood education, as well as enable the city to reduce property taxes and lessen the city's dependence on other regressive taxes.

Seattle citizens showed they still overwhelmingly supported such a tax on the very wealthy. In a KING-TV poll published in June 2017, 66 percent of Seattleites supported the income tax on the very wealthy.¹⁶²

Trump-Proof Seattle and its coalition of 40 organizations achieved what no other organization or effort had accomplished in eight decades when the Seattle City Council unanimously passed the tax in July 2017.¹⁶³

¹⁶¹ Guppy, Paul. "The fight for a Washington income tax lives on." *Crosscut,* January 5, 2017. https://crosscut.com/2017/01/the-fight-for-an-income-tax-is-still-alive-in-washington

¹⁶² Survey USA. *Election Poll #23565.* https://assets.documentcloud.org/documents/3870797/Survey-Results-on-Seattle-Mayoral-Candidates.pdf

¹⁶³ Economic Opportunity Institute. "We did it! Seattle passes progressive income tax!" July 10, 2017. http://www.eoionline.org/blog/we-did-it-seattle-passes-progressive-income-tax/

The ordinance was immediately challenged with four lawsuits, one from an investment banker, one from former attorney general and candidate for Governor Rob McKenna, one from the Koch-Brothers funded Freedom Foundation, and one from the Pacifica Legal Foundation. The shared narrative of these lawsuits is that the Seattle tax is unconstitutional because it levies a disproportional tax on income, and if income is considered property, then this would be in violation of the constitutional requirements for taxes on personal property to be uniform across income levels, and never in excess of 1 percent.



Supporters of the income tax on the very wealthy pack a Seattle City Council meeting in July, 2017. Image Source: Kate Walters, KUOW

In November 2017, the King County Superior Court ruled against the city, following the precedent set by the Supreme Court in the 1930s as lower courts typically do.¹⁶⁴ Often, a lower court will refrain from overruling precedent set by a higher court. The Washington Supreme Court is considering expedited review of the case and is expected to hear it in late 2018 or 2019.

5.4) Myths About Income Tax Illegality

There is a durable falsehood in Washington that any income tax is automatically illegal. Those who benefit from our state's upside-down tax system have repeated a string of myths to skew conventional wisdom, but these myths do not hold up to scrutiny.

5.4.1) Myth 1: Income Taxes Are Outlawed in the Washington State Constitution.

There is no mention of an income tax in our state Constitution, only of taxing property.¹⁶⁵ As stated in Section 5.1, the Supreme Court decided in the 1930s that income is property in a strange illogical twist. That didn't make income taxes illegal, only progressive income taxes. And it didn't change the Constitution.

This is only an interpretation of the Constitution, and such constitutional interpretations have changed many times over the years. Just because something is legal or illegal at one point does not mean it's logical, just, or fair. Our Constitution and our laws are living documents.

It doesn't make sense that income is property. Property is a tangible object, like a home. It retains value, and it is taxed on that value at yearly intervals. Income is a stream or flow of money. It enables the purchase of goods and services, savings, and paying down of debt. It ebbs and flows for the majority of Washingtonians with their wages and salaries. For the more affluent, it ebbs and flows on the basis of interest, capital gains, dividends, and other unearned income. The affluent make up the cohort of people who will be taxed through Seattle's income tax.

The precedents relied upon in the 5-to-4 decisions against income taxes have already been overturned. In the 1933 *Culliton v Chase* court case, the Washington Supreme Court relied on its own 1930 decision, *Aberdeen Savings and Loan Assoc. v. Chase*, in which it ruled that financial institutions could not be taxed due to the Equal Protection Clause in the 14th Amendment to the US Constitution.¹⁶⁶ That case did not mention income as property – that was new to *Culliton*. But *Aberdeen* relied on two US Supreme Court decisions – *Quaker City Cab Co. v. Pennsylvania*, which held that corporate and non-corporate business could not be treated differently and *MacAllen Co. v. Massachusetts*,

WHO REALLY PAYS: AN ANALYSIS OF THE TAX STRUCTURES IN 15 CITIES THROUGHOUT WASHINGTON STATE

¹⁶⁴ Burbank, John. "Seattle's Income Tax on the Affluent: Why We Will Prevail." Economic Opportunity Institute, November 24, 2017. http://www.eoionline.org/blog/seattles-income-tax-on-the-affluent-why-we-will-prevail/

¹⁶⁵ Washington Legislature. Washington State Constitution. http://leg.wa.gov/LawsAndAgencyRules/pages/constitution.aspx

¹⁶⁶ Aberdeen v. Chase, 157 Wash. 351 P.2d 81 (1930), p. 357. http://courts.mrsc.org/washreports/157WashReport/157WashReport0351.htm

which prohibited the state taxation of federal bond interest.¹⁶⁷ The court also chose to ignore challenges to Oregon's and Idaho's income tax laws, which were found to be constitutional.

Both *Quaker City Cab Co.* and *MacAllen Co.* have been overturned, as the US Supreme Court changed its mind about constitutional interpretation. So the *Culliton* case now stands upon no precedent, and is ripe to be reinterpreted.

5.4.2) Myth 2: Cities Do Not Have the Legal Authority to Create Taxes Without State Permission.

Opponents of Seattle's income tax like to insist that cities do not have the legal authority to impose new and different taxes.

They tend to line up with the constricted view of authority granted to municipalities by the Legislature for raising public revenue. The conservative grouping of challengers argue that "[t]here exists no general plenary authority for a city to levy taxes it deems desirable. Cities must receive express authority from the legislature to levy taxes, including "specific legislative authority to levy a particular tax."¹⁶⁸

But the Washington Supreme Court decided in 2017 that cities *do have a right* to manage their own affairs.

The Supreme Court determined that Seattle's tax on guns and ammunition is authorized under Revised Code of Washington 35.22.280(32), which grants first class cities broad taxation authority.¹⁶⁹

Article XI [of the Washington State Constitution] expressly authorizes the legislature to grant cities the power to levy taxes for 'county, city, town, or other municipal purposes.' More significantly, it strips the legislature of the authority to directly impose such taxes. Only local authorities, exercising duly delegated taxing power, may levy local taxes.

In part, these provisions reflect Washington's adoption of what scholars refer to as 'home rule' – shorthand for the presumption of autonomy in local governance.

– Majority Opinion, Watson v. Seattle¹⁷⁰

Opponents to Seattle's income tax have already publicly ceded this argument. Attorney Matthew Davis, representing an investment broker, "agrees that the gun and ammunition tax ruling imperils one of his arguments against the income tax. 'The Supreme Court definitely is playing some games by expanding the power' of city taxation..."¹⁷¹

¹⁶⁷ Spitzer, *op. cit.*, p. 515.

¹⁶⁸ Levine v. Seattle. "Complaint for Declaratory and Injunctive Relief." (2017), p. 16. https://www.washingtonpolicy.org/library/docLib/income-tax-lawsuit.pdf

¹⁶⁹ Watson v. Seattle, Washington Supreme Court, 15-2-20613-3 SEA (2017), p. 29. https://law.justia.com/cases/washington/supreme-court/2017/

¹⁷⁰ *Ibid.,* p. 16.

¹⁷¹ Person, Daniel. "Did the City Attorney's Office Discourage the Income Tax It Now Has to Defend?" *Seattle Weekly*, September 1, 2017. http://www.seattleweekly.com/news/did-the-city-attorneys-office-discourage-the-income-tax-it-now-has-to-defend/

5.4.3) Myth 3: Seattle Cannot Specifically Tax Income.

Opponents to Seattle's tax on the affluent further reference a sneaky section of Washington law that prohibits taxation by cities of net income.¹⁷² But the Seattle income tax is not a tax on net income. Indeed, it is specifically a tax on total income, as defined by the IRS and calculated on line 22 of IRS 1040 forms.¹⁷³

First, net income is a measure of business and corporate income, after expenses. The Revised Code of Washington does not define net income for personal finances, as is the usual practice in developing law. Total income for individual taxpayers does not take account of expenses necessary for living, such as food, clothing, transportation, health care premiums, etc. As such, it is not close to a measurement of net income.

Second, the ban on local net income taxes itself is arguably unconstitutional. It was slipped into a bill concerning the combined city-county form of government. The bill was authored to "provide for the implementation and clarification of Article XI, section 16 of the state Constitution, which authorizes the formation of combined city and county municipal corporations." Every provision of the bill, save for the prohibition on city taxes on net income, is directed to city-counties and no other form of government.¹⁷⁴

Because the provision on cites taxing net incomes is not germane to the title and content of the rest of the act, it most likely violates the "single-subject rule" of Article II, section 19 of the state Constitution.¹⁷⁵

WHO REALLY PAYS: AN ANALYSIS OF THE TAX STRUCTURES IN 15 CITIES THROUGHOUT WASHINGTON STATE

¹⁷² Washington Legislature. *Tax on net income prohibited*. RCW 36.65.030 (1984 c 91 § 3.) https://app.leg.wa.gov/rcw/default.aspx?cite=36.65.030

¹⁷³ U.S. Department of the Treasury. Internal Revenue Service. 2017 U.S. Individual Income Tax Return (Form 1040). 2018, p. A-18. https://www.irs.gov/pub/irs-pdf/f1040.pdf

¹⁷⁴ Lowney, Knoll and Claire Tonry Memorandum to John Burbank, Economic Opportunity Institute. March 31, 2017. http://thelens.news/wp-content/uploads/2017/09/Memo_Seattle-Taxation-Authority_170331.pdf

¹⁷⁵ Superior Court of Washington for King County. *Order on Parties' Cross-Motions for Summary Judgment*. No. 17-2-18848-4 SEA, November 22, 2017. p. 10. https://us.eversheds-sutherland.com/portalresource/Kunath_v_City_of_Seattle_No_17-2-18848-4_Wa_Sup_Ct_Nov_22_2017

6) How City Combined Tax Rates are Computed for **Comparison of Washington Cities**

Many taxpayers are aware that the state and local tax liability of an individual taxpayer varies from one jurisdiction to another. The extent of these differences across the state, however, may not be fully recognized.

This report compares the major state and local tax contributions of hypothetical households in Seattle with the contributions for the households in Tacoma, Olympia, Everett, Pasco, Spokane, Bellingham, Vancouver, Wenatchee and Yakima. Taxes included are property taxes on residential property, general sales and use taxes, automobile registration taxes, gasoline taxes, alcohol and tobacco excise taxes, insurance premiums taxes, and public utility taxes. Cannabis taxes were not included, as reliable data are not yet available.

This study does not incorporate the effects of differing local taxes on federal individual income taxes. Before the tax law changes under Trump take effect, property taxes have been deductible in computing federal income taxes and the effect of federal deductibility has

been to reduce the overall difference in tax obligations between jurisdictions. Because wealthier people are more likely to itemize deductions and take advantage of property tax and mortgage deductions, and renters cannot deduct these expenses, federal deductibility amplifies the regressivity of state and local taxes.

All taxes reflect state and local tax rates. Taxes are compared for hypothetical households at gross annual income levels of: \$25,000, \$50,000, \$75,000, \$100,000, \$150,000, and \$250,000.

6.1) Property Taxes

6.1.1) Property Values

At the levels of \$50,000, \$75,000, \$100,000, \$150,000, and \$250,000, there are calculations for households that own their homes. Housing values for owner-occupied dwellings across income levels are based on 5-year estimates from the U.S. Census Bureau's 2016 American Community Survey.

For each cohort, the house value used was the median value for all owner-occupied households in each city, within +/-\$10,000 in 2016 dollars, adjusted for household weight. For example, the house value used for the hypothetical household making \$100,000 in Seattle was the median house value of all weighted households in Seattle that had between \$90,000 and \$110,000 in annual income.¹⁷⁶

	Assumed Property Value for Households with an Annual Income of:								
City	\$50,000	\$75,000	\$100,000	\$150,000	\$250,000				
Bellevue	\$400,000	\$500,000	\$540,000	\$695,000	\$800,000				
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Table 5) Assumed Property Values for Washington Households

City	\$50,000	\$75,000	\$100,000	\$150,000	\$250,000
Bellevue	\$400,000	\$500,000	\$540,000	\$695,000	\$800,000
Bellingham	\$230,000	\$250,000	\$299,000	\$400,000	\$525,000
Everett	\$215,000	\$250,000	\$255,000	\$300,000	\$327,500
Federal Way	\$228,000	\$250,000	\$275,000	\$300,000	\$425,000
Kent	\$230,000	\$250,000	\$280,000	\$300,000	\$365,000
Olympia	\$200,000	\$215,000	\$240,000	\$275,000	\$320,000
Pasco	\$152,000	\$160,000	\$180,000	\$225,000	\$250,000
Pullman	\$125,000	\$130,000	\$180,000	\$215,000	\$250,000
Renton	\$250,000	\$280,000	\$286,000	\$360,000	\$360,000
Seattle	\$350,000	\$380,000	\$400,000	\$477,500	\$685,000
Spokane	\$149,000	\$175,000	\$180,000	\$230,000	\$325,000
Tacoma	\$200,000	\$220,000	\$250,000	\$300,000	\$385,000
Vancouver	\$180,000	\$195,000	\$225,000	\$230,000	\$275,000
Wenatchee	\$190,000	\$230,000	\$250,000	\$320,000	\$575,000
Yakima	\$150,000	\$165,000	\$195,000	\$220,000	\$195,000

¹⁷⁶ The 2016 5-Year American Community Survey found that the median value of homes in Yakima for households making \$140,000-\$160,000 is higher than the median value for those making \$240,000-\$260,000. This is an anomaly, perhaps due to the comparatively low number of high-income households in the city.

6.1.2) Tax Rates

These are derived from the published combined rates for each city from each county's assessor's office.¹⁷⁷ If there were multiple taxing districts, such as for fire districts, libraries, cemeteries, etc., the lowest rate in the city was used.

6.1.3) Renters

In the current Seattle housing market, it's becoming extremely unlikely that a household making \$50,000 can buy a home, whereas that is still the case in Yakima. Therefore hypothetical households at the \$25,000, \$50,000 and \$75,000 income levels include calculations assuming they rent their place of living.

Each calculation uses the median 1-bedroom apartment rent in each city from December 2016.¹⁷⁸ For households making \$25,000, they are assumed to have an apartment at 25 percent below the median cost in their city. At \$50,000, they are assumed to have the median cost apartment, and at \$75,000 they are assumed to have an apartment at 25 percent above the median cost.

- Franklin County Assessor. 2016 Assessments for 2017 Tax Collection. p. 18. http://www.co.franklin.wa.us/assessor/pdf/tax_booklet/levybook16for17.pdf
- King County Assessor. 2018 City Report. 2018. https://assets.documentcloud.org/documents/4367942/2018-City-Report-002.pdf
- Pierce County Assessor. 2017 Tax Rates. https://www.co.pierce.wa.us/DocumentCenter/Home/View/45602
- Snohomish County Assessor. *Snohomish County Assessor's Annual Report for 2017 Taxes.* p. 24. https://snohomishcountywa.gov/documentcenter/view/41666
- Spokane County Assessor. *Spokane County Assessor's Annual Report*. p. 9. https://www.spokanecounty.org/ArchiveCenter/ViewFile/Item/8357
- Thurston County Assessor. Tax Rates For Collection Year 2017. http://www.co.thurston.wa.us/treasurer/tax_rates.htm
- Whatcom County Assessor. Statement of Assessed Valuations, Tax Rates, and Taxes Levied Within the Various Taxing Districts of Whatcom County for the years 2015 (2016) Taxes, 2016 (2017) Taxes. p. 11. http://www.whatcomcounty.us/ArchiveCenter/ViewFile/Item/8306
- Whitman County Assessor. District Listing, Roll Year: 2017. http://www.whitmancounty.org/pdf.aspx?pdfid=1110
- Yakima County Treasurer. Taxing District History. http://yes.co.yakima.wa.us/assessor/assrforms/taxing_district_history.xls
- ¹⁷⁸ Zillow Research. Zillow Rent Index. <u>https://www.zillow.com/research/data/</u>

¹⁷⁷ Chelan County Assessor. *Property Tax Summary Report 2017.* p. 25. http://www.co.chelan.wa.us/files/assessor/archives-levy-books/2017.pdf

Clark County Assessor. 2018 Annual Report. https://www.clark.wa.gov/sites/default/files/dept/files/assessor/annual-reports/Levy%20Difference%20Report_2017-2018.pdf

Zillow does not have enough data for 1-bedroom apartments in Pasco. The data show that a studio apartment was 1.17 times as expensive in Pasco as in Spokane, and a 2-bedroom was 1.18 times as expensive. For this study, the 1-bedroom apartment cost in Pasco is 1.17 times the cost in Spokane. Pullman had a similar issue, and for this study, the 1-bedroom apartment cost in Pullman is 1.38 times the cost in Spokane.

Table 6) Assumed Rents in Washington

Assumed 1-Bedroom Apartment Rents for Households with an Annual Income of:									
City	\$25,000 \$50,000 \$75,000								
Bellevue	\$1,275	\$1,700	\$2,125						
Bellingham	\$800	\$1,066	\$1,333						
Everett	\$859	\$1,145	\$1,431						
Federal Way	\$808	\$1,077	\$1,346						
Kent	\$907	\$1,209	\$1,511						
Olympia	\$898	\$1,197	\$1,496						
Pasco	\$659	\$879	\$1,099						
Pullman	\$794	\$1,059	\$1,324						
Renton	\$983	\$1,310	\$1,638						
Seattle	\$1,393	\$1,857	\$2,321						
Spokane	\$563	\$751	\$939						
Tacoma	\$860	\$1,147	\$1,434						
Vancouver	\$889	\$1,185	\$1,481						
Wenatchee	\$797	\$1,062	\$1,328						
Yakima	\$497	\$663	\$829						

Renters indirectly pay property taxes through their rent, and when property taxes go up, so does their rent.¹⁷⁹ This study computes a percentage of said rent constituting property taxes. This concept is called the property tax equivalent of rent (PTER) and is an important tool in comparing the incidence of the property tax on renters versus homeowners.

To relieve this implicit tax on renters, some states have property tax circuit breaker programs that offset renters' taxes in some way (often through the income tax since they do not pay property taxes directly). These programs must make assumptions of the PTER to calculate the amount that renters are paying in property taxes, and the amount of relief they will receive through the circuit breaker program. Washington does not have such a program.¹⁸⁰ Of the states that offer circuit breaker programs, the PTER assumptions generally range from 6 to 25 percent (New Mexico has a low of 6 percent while Massachusetts uses a 25 percent assumption). On average, these states assume that 18 percent of rent goes toward paying property taxes.¹⁸¹

The DC report uses a level of 15 percent for PTER in its study to attempt to be realistic in the property taxes passed on to renters, particularly in cities with more expensive rental markets.¹⁸² This EOI report also assumes that 15 percent of rent is indirect property tax.

6.2) Sales Taxes

This study uses the Internal Revenue Service state sales tax tables providing estimate expenditures on state sales tax for various income brackets in each state.¹⁸³

The IRS provides estimated sales tax expenditures for one to five and more than five exemptions for dependents. For this study, the estimates for three exemptions was used.

Sales tax rates are the cumulative state and local rates in effect in each city between October and December, 2016.¹⁸⁴

6.3) Automobile Taxes

Automobile taxes included in this study are gasoline taxes and motor vehicle registration fees (state and local). This required assumptions on what kinds of vehicles each hypothetical household owns. Households with an annual income of \$25,000 and \$50,000 are assumed to have one car, while all others are assumed to have two. Weight groupings are related to licensing fee categories.

¹⁷⁹ Brunner, Jim. "Property-tax Q&A: Why is your King County bill going up so much — and where is the money going?" *Seattle Times*, March 18, 2018. https://www.seattletimes.com/seattle-news/politics/property-tax-qa-why-your-king-county-bill-is-going-up-so-much-and-where-is-the-money-going/

¹⁸⁰ Property tax exemptions and deferrals, op. cit.

¹⁸¹ The Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence, op. cit.

¹⁸² District of Columbia Office of the Chief Financial Officer, *op. cit.*, p. 10.

¹⁸³ 2017 Instructions for Schedule A (Form 1040), op. cit.

¹⁸⁴ Washington Department of Revenue. *Local Sales and Use Tax Rates by City/County Tax Rates Effective October 1 - December 31, 2016.* https://dor.wa.gov/sites/default/files/legacy/Docs/forms/ExcsTx/LocSalUseTx/LocalSlsUseFlyer_16_Q4_alpha.pdf

6.3.1) Yearly Registration Fees

These are calculated using state fees, such as filing, tab, and servicing fees.¹⁸⁵ In each city, Transportation Benefit District Fees and the Regional Transit Authority taxes are included when applicable, at December 2016 levels. The study also includes the \$20 Vehicle License Fee Rebate for Seattle low-income residents.¹⁸⁶ The households are assumed to not have vanity plates or any other add-ons, and are assumed to decline the optional \$5 donation to Washington State Parks.

6.3.2) Gas Taxes

As in the DC study, the first automobile a household owns is assumed to be driven 15,000 miles per year, and the second car 7,500 miles. The yearly gallons used are calculated from the automobiles' estimated miles per gallon ratings.

6.4) Alcohol, Tobacco, Health Insurance Premium and Public Utility Taxes

These are extrapolated from the Washington State Tax Alternatives Model, prepared by the Department of Revenue in June 2014.¹⁸⁷ The report estimated households' expenditures at various income levels.

The expenditures have not been adjusted for inflation. For the tobacco tax, inflation is not a factor, as it's a uniform excise tax. For the other taxes, that would require an extensive analysis of market changes and would not greatly affect the outcome, as these taxes are a very small fraction of overall taxes paid. The taxation levels for these elements did not change from 2014 to 2016.

Table 7) Vehicle Ownership Assumptions

Household Income Level	Description of Auto	Year	MSRP (When New)	Washington Depreciation Factor	Weight	MPG (City Driving)	Miles Driven Per Year	Estimated Annual Gasoline Usage
\$25,000	Sedan, 4 Door, 4 Cylinder, Automatic	2012	\$13,200	0.75	less than 4,000 lbs	24	15,000	625 gallons
\$50,000	Sedan, 4 Door, 4 Cylinder, Automatic	2014	\$15,600	0.89	less than 4,000 lbs	25	15,000	600 gallons
\$75,000	Sedan, 4 Door, 4 Cylinder, Automatic	2015	\$18,850	0.95	less than 4,000 lbs	25	15,000	600 gallons
\$75,000	4WD Utility, 4 Door, 6 Cylinder, Automatic	2010	\$23,700	0.57	more than 4,000 lbs and less than 6,000 lbs	17	7,500	441 gallons
\$100,000	Sedan, 4 Door, 4 Cylinder, Automatic	2015	\$23,200	0.95	less than 4,000 lbs	18	15,000	833 gallons
\$100,000	4WD Utility, 4 Door, 6 Cylinder, Automatic	2010	\$23,700	0.57	more than 4,000 lbs and less than 6,000 lbs	17	7,500	441 gallons
\$150,000	Sedan, 4 Door, 4 Cylinder, Automatic	2016	\$51,250	1.00	less than 4,000 lbs	16	15,000	938 gallons
\$150,000	4WD Utility, 4 Door, 6 Cylinder, Automatic	2012	\$24,100	0.75	more than 4,000 lbs and less than 6,000 lbs	18	7,500	417 gallons
\$250,000	Sedan, 4 Door, 6 Cylinder, Automatic, Hybrid	2016	\$63,050	1.00	less than 4,000 lbs	29	15,000	517 gallons
\$250,000	4WD Utility, 4 Door, 6 Cylinder, Automatic	2014	\$24,600	0.89	more than 4,000 lbs and less than 6,000 lbs	18	7,500	417 gallons

¹⁸⁵ Washington Department of Licensing. *Renewal and registration fee information.*

http://www.dol.wa.gov/vehicleregistration/fees.html

¹⁸⁶ Seattle Department of Transportation. *Vehicle License Fee Rebate*. https://www.seattle.gov/transportation/projects-and-programs/programs/transit-program/vehicle-license-fee-rebate

¹⁸⁷ Washington State Tax Alternatives Model, op. cit.