

Proposed Income Tax Ordinance/Petition

Administrative Challenges and Costs

May 17, 2016



Overview

1. Legal Issues – Addressed by City’s Bond Counsel April 19

- Authorization questions
 - Constitutional questions
 - Gift of public funds questions
- **Not going to repeat tonight**

2. Policy Issues

- Tax equity questions – taxes individual earnings but not corporate or business income
 - Threshold is too high or too low (e.g. reduce to \$100,000 household)
 - Tuition grant is not needs based – students from high-income families also get money
- **Not going to address tonight**



Focus on Administrative Issues and Costs

Three Parts

I. Administrative-Definitional problems, inconsistencies, apparent omissions and other administrative issues

II. Collection of Income Data and Revenue Challenges/Costs

- Data collection system (20,000 households - confidential and secure)
- Review and auditing system
- Accounting and reporting
- Enforcement
- Public education, dispute resolution administration

III. Use of Grants

- Adjudication and dispute system
- Accounting and auditing
- Financial distribution
- Enforcement of eligibility
- Support to potential advisory committee
- Eligibility criteria
- Grant application system



Key Provisions

Proposal cannot be changed in any way: “City Council can adopt the following proposed ordinance or submit it, unaltered, to a citywide vote”.

Administrative Impact: Clarifications of definitions, conflicting statements, inaccurate information or omissions **cannot** be made.

Example:

1. Ordinance lacks a penalty provision for enforcement (addition of a penalty clause would be an alteration of the original ordinance).
2. Proposal does not tax business or corporate earnings, only individual wages and income.



Administrative

Definitional Issues:

Petition says “household income” – not defined

- Appears to tax only individual wages/income

Does not tax:

- Other household income
- Corporate or business income
- Capital gains



Administrative

Definitional Issues:

Definition of University or Colleges

- All say Washington “public” – only Washington State
- Specifically omits private colleges
 - St. Martin’s – No
 - Western Undergraduate Exchange (WUE) Schools – (163 participating schools would not qualify)
 - Other Out-of-State – No
- Intentional to omit St. Martin’s and WUE schools?

Definition of Resident Taxpayer

- “Spends in excess of 183 days of the year in Olympia”
- Appears to exempt snowbirds
- What if one person in a household spends less than 183 days in Olympia?
- Does not say consecutive days
- What documentation is required?



Administrative

Inconsistencies/Complications

Ballot says, “funding at least one year of free community college or technical college...”

- But, Sec. 5(2) says, “shall be actual cost of tuition and fees” – not all college costs
- Sec. 5(4) “if funds are insufficient, the department in consultation with the committee, may determine the priority by which grants are awarded” implies less than one year tuitions or fees or some eligible may get zero

Sec 3(3) Assessment of excise tax requires filing on or before April 15, at the same time Federal tax is due. Effective date is presumably 2017.

- Some taxpayers get extensions and don’t know by April 15. City could have to do extensive outreach, education early 2017 to advise taxpayers of their obligation.
- If Olympia receives confidential tax information from 20,000 households it will take substantial time for the City to collect this confidential data, review it, audit, collect payment and issue enforcement for non-payment.



Administrative

- Need 2016 dollars for certification of signatures
- Need 2016 dollars to place on ballot/ voters pamphlet
- Need some outside assistance from tax accountant/attorney
 - Does the City need to issue 1099 to recipients?
- Will we need outside counsel to defend initiative? How much will it cost?
- “The People of Olympia adopt and confirm the above recitals”
 - Whereas...free first and second year tuition will allow students to start their professional lives with little or no student debt.
 - Whereas....3% of households exceed \$200,000...
 - Whereas....wealthy residents use a greater proportion of City services...
 - Whereas....tuition costs are \$3,846 which is more than 10% of household incomes...



Administrative

- “People intend to fund at least one year of free community or technical college” Is this a general fund commitment?
- Violation of OMC –Section 6–Implementation and Accountability
 - A Department does not have authority to sign interlocal contract
 - A Department may not delegate it’s duties and responsibilities to a committee
- No response from Olympia School District
- Timing of Initiative
 - Two readings of ordinance plus pro/con appointments by 7/26
 - Effective date/Tax year



Collection of Funds

- ✓ How do we get the income information to assess the tax?
- ✓ 5% is inadequate to administer the program
- ✓ How do we enforce? No Penalty
- ✓ No appeals process
- ✓ Multiple references to household income—definition section refers to Adjusted Gross Income (AGI)
- ✓ Section 3—Assessment of Excise Tax
 - (4) Refunds—Are they included in 5% administrative fee or general fund balance?



Use of Funds

✓ No appeals process

- how do we handle legal challenges?

✓ Qualified Student

- B(1) resides in the City of Olympia at least 50% of the year preceding the date on which he/she received diploma.
What documentation is required?

✓ Section 5

- B(2) tuition and services and activities fees
 - How do I determine average amount?
 - Can it be challenged?