



Finance Committee

Direction on How to Proceed with an Analysis of Local Government Tax Regressivity

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Title

Direction on How to Proceed with an Analysis of Local Government Tax Regressivity

Recommended Action

Committee Recommendation:

First review by Finance Committee is set for July 12, 2017

City Manager Recommendation:

Provide direction on how to proceed with an analysis of local government tax regressivity.

Report

Issue:

Whether to proceed with a study of the regressive nature of local government taxation and direction on how to proceed.

Staff Contact:

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Presenter(s):

Steve Hall, City Manager

Mary Verner, Administrative Services Director

Background and Analysis:

The taxes and fees available to local governments to support public services are limited by State law and case law. As an optional code city, Olympia has tools prescribed to it by State law but lacks some of the flexibility of a charter city such as Seattle.

In any case, the taxes available to local governments, including Seattle and Olympia, are often regressive in nature. By that, individuals with lower income generally pay a larger percentage of their income for these taxes than individuals with higher income. More progressive taxes such as income tax, taxes on capital gains and other wealth historically have not been imposed by cities. Furthermore, the legal basis for these taxes is at best questionable if not outright prohibited.

In 2016, some Olympia petitioners asked the City Council to consider a city imposed income tax. In addition to legal hurdles, the proposal raised a number of administrative and financial concerns.

The City Council decided not to place the item on the 2016 ballot. However, petitioners did get sufficient signatures to bring the measure to a vote in Olympia in November 2016. The measure was defeated by Olympia voters.

During the discussion of tax options and impacts, the City Council agreed to a referral to look at the issues of regressivity and report back to the City Council.

To date staff has reached out to prospective, independent researchers to do an analysis, but has not located a research partner.

Neighborhood/Community Interests (if known):

The issue of who is taxed, and how much they are taxed, is important to all Olympians.

Options:

1. Identify research groups or individuals to do this work
2. Defer further analysis at this time

Financial Impact:

Because the numerical analysis of tax impact on various income groups has been done by others, the actual calculations should not be expensive. Best estimate for the work is in the \$10,000 range.

Attachments:

July 12, 2016 Referral
ITEP Analysis of Who Pays State and Local Taxes