Will Seattle's Controversial Tax on Big Businesses Stunt Its Economy?

It's already stirring anger among corporations, and nearby cities are trying to capitalize on that.

Seattle's new so-called head tax is far from the first of its kind. But while the per-employee tax on the city's largest employers may not be unique, it may be the most blatant effort yet to grab revenue and is already stirring anger in the business community.

Earlier this month, the Seattle City Council unanimously passed a $275-per-employee tax on companies that gross over $20 million a year, such as Amazon and Starbucks. The city estimates it will generate nearly $50 million per year — a roughly 3.5 percent increase to its budget — to address housing affordability and homelessness, which reached emergency levels in recent years. The tax is scheduled to go into effect in 2019 and sunset after five years.

Unsurprisingly, the idea is controversial. Seattle businesses have already formed a coalition to get a voter referendum on this fall's ballot to repeal the tax.

But observers say the issue isn't necessarily the tax, it's Seattle's approach to it. "There are places where this concept can be successful," says Brian Kirkell, principal at the tax consulting firm RSM. "It's just that Seattle isn't one of them."

A big factor is the price tag. Both Chicago and Denver have implemented head taxes on companies, but they only charged businesses $48 per employee. Even at $48 a year, Chicago Mayor Rahm Emanuel called the tax a job killer and eventually eliminated it in 2014. (Denver's head tax is still in effect.)

Another issue is that many see Seattle's move as a thinly veiled attempt to squeeze revenue from Amazon, which would contribute $1 out of every $5 the new tax raises. When it was initially proposed, city officials were calling for an even higher rate. In retaliation, Amazon halted construction on a 17-story downtown tower.

It has since resumed the skyscraper, which will host as many as 8,000 workers, but Amazon Vice President Drew Herdener blasted the city council last week for its "hostile approach and rhetoric toward larger businesses, which forces us to question our growth here."

Nathan Jensen, a professor for the University of Texas at Austin, agrees that targeting a jurisdiction's wealthiest employer isn't an attractive policy solution. He sympathizes with Seattle's limited options — it is prohibited from charging an income tax, and many feel the city's property and sales tax rates are maxed out. "But I think it would have been better if Seattle came up with a plan to address homelessness, [determined] how much it needed and then figured out the best way to raise additional revenue," he says. "I'm worried this approach is more symbolic than real."

Indeed, Seattle's legislation didn't designate a set-aside for the new revenue. So, while the city plans on spending the new money on housing, the final decision will be left to the budgeting process next year. By contrast, Washington, D.C., took a targeted approach to a new employer charge. It recently implemented a 0.62 percent payroll tax on employers to fund the city’s paid family leave program for residents.

Kirkell, the tax expert, also suggests that before implementing a tax like this, cities should consider whether they offer something its regional competitors can’t. For Washington, that’s quick access to Capitol Hill and the White House. “Are K Street lobbyists and lawyers going to leave D.C. to move their entire business to Northern Virginia?” asks Kirkell. “It could happen, but the probability is low.”

Seattle’s neighbors are already lobbying corporations to make the move. Last week, the city of Tacoma began courting Seattle-based companies with a “No Head Tax Here” ad campaign.

Still, some think that’s a long shot. Calling the tax “relatively modest,” Fitch Ratings says the city’s talent pool of employees, highly educated population and public amenities all point to strong economic growth. Even if companies do decide to respond by leaving or curtailing their plans for expansion, Fitch says, “any impact would be felt marginally over many years and would thus be difficult to distinguish from other rationales for corporate decisions.”

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