Bond Case Briefs

Municipal Finance Law Since 1971

Lawsuit Says Seattle's 'Tax-the-Rich' Measure Violates State Constitution.

A new tax-the-rich measure in Seattle was hit with its first legal challenge Wednesday.

The new Seattle measure, passed by the city council in July, would impose a 2.25% tax on any income over $250,000 or above $500,000 for couples filing jointly. It is expected to impact about 9,000, or 2%, of the city's taxpayers.

A lawsuit filed by the Freedom Foundation, a conservative think tank, on behalf of 19 Seattle citizens, alleges the measure violates the state constitution as well as restrictions on cities to impose such taxes. A separate group called the Opportunity for All Coalition, founded by Seattle venture capitalist Matt McIlwain, filed a lawsuit later in the day.

Backers of the tax welcome the suits, because they believe a court ruling in favor of the tax will pave the way for a statewide income tax.

The battle in the state courts could lead to a fundamental change to the unique politics of Washington state, a liberal-leaning state with a longstanding aversion to taxing income.

A similar measure lost in the capital city of Olympia last year, and a tax-the-rich statewide initiative was voted down in 2010.

Washington is one of seven states in the country, including Florida, Texas and Wyoming, without an income tax.

The last time voters passed a graduated statewide income tax in Washington it was struck down by the state Supreme Court in 1933 as unconstitutional. The state constitution requires property be taxed at a uniform rate, which the court said applied to income in turning down the tax.

"This tax is illegal and we are confident an independent judiciary is going to uphold the law, is going to uphold 100 years of precedent," said David Dewhirst, litigation counsel for the Freedom Foundation.

Seattle City Attorney Pete Holmes said he believes city will be able to persuade the state's top court that the 1930s decision was in error. The state Supreme Court's attention to current events in recent years, including a ruling that the state was failing to adequately to fund public schools, means the court could be more receptive to taking another look at the income tax issue, he said.

"We've acknowledged that this a tenuous legal path forward, but we nonetheless believe it's viable," said Mr. Holmes.

David DeWolf, a Gonzaga University School of Law professor emeritus, said the state's highest court would now be more open to an income tax measure, provided it was statewide and applied to a broader swath of the population, not just a few wealthy residents.

But Mr. DeWolf predicted courts would be skeptical of the Seattle tax because of the restrictions on cities imposing taxes and because of how many people are exempted from paying.

“When you impose a tax it needs to be uniform,” he said.

The Seattle economy is booming with unemployment hovering around 3%, and the city has a balanced budget. Yet as housing prices have soared, homelessness has too.

The tax would bring in about $140 million every year for the city. The money would be used to fund affordable housing, education and transit services, and replace federal funding that might be lost because of federal budget cuts.

Backers of the tax say they want the rich to pay their fair share. The state has the most regressive tax system in the nation as it raises revenue from sales, property and other taxes, according to the Institute on Taxation and Economic Policy, a nonpartisan research group.

The state’s poorest 20% of residents, or those making less than $21,000 a year, pay 16.8% of their income. The richest 1%, or those making $507,000 or more, pay 2.4% of their income, according to the group.

“Seattle is challenging this state’s antiquated and unsustainable tax structure by passing a progressive income tax,” said Seattle Mayor Ed Murray when the measure passed.

The Wall Street Journal

By Zusha Elinson

Updated Aug. 9, 2017 6:30 p.m. ET

Write to Zusha Elinson at zusha.elinson@wsj.com

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com