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## **Amazon's Fight with Seattle over Head Tax Foreshadows Battles to Come in Other Cities.**

SAN FRANCISCO — If Seattle's bitter public fight with Amazon over a new tax on employees is a sign of the future for cities vying to become the company's next headquarters, there's a take-home message: You can push Amazon, but you have to be prepared for it to push back — hard.

On Monday, Seattle's city council unanimously passed a measure that will require companies with revenues of more than \$20 million a year pay an annual \$275 tax per employee despite strong pushback from Amazon — the city's largest employer — and other large businesses including Starbucks.

The vote came after weeks of hearings, demonstrations, heated public meetings and a threat by Amazon to stop construction of its newest Seattle tower and to pull out of leasing another.

The dispute ended in something of a draw Monday. For Seattle, the initial result should be another \$45 million in the city's coffers each year to build low-cost housing and to aid the homeless — problems many in the city feel have been exacerbated by the influx of thousands of highly-paid tech workers at Amazon who have driven up rents and pushed out lower income residents.

Though it passed, in many ways the final vote was a victory for Amazon. The original proposal had called for a \$500 a head tax on all Seattle businesses with more than \$20 million a year in gross revenue. The tax passed by the council was a compromise at slightly more than half that, though at \$275 per employee it is still the largest head tax in U.S. history.

The company minced no words when the council voted.

"We are disappointed by today's City Council decision," Amazon vice president Drew Herdener said in a statement. "We remain very apprehensive about the future created by the council's hostile approach and rhetoric toward larger businesses, which forces us to question our growth here."

At the same time, it backed away from its previous threats to pull out of its most recent building project in Seattle, a 17-story office tower that will have 1 million square feet of office space and will house as many as 8,000 new employees.

It also said it would continue plans to lease the Rainier Square skyscraper, which will have 720,000 square feet of office space and be the Pacific Northwest's second-tallest building when it is completed in 2020.

There had been concerns Amazon might scale back its hiring plans for Seattle, but that doesn't seem to be happening. According to the Seattle Times, in the two weeks since Amazon said it was going to stop its buildup in Seattle because of the tax, it's actually posted new ads for 547 new Seattle-based jobs. Currently, Amazon has 5,700 jobs open in Seattle, up from 4,000 a few months ago.

The showdown is one familiar to residents in the San Francisco Bay Area, where public anger has

risen over who should pay for the civic woes that can result from fast growth, high salaries, too-little housing and rising income inequality. Tech firms especially, because they have fewer working class and blue collar positions compared to their highly-paid technical staffs, have been a lightning rod for these concerns.

For the 20 cities on Amazon's finalist list for its second headquarters — a prize worth more than \$5 billion and 50,000 white-collar jobs — their first response should be to run to the phone, said Thomas Cooke, a professor at Georgetown University's McDonough School of Business who writes on tax ethics and liability.

"Anybody who's on the wait list should be communicating with Amazon to say, 'That's not our style. Something like this has never been proposed in our city,' " he said.

Others think seeing Amazon's hardball tactics might give those eager cities pause.

"This is brinksmanship at its best, and this is a tension that really could impact how positive the relationship will be with the city ultimately selected," said William Riggs, a planning strategist and professor at the University of San Francisco.

While housing shortages and income inequality are common across the nation, Seattle is in a very different position from other cities where its HQ2 might go.

In Washington state, neither state or local government are allowed to tax income. In addition, state law caps real estate tax increases to no more than 1% a year.

"It's a very challenging environment in which to raise revenues. So from that unique perspective, the proposed tax on workers seems like the best available to Seattle right now," said Matthew Gardner, a senior fellow at the Institute on Taxation and Economic Policy, a Washington D.C.-based, non-partisan non-profit, focused on federal, state and local tax reform issues.

At the same time, Amazon has a well-deserved reputation for aggressively avoiding taxes. In fact, it chose Washington state as its home in part because of its small population, allowing the company to make most of its sales where it had no physical presence and therefore wasn't required to pay sales tax.

"Amazon appears to have built its business plan from day one on avoiding taxes," Gardner said.

Whether other cities will be as deeply affected by Amazon's arrival as Seattle is not clear. An analysis by Fitch Ratings published two weeks ago found that most large metropolitan areas being considered for HQ2 probably wouldn't see much real estate impact.

Most of the finalists have "large populations, well-developed infrastructure and sufficient housing supply to support the needs of Amazon's workers. We do not expect HQ2 to have much, if any, impact and only in the long term," said Amy Laskey, managing director for U.S. public finance with Fitch Ratings

Only in the smaller cities, such as Raleigh, N.C., Indianapolis, Ind. and Columbus, Ohio could any change be significant enough to affect demand on housing and infrastructure, she said.

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