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PAGE 1 of 17  
CIRCUIT COURT OF  
COOK COUNTY, ILLINOIS  
CHANCERY DIVISION  
CLERK ROBERT BROWN

**IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS  
COUNTY DEPARTMENT, CHANCERY DIVISION**

MICHAEL LABELL, JARED LABELL, )  
JAMES PEPPLE, NATALIE BEZEK, )  
CHRISTOPHER ROSE, and BRYANT )  
JACKSON-GREEN )

Case No.

Plaintiffs,

v.

THE CITY OF CHICAGO, and DAN )  
WIDAWSKY, in his official capacity as )  
Comptroller of the City of Chicago, )

Defendants.

**COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF**

**Introduction**

1. On June 9, 2015, the City of Chicago's Finance Department issued a ruling extending the city's 9% "Amusement Tax" to cover Internet-based streaming video services such as Netflix, Internet-based streaming audio and music services such as Spotify, and Internet-based gaming services such as Xbox Live – services the City has never taxed before and which the City Council has never authorized the Finance Department to tax. This lawsuit challenges that ruling for exceeding the Finance Department's authority and as a violation of the federal Internet Tax Freedom Act, 47 U.S.C. § 151 note (2015).

**Jurisdiction**

2. This Court has subject matter jurisdiction over this matter under 735 ILCS 5/2-701 because Plaintiffs seek a declaratory judgment that a tax ruling

issued by the City of Chicago Comptroller exceeds Defendants' authority under the law.

3. This Court has personal jurisdiction over Defendants because this lawsuit arises from the Defendants' actions in the State of Illinois.

4. Venue is proper in Cook County because Plaintiffs reside in Cook County, Illinois, and Defendants are located in Cook County.

### **Parties**

5. Plaintiff Michael Labell is a resident of Chicago, Cook County, Illinois, and currently pays for subscriptions to Netflix's Internet video-streaming service and Spotify's Internet music-streaming service and to Amazon Prime, which among other things provides members with video and music streaming services.

6. Plaintiff Jared Labell is a resident of Chicago, Cook County, Illinois, and currently pays for a subscription to Amazon Prime, which among other things provides members with video and music streaming services.

7. Plaintiff Silas Pepple is a resident of Chicago, Cook County, Illinois, and currently pays for a subscription to Xbox Live's "Gold" Internet gaming and digital media delivery service.

8. Plaintiff Natalie Bezek is a resident of Chicago, Cook County, Illinois, and currently pays for a subscription to Spotify's Internet music-streaming service.

9. Plaintiff Emily Rose is a resident of Chicago, Cook County, Illinois, and currently pays for subscriptions to Netflix and Hulu's respective Internet video-

streaming services and to Amazon Prime, which among other things provides members with video and music streaming services.

10. Plaintiff Bryant Jackson-Green is a resident of Chicago, Cook County, Illinois, and currently pays for subscriptions to Netflix and Hulu's respective Internet video-streaming services and Spotify's Internet music-streaming service and to Amazon Prime, which among other things provides members with video and music streaming services.

11. Defendant City of Chicago is an Illinois municipal corporation.

12. Defendant Dan Widawsky is the Comptroller for the City of Chicago and has held that office at all relevant times. As Comptroller, Defendant Widawsky is the head of the Finance Department and is authorized to adopt, promulgate and enforce rules and regulations pertaining to the interpretation, administration and enforcement of Chicago's Amusement Tax. Chi. Mun. Code 4-156-034.

### **Factual Allegations**

#### **Chicago's Amusement Tax**

13. The City of Chicago imposes a 9% "Amusement Tax" on admission fees or other charges paid for the privilege to enter, witness, view or participate in certain activities within the City of Chicago that the ordinance defines as "amusements." Chi. Mun. Code 4-156-020.

14. The Chicago Municipal Code defines the "Amusement" subject to the Amusement Tax to include just three categories of activities:

- (1) any exhibition, performance, presentation or show for entertainment purposes, including, but not limited to, any

theatrical, dramatic, musical or spectacular performance, promotional show, motion picture show, flower, poultry or animal show, animal act, circus, rodeo, athletic contest, sport, game or similar exhibition such as boxing, wrestling, skating, dancing, swimming, racing, or riding on animals or vehicles, baseball, basketball, softball, football, tennis, golf, hockey, track and field games, bowling or billiard or pool games;

- (2) any entertainment or recreational activity offered for public participation or on a membership or other basis including, but not limited to, carnivals, amusement park rides and games, bowling, billiards and pool games, dancing, tennis, racquetball, swimming, weightlifting, bodybuilding or similar activities; or
- (3) any paid television programming, whether transmitted by wire, cable, fiber optics, laser, microwave, radio, satellite or similar means.

Chi. Mun. Code 4-156-010.

15. Until June 9, 2015, the City did not interpret the Code's definition of "amusement" to include Internet-based streaming services for video, audio and gaming, such as Netflix, Spotify, and Xbox Live, and accordingly did not tax those services.

16. On June 9, 2015, however, Defendant Widawksy issued Amusement Tax Ruling #5 (the "Ruling") (attached as **Exhibit A**), declaring that the term "amusement" as defined by Chi. Mun. Code 4-156-010 would now include "charges paid for the privilege to witness, view or participate in amusements that are *delivered electronically*" (emphasis in original).

17. According to the Ruling, "charges paid for the privilege of watching electronically delivered television shows, movies or videos are subject to the

amusement tax, if the shows, movies or videos are delivered to a patron (i.e., customer) in the City.”

18. Further, the Ruling states that “charges paid for the privilege of listening to electronically delivered music are subject to the amusement tax, if the music is delivered to a customer in the City.”

19. The Ruling also states that “charges paid for the privilege of participating in games, on-line or otherwise, are subject to the amusement tax if the games are delivered to a customer in the City.”

20. According to the Ruling, “[t]he amusement tax does not apply to sales of shows, movies, videos, music or games (normally accomplished by a ‘permanent’ download). It applies only to rentals (normally accomplished by streaming or a ‘temporary’ download). The charges paid for such rentals may be subscription fees, per-event fees or otherwise.”

21. The Ruling states that providers that receive charges for electronically delivered amusements are considered owners or operators and are required to collect the City's Amusement Tax from their Chicago customers.

22. The Amusement Tax applies to any customer whose residential street address or primary business street address is in Chicago, as reflected by his or her credit card billing address, zip code or other reliable information. The determination of sourcing made by the City of Chicago Department of Finance is based on rules set forth in the Mobile Telecommunications Sourcing Conformity Act, 35 ILCS 638/1 et seq.

23. The Ruling states that where a charge is “bundled” by including both taxable and non-taxable elements, the Department of Finance applies the rules set forth in Personal Property Lease Transaction Tax Ruling #3 (June 1, 2004). Thus, the amount of Amusement Tax is based on the amount paid for any amusement, but excludes any separately-stated charges not for amusements. However, if an operator fails to separate the amusement portion of the price from the non-amusement portion, the entire price charged shall be deemed taxable, unless it is clearly proven that at least 50% of the price is not for amusements.

24. The Effective Date of the Ruling is July 1, 2015, but the Ruling states that “the Department will limit the effect of this ruling to periods on and after September 1, 2015.”

#### **Harm to Plaintiffs**

25. Plaintiffs are subscribers to various services that provide media delivered electronically, including Netflix, Hulu, Spotify, Xbox Live, and Amazon Prime.

26. Netflix is a provider of an on-demand Internet streaming media service, which allows subscribers to watch video content online, and of a flat-rate video-by-mail service, which allows subscribers to borrow DVD and Blu-ray video discs and return them in prepaid mailers. Hulu provides a similar video-streaming service but does not offer video-by-mail service.

27. Spotify is a music streaming service, which allows consumers access to a large library of recorded music without commercial interruptions for a subscription

fee. Similar streaming music services are offered by Pandora, Apple Music, and Google Play.

28. Xbox Live Gold is an online multiplayer gaming and digital media delivery service created and operated by Microsoft, which for a fee, allows users to play games with others on an online network. Xbox Live Gold also provides paid members with the following features: matchmaking/smartmatch, private chat, party chat and in-game voice communication, game recording, media sharing, broadcasting one's gameplay via the Twitch live streaming application, access to free-to-play titles, "cloud" storage for gaming files, and early or exclusive access to betas, special offers, Games with Gold, and Video Kinect.

29. Amazon Prime is a membership service that provides members with certain benefits provided by Amazon.com, including free two-day shipping and discounts on certain items sold on its website, but also provides access to streaming movies, and music, cloud photo storage, and the ability to borrow e-books.

30. Plaintiffs Rose, Jackson-Green, and Michael Labell, as paid subscribers to Netflix streaming video service, are harmed because they must pay the tax on Internet-based video-streaming services, which increases the cost of subscribing to Netflix by nine percent.

31. Plaintiff Rose, as paid a subscriber to Hulu streaming video service, is harmed because she must pay the tax on Internet-based video-streaming services, which increases the cost of subscribing to Hulu by nine percent.

32. Plaintiffs Bezek, Jackson-Green, and Michael Labell, as paid subscribers to Spotify's streaming music service, are harmed because they must pay the tax on Internet-based streaming music services, which increases the cost of subscribing to Spotify by nine percent.

33. Plaintiff Pepple, as paid a subscriber to Xbox Live Gold Internet-based gaming service, is harmed because he must pay the tax on Internet-based gaming services, which increases the cost of subscribing to Xbox Live Gold by nine percent.

34. Plaintiffs Rose, Jackson-Green, Jared Labell, and Michael Labell, as paid Amazon Prime members, are harmed because they must pay the tax on Internet-based video and music services portion of the price of their membership, but if Amazon does not separate the price of these services from its non-taxable services, then they must paid the Amusement Tax on the full price of their Amazon Prime membership, either of which will increase the cost of subscribing to Amazon Prime.

### **Count I**

#### **The City of Chicago Comptroller has exceeded his authority by adopting Amusement Tax Ruling #5 and by extending the City's Amusement Tax to Internet-based streaming video services**

35. Plaintiffs reallege the foregoing paragraphs of this Complaint as though fully set forth herein.

36. The Chicago Municipal Code authorizes the Comptroller to "adopt, promulgate and enforce rules and regulations pertaining to the interpretation, administration and enforcement" of Chicago's Amusement Tax.



37. The Municipal Code does not, however, authorize the Comptroller to impose new taxes that the City Council has not authorized through a city ordinance.

38. The Comptroller may not use his rulemaking power to adopt a rule that is inconsistent with or exceeds the specific language in the ordinance that authorizes his rulemaking.

39. Rules that are inconsistent with the ordinance under which they are adopted are invalid.

40. Here, the Amusement Tax's definition of "amusement" does not include video services streamed from the Internet and provided to a customer on a computer, mobile device, or other electronic device.

41. Nor does the ordinance's imposition of a tax on amusements "within the city" authorize a tax on video services streamed from the Internet, which may be provided anywhere, to customers with residency or billing address in the City of Chicago who might use those services, partially or entirely, outside of the City.

42. The Comptroller has exceeded his authority under the ordinance by issuing a rule that imposes a new tax that the City Council did not authorize in enacting the Amusement Tax.

43. In addition, the imposition of the Amusement Tax on Amazon Prime is a tax on a membership fee which covers a wide variety of both amusement and nonamusement activities. In addition to access to streaming movies and music, Amazon Prime provides paid members with free two-day shipping, discounts on

certain items sold on its website, cloud photo storage, and the ability to borrow e-books.

44. A tax on the membership fee of Amazon Prime is not a tax on “amusements” or “places of amusements” pursuant to 65 ILCS 5/11-42-5.

45. Therefore Defendants have exceeded their authority in imposing the Amusement Tax on membership fees for Amazon Prime.

46. The imposition of a tax of nine percent on streaming video services injures the Plaintiffs because their costs for these services have increased, or will imminently increase, by nine percent.

47. Plaintiffs Michael Labell, Jared Labell, Rose, and Jackson-Green have a right to enjoin the unlawful taxation of streaming video services.

48. Plaintiffs Michael Labell, Jared Labell, Rose, and Jackson-Green have no adequate administrative remedy.

49. The injury to Plaintiffs Michael Labell, Jared Labell, Rose, and Jackson-Green is irreparable.

50. Plaintiffs Michael Labell, Jared Labell, Rose, and Jackson-Green have no adequate remedy at law.

#### **Count II**

#### **The City of Chicago Comptroller has exceeded his authority by adopting Amusement Tax Ruling #5 and by extending the City’s Amusement Tax to Internet-based streaming audio services**

51. Plaintiffs reallege the foregoing paragraphs of this Complaint as though fully set forth herein.

52. The Amusement Tax's definition of "amusement" does not include audio services streamed from the Internet and provided to a customer on a computer, mobile device, or other electronic device.

53. Nor does the ordinance's imposition of a tax on amusements "within the city" authorize a tax on audio services streamed from the Internet, which may be provided anywhere, to customers with residency or billing address in the City of Chicago who might use those services, partially or entirely, outside of the City.

54. The Comptroller has exceeded his authority under the ordinance by issuing a rule that imposes a new tax that the City Council did not authorize in enacting the Amusement Tax.

55. In addition, the imposition of the Amusement Tax on Amazon Prime is a tax on a membership fee which covers a wide variety of both amusement and nonamusement activities. In addition to access to streaming movies and music, Amazon Prime provides paid members with free two-day shipping, discounts on certain items sold on its website, cloud photo storage, and the ability to borrow e-books.

56. A tax on the membership fee of Amazon Prime is not a tax on "amusements" or "places of amusements" pursuant to 65 ILCS 5/11-42-5.

57. Therefore Defendants have exceeded their authority in imposing the Amusement Tax on membership fees for Amazon Prime.

58. The imposition of a tax of nine percent on streaming audio services injures the Plaintiffs because their costs for these services have increased, or will imminently increase, by nine percent.

59. Plaintiffs Michael Labell, Jared Labell, Rose, Bezek, and Jackson-Green have a right to enjoin the unlawful taxation of streaming media services.

60. Plaintiffs Michael Labell, Jared Labell, Rose, Bezek, and Jackson-Green have no adequate administrative remedy.

61. The injury to Plaintiffs Michael Labell, Jared Labell, Rose, Bezek, and Jackson-Green is irreparable.

62. Plaintiffs Michael Labell, Jared Labell, Rose, Bezek, and Jackson-Green have no adequate remedy at law.

### **Count III**

#### **The City of Chicago Comptroller has exceeded his authority by adopting Amusement Tax Ruling #5 and by extending the City's Amusement Tax to Internet-based streaming gaming services**

63. Plaintiffs reallege the foregoing paragraphs of this Complaint as though fully set forth herein.

64. The Amusement Tax's definition of "amusement" does not include gaming services streamed from the Internet and provided to a customer on a computer, mobile device, or other electronic device.

65. Nor does the ordinance's imposition of a tax on amusements "within the city" authorize a tax on gaming services streamed from the Internet, which may be provided anywhere, to customers with residency or billing address in the City of Chicago who might use those services, partially or entirely, outside of the City.

66. The Comptroller has exceeded his authority under the ordinance by issuing a rule that imposes a new tax that the City Council did not contemplate or authorize in enacting the Amusement Tax.

67. In addition, the imposition of the Amusement Tax on Xbox Live Gold is a tax on a membership fee which covers a wide variety of both amusement and nonamusement activities. In addition to the ability to play games with others on an online network, Xbox Live Gold provides paid members with matchmaking/smartmatch, private chat, party chat and in-game voice communication, game recording, media sharing, broadcasting one's gameplay via the Twitch live streaming application, access to free-to-play titles, "cloud" storage for gaming files, and early or exclusive access to beta versions of software, special offers, "Games with Gold," and "Video Kinect."

68. A tax on the membership fee of Xbox Live Gold is not a tax on "amusements" or "places of amusements" pursuant to 65 ILCS 5/11-42-5.

69. Therefore Defendants have exceeded their authority in imposing the Amusement Tax on membership fees for Xbox Live Gold.

70. The imposition of a tax of nine percent on the membership fee for Xbox Live Gold injures Plaintiff Pepple because the costs for these services have increased, or will imminently increase, by nine percent.

71. Plaintiff Pepple has a right to enjoin the unlawful taxation of streaming media services.

72. Plaintiff Pepple has no adequate administrative remedy.

73. Plaintiffs Pepple's injury is irreparable.

74. Plaintiff Pepple has no adequate remedy at law.

**Count IV**

**Amusement Tax Ruling #5's tax on streaming services violates the Internet Tax Freedom Act, 47 U.S.C. § 151 note (2015).**

75. Plaintiffs reallege the foregoing paragraphs of this Complaint as though fully set forth herein.

76. The Internet Tax Freedom Act ("Act"), which is set forth in a note to 47 U.S.C. § 151, provides that no State or political subdivision of a State may impose multiple or discriminatory taxes on electronic commerce.

77. The Act defines discriminatory tax, in part, as "any tax imposed by a State or political subdivision thereof on electronic commerce" that:

(i) is not generally imposed and legally collectible by such State or such political subdivision on transactions involving similar property, goods, services, or information accomplished through other means;

(ii) is not generally imposed and legally collectible at the same rate by such State or such political subdivision on transactions involving similar property, goods, services, or information accomplished through other means, unless the rate is lower as part of a phase-out of the tax over not more than a 5-year period; [or]

(iii) imposes an obligation to collect or pay the tax on a different person or entity than in the case of transactions involving similar property, goods, services, or information accomplished through other means. . . .

Act § 1105(2)(A).

78. The Act defines "electronic commerce" as "any transaction conducted over the Internet or through Internet access, comprising the sale, lease, license, offer, or

delivery of property, goods, services, or information, whether or not for consideration, and includes the provision of Internet access.” § 1105(3).

79. The term “tax” under the Act includes those “for the purpose of generating revenues for governmental purposes” and those imposed on “a seller of an obligation to collect and to remit to a governmental entity any sales or use tax imposed on a buyer by a governmental entity.” § 1105(8).

80. Chicago Municipal Code 4-156-020, as interpreted and applied by the Comptroller through Amusement Tax Ruling #5, imposes an unlawful discriminatory tax on electronic commerce because it applies to Netflix’s video streaming service but does not apply to Netflix’s video-by-mail service.

81. The Amusement Tax, as interpreted and applied by the Ruling, also unlawfully discriminates against electronic commerce because it imposes a higher tax rate on theatrical, musical, and cultural performances that are delivered through an online streaming service than it imposes on those same performances if they are consumed in person.

82. The Amusement Tax provides an exemption for in-person live theatrical, live musical or other live cultural performances that take place in any auditorium, theater or other space in the city whose maximum capacity, including all balconies and other sections, is not more than 750 persons. Section 4-156-020(D)(1).

83. The Amusement Tax provides a reduced rate of five percent for in-person live theatrical, live musical or other live cultural performances that take place in any auditorium, theater or other space in the city whose maximum capacity,

including all balconies and other sections, is more than 750 persons. Section 4-156-020(E).

84. However, electronically delivered audio or video of the same performances is taxed at nine percent.

85. Thus, performances consumed in person are subject to an Amusement Tax of either 0% or 5%, depending on the capacity of the venue at which they are performed, but streaming audio or video of such performances is subject to an Amusement Tax of 9%.

86. The Ruling thus forces Plaintiffs to pay a higher tax rate if they choose to consume a musical, theatrical, or cultural performance through a streaming media service than if they choose to attend a performance in person. In this way, the Amusement Tax, as interpreted and applied by the Ruling, imposes an unlawful discriminatory tax on electronic commerce.

### **Relief Requested**

A. Declare that Defendant Comptroller Dan Widawsky has exceeded his authority by adopting Amusement Tax Ruling #5, which purportedly authorizes the City of Chicago to tax Internet-based streaming services for video, audio, and gaming.

B. Declare that the Amusement Tax, as interpreted by Amusement Tax Ruling #5 and applied by the Comptroller, violates the Internet Tax Freedom Act, 47 U.S.C. § 151 note (2015) because it taxes Internet-based streaming services for



video and audio while exempting or not taxing other services for video and audio not delivered via the Internet.

C. Enjoin Comptroller Dan Widawsky and the City of Chicago from enforcing Amusement Tax Ruling #5's application of the Amusement Tax on Internet-based streaming services for video, audio, and gaming.


D. Enjoin Comptroller Dan Widawsky and the City of Chicago from enforcing Amusement Tax Ruling #5's application of the Amusement Tax on Internet-based streaming services for video and audio where similar services not delivered via the Internet are not taxed or taxed at a lower rate.

E. Award Plaintiffs damages for the amount of Amusement Tax paid on Internet-based streaming services for video, audio, and gaming.

F. Award Plaintiffs any additional relief the Court deems reasonable and proper.

**Dated: September 9, 2015**

Respectfully submitted,

By:   
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