

process. As a result, this mechanism provides no assurance that the nominations will represent a cross section of the community college districts. Rather, it may tend on a long-range basis to inject partisanship into the selection process. Just as the boards of regents and boards of trustees of the state universities and colleges are appointed directly by the Governor, so also should the trustees of the community colleges. Finally, to the extent that a governor is actually limited in selecting trustees to those nominees submitted by legislative nominating committees, such a procedure does not conform with Article 13 of the State Constitution which requires that educational trustees of state institutions shall be appointed by the Governor with the advice and consent of the Senate. I have therefore vetoed the item in Section 7 which would continue the legislative nominating committees.

Because the bill contains correlative provisions of the 1969 education code, I have also vetoed the equivalent provisions in those sections."

CHAPTER 262  
[Reengrossed Substitute House Bill No. 582]  
REVENUE AND TAXATION--  
"NET INCOME TAX ACT"--  
PROPERTY TAXES--EXCISES

AN ACT Relating to revenue and taxation; adding new chapters to chapter 15, Laws of 1961 and to Title 82 RCW; adding a new section to chapter 15, Laws of 1961 and to chapter 82.04 RCW; authorizing the establishment of local taxing districts; empowering local taxing districts and cities and towns and counties to levy a retail sales and use tax; amending section 82.02.020, chapter 15, Laws of 1961 as amended by section 16, chapter 236, Laws of 1967 and RCW 82.02.020; amending section 74.04.150, chapter 26, Laws of 1959 and RCW 74.04.150; amending section 1, chapter 7, Laws of 1963 as last amended by section 4, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.050; amending section 82.04.230, chapter 15, Laws of 1961, as amended by section 7, chapter 149, Laws of 1967 ex. sess. and RCW 82.04.230; amending section 82.04.240, chapter 15, Laws of 1961, as last amended by section 8, chapter 149, Laws of 1967 ex. sess. and RCW 82.04.240; amending section 82.04.250, chapter 15, Laws of

1961 as amended by section 9, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.250; amending section 82.04.260, chapter 15, Laws of 1961, as last amended by section 10, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.260; amending section 82.04.270, chapter 15, Laws of 1961, as amended by section 11, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.270; amending section 82.04.280, chapter 15, Laws of 1961, as last amended by section 13, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.280; amending section 82.04.290, chapter 15, Laws of 1961, as last amended by section 14, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.290; amending section 82.08.020, chapter 15, Laws of 1961, as last amended by section 19, chapter 149, Laws of 1967 ex. sess., and RCW 82.08.020; amending section 82.12.020, chapter 15, Laws of 1961, as last amended by section 22, chapter 149, Laws of 1967 ex. sess., and RCW 82.12.020; amending section 84.52.050, chapter 15, Laws of 1961, as last amended by section 3, chapter 133, Laws of 1967 ex. sess., and RCW 84.52.050; amending sections 1 and 3, chapter 168, Laws of 1965 ex. sess. and sections 1 and 2, chapter 132, Laws of 1967 ex. sess., and RCW 84.36.125, 84.36.127, 84.36.128, 84.36.129; and prescribing effective dates and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. Section 1. There is added to chapter 15, Laws of 1961 and to Title 82 RCW a new chapter to read as set forth in sections 2 through 29 of this act.

NEW SECTION. Sec. 2. This chapter may be cited as the "Net Income Tax Act."

NEW SECTION. Sec. 3. It is the intent of the legislature by the adoption of this chapter: (1) To provide revenue, a portion of which will enable the state to increase the level of state support for basic maintenance and operation of the common schools, thus permitting a reduction in property taxes attributable to school district excess

levies. (2) Insofar as practicable to make the provisions of the Washington Net Income Tax Act relating to the measurement of taxable income identical to the provisions of the federal internal revenue code relating to the measurement of taxable income in the case of corporations, trusts, and estates, and adjusted gross income in the case of individuals; to achieve this result by the application of certain provisions of the federal internal revenue code relating to the definition of gross income, adjusted gross income, and taxable income, and to accounting methods, and by the application of other pertinent provisions to the internal revenue code.

NEW SECTION. Sec. 4. When used in this chapter, the terms defined in the following subsections shall have the meaning respectively ascribed to them.

(1) The term "internal revenue code" means the Internal Revenue Code of 1954 of the United States, as amended, and in effect on the first day of January, 1969, or as amended after such date.

(2) The term "person" shall be construed to mean and include an individual, a trust, estate, partnership, association, company or corporation.

(3) The term "corporation" includes associations and joint stock companies, but shall not include municipal corporations or small business corporations not subject to federal income tax pursuant to sections 1371 through 1378 of the internal revenue code.

(4) The term "partnership" includes a syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and which is not, within the meaning of this chapter, a trust or estate or a corporation; and the term "partner" includes a member in such a syndicate, group, pool, joint venture, or organization.

(5) The term "fiduciary" means a guardian, trustee, executor, administrator, receiver, conservator, or any person acting in any fiduciary capacity for any person.

(6) The term "individual" means a natural person.

(7) The term "taxpayer" means any person subject to a tax imposed by this chapter.

(8) The term "taxable year" with respect to any taxpayer means the taxable year of such taxpayer as shown on his return required pursuant to the internal revenue code. The term "taxable year" includes, in the case of a return required for a fractional part of a year under the provisions of this chapter or regulations prescribed by the department the period for which such return is made.

(9) The term "federal income tax" means income tax paid or accrued to the United States by a taxpayer.

(10) The term "resident" shall mean any individual who has resided in the state of Washington for more than one hundred eighty-two days in any taxable year.

(11) The terms "paid or incurred" and "paid or accrued" shall be defined as set forth in the internal revenue code and shall be construed according to the method of accounting upon the basis of which the taxable income is computed.

(12) The term "employer" means "employer" as defined in the internal revenue code.

(13) The term "employee" means "employee" as defined in the internal revenue code.

(14) The term "department" means the department of revenue of the state of Washington.

NEW SECTION. Sec. 5. A tax hereby is imposed for each taxable year on the taxable income of every individual resident and upon that part of the taxable income of every individual not a resident, which is derived from sources within the state of Washington; and such tax shall be computed at the rate of three and one-half percent. An individual not a resident, at his option, may be taxed in the same manner as a resident under this chapter.

NEW SECTION. Sec. 6. A joint return may be filed under the same conditions under which a joint return may be filed for purposes of the federal income tax, as set forth in section 6013(a), section

6013(d) and section 2(b) of the internal revenue code. Where a joint return is made by husband and wife pursuant to the internal revenue code, a joint return shall be made pursuant to this chapter.

NEW SECTION. Sec. 7. The taxable income of an individual resident in the state of Washington shall be the amount of federal adjusted gross income as defined in section 62 of the internal revenue code with the following modifications:

(1) Subtract interest income on the obligations of the United States, its possessions, and instrumentalities, if such income is exempt from taxation under this chapter by reason of federal law, and has not been previously excluded from gross income for federal tax purposes;

(2) Add an amount equal to taxes based upon or measured by net income imposed by any state of the United States but only to the extent such amount is deducted or excluded by the taxpayer from gross income for federal income tax purposes;

(3) Subtract one thousand dollars (\$1,000), or, in the case of a joint return filed by husband and wife, subtract two thousand dollars (\$2,000);

(4) Subtract the amount of one thousand dollars (\$1,000) multiplied by the number of exemptions allowed to the taxpayer under section 151 (c), (d), and (e) of the internal revenue code;

(5) Subtract one thousand dollars (\$1,000) for the spouse of the taxpayer if an exemption is allowable to the taxpayer for his or her spouse pursuant to section 151(b) of the internal revenue code;

(6) Subtract the amount of alimony paid by a taxpayer during the taxable year and allowed as a deduction for federal income tax purposes under section 215 of the internal revenue code;

(7) Subtract the amount paid by a taxpayer or his spouse during the taxable year for necessary employee employment expenses including, but not limited to union or professional association dues, fees to secure employment, work tools and required uniforms;

(8) Add the amount excluded from gross income for federal in-

come tax purposes under section 103(a) (1) of the internal revenue code;

(9) Subtract the amount paid for medical care during the taxable year by the taxpayer, his or her spouse, and dependents and allowed as a deduction for federal income tax purposes under section 213 of the internal revenue code.

NEW SECTION. Sec. 8. An individual resident in the state of Washington shall be allowed a credit against the taxes imposed by this chapter for net income taxes imposed by and paid or accrued to another state or to a foreign country or political subdivision thereof on income taxed under this chapter, subject to the following conditions:

(1) The credit shall be allowed only for taxes imposed by such other state or country on net income from sources within such state or country and taxed under the laws thereof.

(2) The amount of such tax credit shall be the smaller of the following two amounts:

(a) The amount of tax actually paid; or

(b) The product of the Washington tax times a fraction, the numerator of which is the taxpayer's taxable income actually taxed by such other state or country, and the denominator of which is the taxpayer's taxable income computed in accordance with section 7 of this act.

NEW SECTION. Sec. 9. For purposes of section 5 of this act, that part of the taxable income which is derived from sources within the state of Washington, shall be the product of the taxpayer's taxable income computed in the same manner as provided for a resident individual under section 7 of this act times a fraction, the numerator of which is the taxpayer's income from sources within the state as defined in section 10 of this act, and the denominator of which is the taxpayer's federal adjusted gross income.

NEW SECTION. Sec. 10. Income from sources within the state for purposes of this chapter means:

(1) Compensation for labor and personal services performed in

this state;

(2) That part of a taxpayer's income allocable and apportionable to this state under subsection (2) of section 19 of this act or under Article IV of RCW 82.56.010 (Multistate Tax Compact).

NEW SECTION. Sec. 11. A tax hereby is imposed for each taxable year on the taxable income of every corporation doing business in this state; such tax shall be three and one-half percent of such corporation's taxable income.

NEW SECTION. Sec. 12. The taxable income of a corporation which, during any taxable year, is doing business within the state of Washington, and is not taxable in another state within the meaning of section 3 of Article IV of RCW 82.56.010 (Multistate Tax Compact), shall be the amount of federal taxable income as defined in section 63(a) of the internal revenue code, with the same modifications provided for a resident individual in subsections (1), (2) and (8) of section 7 of this act.

NEW SECTION. Sec. 13. (1) The taxable income of a corporation which during a taxable year is doing business within the state of Washington and which is taxable in another state within the meaning of section 3 of Article IV of RCW 82.56.010 (Multistate Tax Compact), shall be that part of the corporation's total taxable income apportioned and allocated to this state.

(2) For purposes of subsection (1) of this section, total taxable income shall be computed in accordance with section 12 of this act.

(3) For purposes of subsection (1) of this section, taxable income shall be allocated and apportioned in accordance with subsection (2) of section 19 of this act or Article IV of RCW 82.56.010 (Multistate Tax Compact).

NEW SECTION. Sec. 14. (1) The tax imposed by this 1969 act on individuals shall apply to the taxable income of every resident trust and resident estate. For purposes of this section, resident trust means a trust of which the fiduciary is domiciled in the state

of Washington, or a trust the administration of which is carried on in the state of Washington; and resident estate means an estate of which the fiduciary was appointed by a Washington court or the administration of which is carried on in the state of Washington. Every resident trust and resident estate shall be entitled to a credit against taxes imposed by this section in the same manner as provided for resident individuals in section 8 of this act.

(2) The tax imposed by this 1969 act on individuals shall apply to the taxable income of every nonresident trust and estate doing business in this state. For purposes of this subsection, taxable income shall be that part of the total taxable income of such trust or estate apportioned and allocated to this state. For purposes of this subsection total taxable income shall be computed in accordance with subsection (3) of this section, and taxable income shall be allocated and apportioned in accordance with Article IV of RCW 82.56.010 (Multistate Tax Compact).

(3) For purposes of this section taxable income shall be federal taxable income computed in accordance with the applicable provisions of subchapter J of the internal revenue code with the same modifications provided for a resident individual in subsections (1), (2) and (8) of section 7 of this act.

NEW SECTION. Sec. 15. A partnership as such shall not be subject to the income tax imposed by this chapter. Persons carrying on business as partners shall be liable for income tax only in their separate or individual capacities. The taxable income attributable to a taxpayer's interest in a partnership shall be computed in accordance with the provisions of subchapter K of chapter 1 of the internal revenue code.

NEW SECTION. Sec. 16. (1) The amount of any sales tax or use tax which qualifies under RCW 82.04.435 for credit against business and occupation taxes, shall be allowable as a credit against taxes imposed by this chapter, but only to the extent such amount has not been taken as a credit under RCW 82.04.435: PROVIDED, HOWEVER,



That the amount of the credit allowable under this subsection may not exceed for any taxable year one hundred percent of the credit allowable under RCW 82.04.435 for such taxable year.

(2) Every individual who has been a resident during a taxable year shall be entitled for such taxable year to a credit against taxes imposed by this chapter for taxes imposed under chapter 82.08 RCW on sales of food products for home consumption. Such credit shall be claimed on the return required to be filed under this chapter and shall be credited against the net income tax otherwise due. This credit shall be in the amount of fifteen dollars for each individual for each taxable year. If the tax liability of any individual shown by the return is less than the total amount of the credit which he is entitled to claim pursuant to this section, such individual shall be entitled to a refund in the amount of the excess of the credit over the net income tax otherwise due. If any individual entitled to claim a credit pursuant to this section is not otherwise required by this chapter to file a return, a refund may be obtained in the amount of such credit by filing a return, completed insofar as may be applicable, and claiming such refund. No credit or refund shall be allowed pursuant to this section unless such credit or refund is claimed on a return filed for the taxable year in which such retail sales taxes were paid subject to the three year limitation prescribed in section 6511 of the internal revenue code.

(3) During the last six months of each even numbered year, the department of revenue shall conduct a study to determine the adequacy of the amount of the credit provided for in subsection (2) of this section to reflect the average per capita amount of sales tax paid by Washington residents on food items for home consumption. Such studies shall be based upon the consumer price index for food of the United States Bureau of Labor Statistics, and upon such other statistical studies as the department deems appropriate. If the study shows the amount of the credit to be inadequate for this purpose, the department shall increase the amount of the credit to an amount it de-

termines to be adequate: PROVIDED, HOWEVER, That no single increase may be less than one dollar nor more than two dollars. The increase shall be adopted by means of rule making proceedings pursuant to chapter 34.04 RCW, and shall be effective for taxable years beginning on and after January 1st of the year succeeding the year in which the rule was adopted.

(4) An amount constituting ten percent of property taxes paid on business inventories, as defined in section 40 of this 1969 act, held primarily for sale by a person exempt from business and occupation tax pursuant to RCW 82.04.330, and with respect to the sale of which RCW 82.04.330 is applicable, shall be allowed as a credit against taxes imposed by this chapter for the same taxable year in which said property taxes were paid.

(5) Commencing January 1 of the second year following imposition of a tax pursuant to sections 5 and 11 of this act, an amount constituting a percentage of property taxes paid on business inventories as defined in section 40 of this act shall be allowable as a credit against taxes imposed by this chapter for the same taxable year in which said property taxes were paid. The percentage of property taxes allowable as a credit shall be as follows, for each taxable year to which this subsection is applicable:

1st taxable year	10 percent
2nd taxable year	20 percent
3rd taxable year	30 percent
4th taxable year	40 percent
5th taxable year	50 percent
6th taxable year	60 percent
7th taxable year	70 percent
8th taxable year	80 percent
9th taxable year	90 percent
10th taxable year	100 percent

For purposes of this subsection, the term "taxable year" shall not include a period of less than three hundred sixty-five days: PROVID-

v- ED, That during the period this proviso is in effect it shall be in lieu of all other provisions allowing credit against net income taxes for property taxes paid on business inventories.

NEW SECTION. Sec. 17. Any person subject to the tax imposed under chapter 82.16 RCW shall pay the tax imposed by this chapter only upon taxable income allocable to activities upon which no tax is imposed under the provisions of chapter 82.16 RCW. Such allocation shall be made in accordance with rules promulgated by the department.

NEW SECTION. Sec. 18. (1) An organization described in section 501 of the internal revenue code shall be specifically exempt from taxation under this chapter, unless such exemption is denied under sections 502, 503 or 504 of the internal revenue code.

(2) Except as hereinafter provided the tax imposed by this chapter shall not apply to insurers, other than title insurers, holding valid certificates of authority issued by the insurance commissioner of this state: PROVIDED, That the provisions of this subsection shall not exempt any person engaging in the business of representing any insurer, whether as general or local agent, or acting as broker for one or more insurers: AND PROVIDED, That the provisions of this subsection shall not exempt from the tax imposed by this chapter the taxable income of an insurer derived from investments which do not constitute eligible investments for such insurers under chapter 48.13 RCW.

(3) This chapter shall not apply to a regulated investment company as defined in section 851 of the internal revenue code, except to the extent that such company has taxable income for federal tax purposes pursuant to section 852 of the internal revenue code.

NEW SECTION. Sec. 19. (1) Any taxpayer, other than a resident individual, trust or estate, having income from business activity which is taxable both within and without this state, other than activity as a financial organization or public utility or the rendering of purely personal services by an individual, shall allocate and apportion his net income as provided in Article IV of RCW 82.56.010

(Multistate Tax Compact).

(2) Any taxpayer having income from business activity as a financial organization or as a public utility, which activity is not taxable under the provisions of chapter 82.16 RCW, shall allocate and apportion his net income in accordance with regulations to be promulgated by the department, which regulations shall be, insofar as practicable, in conformity with the provisions of sections 1 through 17 of Article IV of RCW 82.56.010 (Multistate Tax Compact).

NEW SECTION. Sec. 20. Every employer making a payment of wages or salaries earned in this state shall deduct and withhold a tax in the amount of either (a) three and one-half percent of such wages or salaries or (b) such amount as shall be prescribed in tables promulgated by the department, which tables shall in no event provide for a deduction greater than that provided in (a) above, and which shall be computed by the department in such a manner as to result as closely as possible in annual withholding of the taxpayer's annual tax liability. Every employer making a deduction and withholding as outlined above, shall furnish to the employee a record of the amount of tax withheld from such employee on forms to be prescribed upon request and furnished by the department. Remittance of taxes withheld shall be made in the identical manner prescribed by regulations of the internal revenue code, and must be accompanied by returns on forms prescribed by the department. For purposes of this section, "wages or salaries" shall mean "wages" as defined in section 3401 of the internal revenue code.

NEW SECTION. Sec. 21. Every employer making payments of wages or salaries earned in this state, regardless of the place where such payment is made, shall be liable for the payment of the tax required to be deducted and withheld under section 20 and shall not be liable to any individual for the amount of any such payment.

NEW SECTION. Sec. 22. If the employer is the United States or this state or any political subdivision thereof, or an agency or instrumentality of any one or more of the foregoing, the return of

the amount deducted and withheld upon any wages or salaries may be made by any officer of said employer having control of the payment of such wages or salaries or appropriately designated for that purpose.

NEW SECTION. Sec. 23. The amount so deducted and withheld as tax under sections 20 through 22 of this act during any taxable year shall be allowed as a credit against the tax imposed for such taxable year by section 5 of this act. If the tax liability of any individual shown by the return is less than the total amount of the credit which he is entitled to claim pursuant to this section, such individual shall be entitled to a refund in the amount of the excess of the credit over the net income tax otherwise due. If any individual entitled to claim a credit pursuant to this section is not otherwise required by this chapter to file a return, a refund may be obtained in the amount of such credit by filing a return, completed insofar as may be applicable, and claiming such refund. No credit or refund shall be allowed pursuant to this section unless such credit or refund is claimed on a return filed for the taxable year for which such amount was so deducted and withheld.

NEW SECTION. Sec. 24. Every person required to make a return under the provisions of section 6012 of the internal revenue code shall at the same time render to the department a return setting forth the following:

- (1) The amount of tax due, if any, or overpayment of tax, if any, as reported on returns made to the director of internal revenue;
- (2) The amount of tax due under this chapter, if any, less credits claimed against tax;
- (3) Such other information for the purpose of carrying out the provisions of this chapter as may be prescribed by the department.

The return shall contain a written declaration that it is made under the penalty of perjury, and the department may prescribe forms accordingly, and such statement shall entail the penalties of perjury.

NEW SECTION. Sec. 25. Any taxpayer, upon request by the department must furnish to the department a true and correct copy of any federal tax return which he has filed.

NEW SECTION. Sec. 26. The time and manner of the payment of the tax imposed by this chapter shall be in accordance with the provisions of the internal revenue code including sections 6153 and 6154 thereof (installment payments of estimated income tax) and the regulations promulgated thereunder providing for the time and manner of the payment of the federal income tax: PROVIDED, That the department by regulation may make such modifications and exceptions to such provisions as it deems necessary to facilitate the prompt and efficient collection of the tax.

NEW SECTION. Sec. 27. (1) The department is authorized to credit or refund all overpayments of taxes, all taxes erroneously or illegally assessed or collected, all penalties collected without authority, and all taxes that are found unjustly assessed or excessive in amount, or in any manner wrongfully collected. The department shall by means of rules and regulations specify the manner in which claims for credits or refunds shall be made, prescribe limitations and give notice of allowance or disallowance. These rules and regulations shall be based upon the provisions of sections 6401, 6402, 6403, and 6511 of the internal revenue code insofar as such provisions are consistent with other provisions of this chapter and with chapter 82.32 RCW as now or hereafter amended.

(2) The department shall utilize the administrative provisions prescribed in chapter 82.32 RCW as now or hereafter amended for the enforcement of and the collection of taxes under this chapter; and all remedies, procedures, and penalties prescribed therein shall have full force and binding effect upon all taxpayers and upon the department as though set forth at length in this act: PROVIDED, That no person falling exclusively within the class of employee shall be required to register with the department pursuant to RCW 82.32.030.

NEW SECTION. Sec. 28. The same period of limitation upon the

assessment and collection of taxes imposed under this chapter and the same exceptions thereto shall apply as are provided under sections 6501(a), 6501(c), and 6502(a) of the internal revenue code.

NEW SECTION. Sec. 29. The department shall have the power to make and publish rules and regulations for the administration and enforcement of this chapter, not inconsistent with the provisions of this chapter.

Sec. 30. Section 1, chapter 7, Laws of 1963, as last amended by section 4, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.050 are each amended to read as follows:

"Sale at retail" or "retail sale" means every sale of tangible personal property (including articles produced, fabricated, or imprinted) to all persons irrespective of the nature of their business and including, among others, without limiting the scope hereof, persons who install, repair, clean, alter, improve, construct, or decorate real or personal property of or for consumers other than a sale to a person who (a) purchases for the purpose of resale as tangible personal property in the regular course of business without intervening use by such person, or (b) installs, repairs, cleans, alters, imprints, improves, constructs, or decorates real or personal property of or for consumers, if such tangible personal property becomes an ingredient or component of such real or personal property without intervening use by such person, or (c) purchases for the purpose of consuming the property purchased in producing for sale a new article of tangible personal property or substance, of which such property becomes an ingredient or component or is a chemical used in processing, when the primary purpose of such chemical is to create a chemical reaction directly through contact with an ingredient of a new article being produced for sale. The term shall include every sale of tangible personal property which is used or consumed or to be used or consumed in the performance of any activity classified as a "sale at retail" or "retail sale" even though such property is resold or utilized as provided in (a), (b), or (c) above following such use.

The term also means every sale of tangible personal property to persons engaged in any business which is taxable under RCW 82.04.280, subsection (2), and 82.04.290.

The term "sale at retail" or "retail sale" shall include the sale of or charge made for tangible personal property consumed and/or for labor and services rendered in respect to the following: (a) The installing, repairing, cleaning, altering, imprinting, or improving of tangible personal property of or for consumers, including charges made for the mere use of facilities in respect thereto, but excluding charges made for the use of coin operated laundry facilities when such facilities are situated in an apartment house, hotel, motel, rooming house, trailer camp or tourist camp for the exclusive use of the tenants thereof, and excluding services rendered in respect to live animals, birds and insects; (b) the constructing, repairing, decorating, or improving of new or existing buildings or other structures under, upon, or above real property of or for consumers, including the installing or attaching of any article of tangible personal property therein or thereto, whether or not such personal property becomes a part of the realty by virtue of installation, and shall also include the sale of services or charges made for the clearing of land and the moving of earth excepting the mere leveling of land used in commercial farming or agriculture; (c) the sale of or charge made for labor and services rendered in respect to the cleaning, fumigating, razing or moving of existing buildings or structures, but shall not include the charge made for janitorial services; (d) the sale of or charge made for labor and services rendered in respect to automobile towing and similar automotive transportation services, but not in respect to those required to report and pay taxes under chapter 82.16; (e) the sale of and charge made for the furnishing of lodging and all other services by a hotel, rooming house, tourist court, motel, trailer camp, and the granting of any similar license to use real property, as distinguished from the renting or leasing of real property, and it shall be presumed that the occupancy of real property



for a continuous period of one month or more constitutes a rental or lease of real property and not a mere license to use or enjoy the same; (f) the sale of or charge made for tangible personal property, labor and services to persons taxable under (a), (b), (c), (d), and (e) above when such sales or charges are for property, labor and services which are used or consumed in whole or in part by such persons in the performance of any activity defined as a "sale at retail" or "retail sale" even though such property, labor and services may be resold after such use or consumption. Nothing contained in this paragraph shall be construed to modify the first paragraph of this section and nothing contained in the first paragraph of this section shall be construed to modify this paragraph.

The term "sale at retail" or "retail sale" shall include the sale of or charge made for personal business or professional services, including amounts designated as interest, rents, fees, admission, and other service emoluments however designated, received by persons engaging in the following business activities: (a) amusement and recreation businesses including but not limited to golf, pool, billiards, skating, bowling, ski lifts and tows and others; (b) abstract, title insurance and escrow businesses; (c) credit bureau businesses; (d) automobile parking and storage garage businesses.

The term shall also include the renting or leasing of tangible personal property to consumers.

The term shall not include the sale of or charge made for labor and services rendered in respect to the building, repairing, or improving of any publicly owned street, place, road, highway, bridge, or trestle which is used or to be used primarily for foot or vehicular traffic, nor shall it include sales of feed, seed, fertilizer, and spray materials to persons for the purpose of producing for sale any agricultural product whatsoever, including milk, eggs, wool, fur, meat, honey, or other substances obtained from animals, birds, or insects but only when such production and subsequent sale are exempt from tax under RCW 82.04.330, nor shall it include sales of chemical sprays or washes to persons for the purpose of post-harvest treatment of fruit for the prevention of scald, fungus, mold, or decay.

Upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the term shall not include the sale of drugs or medicines either required by law to be dispensed or actually dispensed in accordance with the prescription of a licensed practitioner of one of the healing arts authorized by law to prescribe such drugs or medicines.

Sec. 31. Section 82.08.020, chapter 15, Laws of 1961, as last amended by section 19, chapter 149, Laws of 1967 ex. sess., and RCW 82.08.020 are each amended to read as follows:

There is levied and there shall be collected a tax on each retail sale in this state equal to four and one-half percent of the selling price; PROVIDED; That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the tax imposed by this section shall be equal to three and one-half percent of the selling price. The tax imposed under this chapter shall apply to successive retail sales of the same property and to the retail sale of intoxicating liquor by the Washington state liquor stores.

Sec. 32. Section 82.12.020, chapter 15, Laws of 1961, as last amended by section 22, chapter 149, Laws of 1967 ex. sess., and RCW 82.12.020 are each amended to read as follows:

There is hereby levied and there shall be collected from every person in this state a tax or excise for the privilege of using within this state as a consumer any article of tangible personal property purchased at retail, or acquired by lease, gift, repossession, or bailment, or extracted or produced or manufactured by the person so using the same. This tax will not apply with respect to the use of any article of tangible personal property purchased, extracted, produced or manufactured outside this state until the transportation of such article has finally ended or until such article has become commingled with the general mass of property in this state. This tax shall apply to the use of every article of tangible personal property, including property acquired at a casual or isolated sale, and includ-

ing byproducts used by the manufacturer thereof, except as hereinafter provided, irrespective of whether the article or similar articles are manufactured or are available for purchase within this state. Except as provided in subdivision (2) of RCW 82.12.030, payment by one purchaser or user of tangible personal property of the tax imposed by chapter 82.08 or 82.12 shall not have the effect of exempting any other purchaser or user of the same property from the taxes imposed by such chapters. The tax shall be levied and collected in an amount equal to the value of the article used by the taxpayer multiplied by the rate of four and one-half percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the tax imposed by this section shall be levied and collected in an amount equal to the value of the article used by the taxpayer multiplied by the rate of three and one-half percent.

Sec. 33. Section 82.04.230, chapter 15, Laws of 1961, as amended by section 7, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.230 are each amended to read as follows:

Upon every person engaging within this state in business as an extractor; as to such persons the amount of the tax with respect to such business shall be equal to the value of the products, including byproducts, extracted for sale or for commercial or industrial use, multiplied by the rate of forty-four one-hundredths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the value of the products, including byproducts, extracted for sale or for commercial or industrial use multiplied by the rate of twenty-two one-hundredths of one percent;

The measure of the tax is the value of the products, including byproducts, so extracted, regardless of the place of sale or the fact that deliveries may be made to points outside the state.

Sec. 34. Section 82.04.240, chapter 15, Laws of 1961, as last

amended by section 8, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.240 are each amended to read as follows:

Upon every person except persons taxable under subsections (2), (3), (4), (5), (6), or (8) of RCW 82.04.260 engaging within this state in business as a manufacturer; as to such persons the amount of the tax with respect to such business shall be equal to the value of the products, including byproducts, manufactured, multiplied by the rate of forty-four one-hundredths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the value of the products, including by-products, manufactured, multiplied by the rate of twenty-two one-hundredths of one percent.

The measure of the tax is the value of the products, including byproducts, so manufactured regardless of the place of sale or the fact that deliveries may be made to points outside the state.

Sec. 35. Section 82.04.250, chapter 15, Laws of 1961, as amended by section 9, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.250 are each amended to read as follows:

Upon every person engaging within this state in the business of making sales at retail, as to such persons, the amount of tax with respect to such business shall be equal to the gross proceeds of sales of the business, multiplied by the rate of forty-four one-hundredths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the gross proceeds of sales of the business, multiplied by the rate of twenty-two one-hundredths of one percent.

Sec. 36. Section 82.04.260, chapter 15, Laws of 1961, as last amended by section 10, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.260 are each amended to read as follows:

(1) Upon every person engaging within this state in the business of buying wheat, oats, dry peas, corn, rye and barley, but not

including any manufactured or processed products thereof, and selling the same at wholesale; the tax imposed shall be equal to the gross proceeds derived from such sales multiplied by the rate of one one-hundredth of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the tax imposed shall be equal to the gross proceeds derived from sales multiplied by the rate of one two-hundredths of one percent.

(2) Upon every person engaging within this state in the business of manufacturing wheat into flour; as to such persons the amount of tax with respect to such business shall be equal to the value of the flour manufactured, multiplied by the rate of one-eighth of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the value of the flour manufactured, multiplied by the rate of one-sixteenth of one percent.

(3) Upon every person engaging within this state in the business of splitting or processing dried peas; as to such persons the amount of tax with respect to such business shall be equal to the value of the peas split or processed, multiplied by the rate of one-quarter of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the value of the peas split or processed, multiplied by the rate of one-eighth of one percent.

(4) Upon every person engaging within this state in the business of manufacturing seafood products which remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing by that person; as to such persons the amount of tax with respect to such business shall be equal to the value of the products manufactured, multiplied by the rate of one-eighth of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory

act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the value of the products manufactured, multiplied by the rate of one-sixteenth of one percent.

(5) Upon every person engaging within this state in the business of manufacturing by canning, preserving, freezing or dehydrating fresh fruits and vegetables; as to such persons the amount of tax with respect to such business shall be equal to the value of the products canned, preserved, frozen or dehydrated multiplied by the rate of three-tenths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the value of the products canned, preserved, frozen or dehydrated multiplied by the rate of three-twentieths of one percent.

(6) Upon every person engaging within this state in the business of manufacturing aluminum pig, ingot, billet, plate, sheet (flat or coiled), rod, bar, wire, cable or extrusions; as to such persons the amount of the tax with respect to such business shall be equal to the value of the products manufactured multiplied by the rate of four-tenths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the value of the products manufactured multiplied by the rate of twenty-two one-hundredths of one percent.

(7) Upon every nonprofit corporation and nonprofit association engaging within this state in research and development, as to such corporations and associations, the amount of tax with respect to such activities shall be equal to the gross income derived from such activities multiplied by the rate of forty-four one-hundredths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such activities shall be equal to the gross income derived from such activities multiplied by the rate of

twenty-two one-hundredths of one percent.

(8) Upon every person engaging within this state in the business of slaughtering, breaking and/or processing perishable meat products and/or selling the same at wholesale; as to such persons the tax imposed shall be equal to the gross proceeds derived from such sales multiplied by the rate of thirty-three one-hundredths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, as to such persons the tax imposed shall be equal to the gross proceeds derived from such sales multiplied by the rate of thirty-three two-hundredths of one percent.

Sec. 37. Section 82.04.270, chapter 15, Laws of 1961, as amended by section 11, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.270 are each amended to read as follows:

(1) Upon every person except persons taxable under subsection (1) of RCW 82.04.260 engaging within this state in the business of making sales at wholesale; as to such persons the amount of tax with respect to such business shall be equal to the gross proceeds of sales of such business multiplied by the rate of forty-four one-hundredths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax with respect to such business shall be equal to the gross proceeds of sales of such business multiplied by the rate of twenty-two one-hundredths of one percent.

(2) The tax imposed by this section is levied and shall be collected from every person engaged in the business of distributing in this state articles of tangible personal property, owned by them from their own warehouse or other central location in this state to two or more of their own retail stores or outlets, where no change of title or ownership occurs, the intent hereof being to impose a tax equal to the wholesaler's tax upon persons performing functions essentially comparable to those of a wholesaler, but not actually making sales: PROVIDED, That the tax designated in this section may not

be assessed twice to the same person for the same article. The amount of the tax as to such persons shall be computed by multiplying forty-four one-hundredths of one percent of the value of the article so distributed as of the time of such distribution: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax as to such persons shall be computed by multiplying twenty-two one-hundredths of one percent of the value of the article so distributed as of the time of such distribution: PROVIDED, That persons engaged in the activities described in this subsection shall not be liable for the tax imposed if by proper invoice it can be shown that they have purchased such property from a wholesaler who has paid a business and occupation tax to the state upon the same articles. This proviso shall not apply to purchases from manufacturers as defined in RCW 82.04.110. The department of revenue shall prescribe uniform and equitable rules for the purpose of ascertaining such value, which value shall correspond as nearly as possible to the gross proceeds from sales at wholesale in this state of similar articles of like quality and character, and in similar quantities by other taxpayers: PROVIDED FURTHER, That delivery trucks or vans will not under the purposes of this section be considered to be retail stores or outlets.

Sec. 38. Section 82.04.280, chapter 15, Laws of 1961, as last amended by section 13, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.280 are each amended to read as follows:

Upon every person engaging within this state in the business of: (1) Printing, and of publishing newspapers, periodicals or magazines; (2) building, repairing or improving any publicly owned street, place, road, highway, bridge, or trestle which is used or to be used, primarily for foot or vehicular traffic including any readjustment, reconstruction or relocation of the facilities of any public, private or cooperatively owned utility or railroad in the course of such building, repairing or improving, the cost of which readjustment, reconstruction, or relocation, is the responsibility of the



public authority whose street, place, road, highway, bridge or trestle is being built, repaired or improved; (3) extracting for hire or processing for hire; (4) operating a cold storage warehouse, but not including the rental of cold storage lockers; (5) representing and performing services for fire or casualty insurance companies as an independent resident managing general agent licensed under the provisions of RCW 48.05.310; (6) radio and television broadcasting, excluding network, national and regional advertising computed as a standard deduction based on the national average thereof as annually reported by the Federal Communications Commission, or in lieu thereof by itemization by the individual broadcasting station, and excluding that portion of revenue represented by the out-of-state audience computed as a ratio to the station's total audience as measured by the 100 micro-volt signal strength and delivery by wire, if any; as to such persons, the amount of tax on such business shall be equal to the gross income of the business multiplied by the rate of forty-four one-hundredths of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax on such business shall be equal to the gross income of the business multiplied by the rate of twenty-two one-hundredths of one percent.

Sec. 39. Section 82.04.290, chapter 15, Laws of 1961, as last amended by section 14, chapter 149, Laws of 1967 ex. sess., and RCW 82.04.290 are each amended to read as follows:

Upon every person engaging within this state in any business activity other than or in addition to those enumerated in RCW 82.04-.230, 82.04.240, 82.04.250, 82.04.260, 82.04.270, 82.04.275 and 82.04-.280; as to such persons the amount of tax on account of such activities shall be equal to the gross income of the business multiplied by the rate of one percent: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the amount of tax on account of such activities shall be equal to the gross income of the business multiplied by the rate of

twenty-two one-hundredths of one percent. This section includes, among others, and without limiting the scope hereof (whether or not title to materials used in the performance of such business passes to another by accession, confusion or other than by outright sale), persons engaged in the business of rendering any type of service which does not constitute a "sale at retail" or a "sale at wholesale." The value of advertising, demonstration, and promotional supplies and materials furnished to an agent by his principal or supplier to be used for informational, educational and promotional purposes shall not be considered a part of the agent's remuneration or commission and shall not be subject to taxation under this section.

NEW SECTION. Sec. 40. There is added to chapter 15, Laws of 1961 and to chapter 82.04 RCW a new section to read as follows:

An amount constituting ten percent of property taxes paid on business inventories shall be allowed as a credit against taxes imposed by this chapter for the same taxable year in which said property taxes were paid until January 1 of the second year following imposition of a tax pursuant to sections 5 and 11 of this act. For purposes of this section, "business inventories" shall mean personal property held primarily for sale in the ordinary course of a trade or business, or for consumption in the production of property so held or to be held, including livestock, furbearing animals, fish, fowl and bees; crops and agricultural products; stock in trade; merchandise, products, supplies and containers; raw materials, finished or partly finished goods, unassembled parts and work in process. "Business inventories" shall not include machinery, machines, equipment, tools or furniture except when such property is held primarily for sale in the ordinary course of a trade or business.

NEW SECTION. Sec. 41. The reduction in rates of tax provided in sections 33 through 39 to take effect upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income shall not apply to an organization exempt from net income taxation by reason of section 18 (1) of this act, an organization

within the scope of section 1381 of the internal revenue code, or a municipal corporation or political subdivision of the state.

NEW SECTION. Sec. 42. There is added to chapter 15, Laws of 1961, and to Title 82 RCW a new chapter, to read as set forth in sections 43 through 59 of this act.

NEW SECTION. Sec. 43. The purpose of this chapter is to provide property tax relief, through a system of income tax credits and direct payments, to certain persons who own or rent their homestead.

NEW SECTION. Sec. 44. As used in this chapter:

(1) "Income" means income from all sources whatsoever.

(2) "Household" means a claimant and his or her spouse.

(3) "Household income" means all income received by a claimant, his or her spouse, and all other persons of a household in a calendar year while members of the household.

(4) "Homestead" means the dwelling, whether owned or rented, and so much of the land surrounding it, not exceeding one acre, as is reasonably necessary for use of the dwelling as a home, and may consist of a part of a multi-dwelling or multi-purpose building and a part of the land upon which it is built. It does not include personal property such as furniture, furnishings or appliances, but a mobile home may be a homestead, if it is subject to property taxation.

(5) "Owned" includes possession under a contract of sale, deed of trust, life estate, joint tenancy, or tenancy in common.

(6) "Claimant" means a person who has filed a claim under this chapter, who was sixty-two years of age or over on or before January 1 of the preceding calendar year, and who was a resident during such preceding calendar year within the meaning of section 4, subsection (10), of this act.

When two individuals of a household are able to

meet the qualifications for a claimant, they may determine between them as to who the claimant shall be. If they are unable to agree, the matter shall be referred to the department and its decision shall be final. If a homestead is occupied by two or more individuals, and more than one individual is able to qualify as a claimant, and some or all the qualified individuals are not related, the individuals may determine among them as to who the claimant shall be. If they are unable to agree, the matter shall be referred to the department, and its decision shall be final.

(7) "Rent constituting property taxes accrued" means twenty percent of the gross rent actually paid in cash or its equivalent in the preceding calendar year by a claimant and his household solely for the right of occupancy of their homestead in this state.

(8) "Gross rent" means rental paid solely for the right of occupancy (at arms-length) of a homestead, exclusive of charges for any utilities, services, furniture, furnishings or personal property appliances furnished by the landlord as a part of the rental agreement, whether or not expressly set out in the rental agreement. If the landlord and tenant have not dealt with each other at arms-length, and the department is satisfied that the gross rental charges were excessive, it may adjust the gross rent to a reasonable amount for purposes of this chapter.

(9) "Property taxes accrued" means property taxes (exclusive of special assessments, delinquent interest, and special service charges) levied on a homestead in this state in the preceding calendar year. If a homestead is owned by two or more persons or entities as joint tenants or tenants in common, and one or more persons or entities are not a member of claimant's household, "property

taxes accrued" is that part of property taxes levied on the homestead which reflects the ownership percentage of the claimant and his household. If a homestead is an integral part of a larger unit such as a farm, or a multi-purpose or multi-dwelling building, property taxes accrued shall be that percentage of the total property taxes accrued as the value of the homestead is of the total value. For purposes of this paragraph "unit" refers to the parcel of property covered by a single tax statement of which the homestead is a part.

(10) "Preceding calendar year" shall mean the calendar year preceding the year in which the claim for credit or rebate is made.

(11) "Department" means the state department of revenue.

NEW SECTION. Sec. 45. The right to file claim under this chapter shall be personal to the claimant and shall not survive his death, but such right may be exercised on behalf of a claimant by his legal guardian or attorney-in-fact. If a claimant dies after having filed a timely claim, the amount thereof shall be disbursed to another member of the household as determined by the department. If the claimant was the only member of his household, the claim may be paid to his executor or administrator.

NEW SECTION. Sec. 46. Subject to the limitations provided in this chapter, a claimant may claim in any year as a credit against Washington income taxes otherwise due on his income, property taxes accrued, or rent constituting property taxes accrued, or both in the preceding calendar year. If the allowable amount of such claim exceeds the income taxes otherwise due on claimant's income, or if there are no Washington income taxes due on claimant's income, the amount of the claim not used as an offset against income taxes, after approval by the department, shall be paid to claimant. No interest shall be allowed on any payment made to a claimant pursuant to this chapter. The budget director shall prescribe such rules of procedure as may be necessary to assure that such payments are made in an accurate and systematic manner.

NEW SECTION. Sec. 47. No credit or refund shall be allowed pursuant to section 46 of this 1969 amendatory act unless such credit is claimed on a return filed for the taxable year in which the property taxes accrued or the rent constituting property taxes accrued, as the case may be, were paid, subject to the three year limitation prescribed in section 6511 of the internal revenue code.

NEW SECTION. Sec. 48. The amount of any claim otherwise payable under this chapter may be applied by the department against any liability outstanding on the books of the department against the claimant, or against his or her spouse who was a member of the claimant's household in the year to which the claim relates.

NEW SECTION. Sec. 49. Only one claimant per household per year shall be entitled to relief under this chapter.

NEW SECTION. Sec. 50. The amount of any claim pursuant to this chapter shall be determined in accordance with the following schedule:

HOUSEHOLD INCOME RANGE	PERCENTAGE OF TAX ALLOWABLE AS CLAIM
0 -- 499 .....	70 percent
500 -- 549 .....	69 percent
550 -- 599 .....	68 percent
600 -- 649 .....	67 percent
650 -- 699 .....	66 percent
700 -- 749 .....	65 percent
750 -- 799 .....	64 percent
800 -- 849 .....	63 percent
850 -- 899 .....	62 percent
900 -- 949 .....	61 percent
950 -- 999 .....	60 percent
1,000 -- 1,049 .....	59 percent
1,050 -- 1,099 .....	58 percent
1,100 -- 1,149 .....	57 percent
1,150 -- 1,199 .....	56 percent

1,200 --	1,249	.....	55 percent
1,250 --	1,299	.....	54 percent
1,300 --	1,349	.....	53 percent
1,350 --	1,399	.....	52 percent
1,400 --	1,449	.....	51 percent
1,450 --	1,499	.....	50 percent
1,500 --	1,549	.....	49 percent
1,550 --	1,599	.....	48 percent
1,600 --	1,649	.....	47 percent
1,650 --	1,699	.....	46 percent
1,700 --	1,749	.....	45 percent
1,750 --	1,799	.....	44 percent
1,800 --	1,849	.....	43 percent
1,850 --	1,899	.....	42 percent
1,900 --	1,949	.....	41 percent
1,950 --	1,999	.....	40 percent
2,000 --	2,049	.....	39 percent
2,050 --	2,099	.....	38 percent
2,100 --	2,149	.....	37 percent
2,150 --	2,199	.....	36 percent
2,200 --	2,249	.....	35 percent
2,250 --	2,299	.....	34 percent
2,300 --	2,349	.....	33 percent
2,350 --	2,399	.....	32 percent
2,400 --	2,449	.....	31 percent
2,450 --	2,499	.....	30 percent
2,500 --	2,549	.....	29 percent
2,550 --	2,599	.....	28 percent
2,600 --	2,649	.....	27 percent
2,650 --	2,699	.....	26 percent
2,700 --	2,749	.....	25 percent
2,750 --	2,799	.....	24 percent
2,800 --	2,849	.....	23 percent

2,850 --	2,899	.....	22 percent
2,900 --	2,949	.....	21 percent
2,950 --	2,999	.....	20 percent
3,000 --	3,074	.....	19 percent
3,075 --	3,149	.....	18 percent
3,150 --	3,224	.....	17 percent
3,225 --	3,299	.....	16 percent
3,300 --	3,374	.....	15 percent
3,375 --	3,449	.....	14 percent
3,450 --	3,524	.....	13 percent
3,525 --	3,599	.....	12 percent
3,600 --	3,674	.....	11 percent
3,675 --	3,749	.....	10 percent

In any case in which property taxes accrued, or rent constituting property taxes accrued in any one year in respect of any one household exceeds \$350, the amount thereof shall, for purposes of this chapter, be deemed to have been \$350. In any case in which households income is \$3,000 or less, the amount of a claim allowable hereunder shall be at least \$50: PROVIDED, That in no case shall the claim exceed the amount of the property taxes accrued or rent constituting property taxes accrued.

The department shall, within the six month period prior to each regular legislative session, make a study with respect to any increases in the general levels of property taxation, personal income, and the cost of living, and shall report its findings to the next regular session in such a manner as will enable the legislature to determine the adequacy of the above schedule.

NEW SECTION. Sec. 51. The department shall make available suitable forms with instructions for claimants, including a form which may be included with or as a part of the individual income tax blank. The claim shall be in such form as the department may prescribe.

NEW SECTION. Sec. 52. Every claimant under this chapter shall



supply to the department, in support of his claim, reasonable proof of rent paid, name and address of owner or managing agent of property rented, property taxes accrued, changes of homestead, household membership, household income, size and nature of property claimed as the homestead and a statement that the property taxes accrued and used for purposes of this chapter have been or will be paid by him and that there are no delinquent property taxes on the homestead.

NEW SECTION. Sec. 53. If on the audit of any claim filed under this chapter the department determines the amount to have been incorrectly determined, it shall redetermine the claim and notify the claimant of the redetermination and its reasons for it.

NEW SECTION. Sec. 54. If it is determined that a claim is excessive and was filed with fraudulent intent, the claim shall be disallowed in full, and, if the claim has been paid or a credit has been allowed against income taxes otherwise payable, the credit shall be canceled and the amount paid may be recovered by assessment (as income taxes are assessed), and the assessment shall bear interest from the date of payment or credit of the claim, until refunded or paid, at the rate of one-half of one percent per month.

NEW SECTION. Sec. 55. If a homestead is rented by a person from another person under circumstances deemed by the department to be not at arms-length, it may determine rent constituting property taxes accrued as at arms-length.

NEW SECTION. Sec. 56. Any person aggrieved by the denial in whole or in part of relief claimed under this chapter, except when the denial is based upon late filing of claim for relief may appeal such denial in accordance with the provisions of chapters 82.03 and 82.32 RCW.

NEW SECTION. Sec. 57. No claim for relief under this chapter shall be allowed to any person who was a recipient of public funds for the payment of the taxes or rent during the preceding calendar year, or to any person with respect to any homestead which, during

the preceding calendar year, was exempt from real property taxation in whole or in part.

NEW SECTION. Sec. 58. A claim shall be disallowed if the department finds that the claimant received title to his homestead primarily for the purpose of receiving benefits under this chapter.

NEW SECTION. Sec. 59. In case of sickness, absence, or other disability, or if, in its judgment, good cause exists, the department may extend for a period not to exceed six months the time for filing a claim.

Sec. 60. Section 1, chapter 168, Laws of 1965 ex. sess. and RCW 84.36.125 are each amended to read as follows:

Due to the tremendous rise in living costs during the past decade, including increased property taxes, the failure of federal old age and survivors insurance and similar types of pension systems to adequately reflect in their pension payments these costs, and because savings once deemed adequate for retirement living are now grossly inadequate, it is therefore deemed necessary that the legislature now grant people retired on fixed incomes some relief from real property taxes. This relief must be granted to insure that thousands of persons now retired on fixed incomes can remain in possession of their homes, thus not becoming a burden on state or local government.

This section shall expire upon the date the provisions of this 1969 amendatory act which impose a tax upon net income become effective.

Sec. 61. Section 3, chapter 168, Laws of 1965 ex. sess. and RCW 84.36.127 are each amended to read as follows:

RCW 84.36.125 and 84.36.126 shall become effective upon the approval of the voters of the state of an amendment to Article 7, section 1 of the Constitution of the state of Washington so as to authorize this form of exemption.

This section shall expire upon the date the provisions of this 1969 amendatory act which impose a tax upon net income become effective.

Sec. 62. Section 1, chapter 132, Laws of 1967 ex. sess. and

RCW 84.36.128 are each amended to read as follows:

A person shall be exempt from any legal obligation to pay the first fifty dollars of real property taxes due and payable in any one year if the following conditions are met:

(1) The property taxes must have been imposed upon a residence which has been regularly occupied by the person claiming the exemption during the five calendar years preceding the year for which the exemption is claimed; or the property taxes must have been imposed upon a residence which has been regularly occupied by the person claiming the exemption during the preceding calendar year and the person claiming the exemption must also have been a resident of the state of Washington for the last ten calendar years preceding the year for which the exemption is claimed.

(2) The person claiming the exemption must have owned, at the time of filing, in fee, by contract purchase, or by deed of trust, the residence on which the property taxes have been imposed. For purposes of this subsection, a residence owned by a marital community shall be deemed to be owned by each spouse.

(3) If the person claiming the exemption is a male, he must have been sixty-five years of age or older on February 15th of the year in which the exemption is claimed, or must have been, at the time of filing, totally disabled and as such retired under a public or private retirement plan.

(4) If the person claiming the exemption is a female, she must have been sixty-two years of age or older on February 15th of the year in which the exemption is claimed.

(5) No person who, during the preceding calendar year, has regularly occupied the residence on which the taxes have been imposed shall have received during the preceding calendar year any earnings of the type and amount which would cause any deduction from social security benefits for a recipient of such benefits pursuant to 42 U.S.C. 403: PROVIDED, HOWEVER, That this subsection shall not

apply with respect to an occupant who is related to the person claiming the exemption and who is either a student under the age of twenty-five who is pursuing a full course of studies or who is making payments as a sharing of the expenses of maintaining the residence not in excess of one hundred dollars per month.

(6) The combined income, from all sources whatsoever, of the person claiming the exemption and his or her spouse shall not have been in excess of three thousand dollars for the preceding calendar year.

This section shall expire upon the date the provisions of this 1969 amendatory act which impose a tax upon net income become effective.

Sec. 63. Section 2, chapter 132, Laws of 1967 ex. sess. and RCW 84.36.129 are each amended to read as follows:

For the purposes of RCW 84.36.128:

(1) The term "residence" shall mean a single family dwelling, including the lot on which the dwelling stands.

(2) The term "preceding calendar year" shall mean the calendar year preceding the year in which the property taxes for which the exemption is claimed are due and payable.

All claims for exemption shall be made and signed by the person entitled to the exemption, by his or her attorney in fact or, in the event the residence of such person is under mortgage or purchase contract requiring accumulation of reserves out of which the holder of the mortgage or contract is required to pay real estate taxes, by such holder, either before a notary public or the county assessor or his deputy in the county where the real property is located. Any person signing a false claim shall be subject to perjury.

Claims for exemption shall be made annually and filed between February 15 and April 30 of the year in which the taxes are payable and solely upon forms as prescribed and furnished by the department of revenue.

This section shall expire upon the date the provisions of this 1969 amendatory act which impose a tax upon net income become effective.

NEW SECTION. Sec. 64. Any county is authorized to levy for general county purposes two mills upon the dollar of assessed valuation, notwithstanding the limitations contained in RCW 84.52.050 as now or hereafter amended, and in addition to the millage rates authorized therein.

Sec. 65. Section 84.52.050, chapter 15, Laws of 1961, as last amended by section 3, chapter 133, Laws of 1967 ex. sess., and RCW 84.52.050 are each amended to read as follows:

Except as hereinafter provided, the aggregate of all tax levies upon real and personal property by the state, municipal corporations, taxing districts and governmental agencies, now existing or hereafter created, shall not in any year exceed forty mills on the dollar of assessed valuation, which assessed valuation shall be fifty percent of the true and fair value of such property in money; and within and subject to the aforesaid limitation the levy by the state shall not exceed two mills to be used exclusively for the public assistance program of the state: PROVIDED, That upon and after the effective date of the provisions of this amendatory act which impose a tax upon net income, the authority of the state to levy not to exceed two mills to be used exclusively for the public assistance program of the state shall expire and such millage may be levied by any county as authorized in section 64 of this 1969 amendatory act; the levy by any county shall not exceed eight mills; the levy by or for any school district shall not exceed fourteen mills: PROVIDED, That in each of the years 1967 and 1968 and 1969 and 1970 the state shall levy a property tax of four mills of which two mills shall be used exclusively for the public assistance program of the state and of which two mills shall be used exclusively for the support of the common schools; and in such years in which the state shall validly levy a

property tax of two mills for the support of the common schools, the levy by or for any school district shall not exceed twelve mills: PROVIDED FURTHER, That the levy by or for any union high school district shall not exceed two-fifths of the maximum levy permissible for any school district without a vote of the electors thereof and the levy by or for any component district within a union high school district shall not exceed three-fifths of the maximum levy permissible for any school district without a vote of the electors thereof: PROVIDED FURTHER, That the levy against any nonhigh school district for the high school district fund shall not exceed two-fifths of the maximum levy permissible for any school district without a vote of the electors thereof and the levy by or for any such nonhigh school district shall not exceed the balance of such maximum permissible levy; the levy for any road district shall not exceed ten mills; and the levy by or for any city or town shall not exceed fifteen mills: PROVIDED FURTHER, That counties of the fifth class and under are hereby authorized to levy from eight to eleven mills for general county purposes and from seven to ten mills for county road purposes if the total levy for both purposes does not exceed eighteen mills: PROVIDED FURTHER, That counties of the fourth and the ninth class are hereby authorized to levy nine mills until such time as the junior taxing agencies are utilizing all the millage available to them.

Nothing herein shall prevent levies at the rates provided by existing law by or for any port or power district.

Sec. 66. Section 74.04.150, chapter 26, Laws of 1959 and RCW 74.04.150 are each amended to read as follows:

The state shall levy annually a tax not to exceed two mills upon the assessed valuation of all taxable property within the state for public assistance purposes.

This section shall expire upon the date the provisions of this 1969 amendatory act which impose a tax upon net income become effective.

NEW SECTION. Sec. 67. Any levy authorized by law, made prior to the effective date of the provisions of this 1969 amendatory act which impose a tax upon net income shall not be affected by the provisions of sections 64, 65 and 66 of this 1969 amendatory act.

NEW SECTION. Sec. 68. Except as hereinafter provided it shall be unlawful for the department of revenue or any member, deputy, clerk, agent, employee, or representative thereof or any other person to make known or reveal any facts or information contained in any return filed by any taxpayer or disclosed in any investigation or examination of the taxpayer's books and records made in connection with the administration hereof. The foregoing, however, shall not be construed to prohibit the department of revenue or a member or employee thereof from: (1) Giving such facts or information in evidence in any court action involving tax imposed hereunder or involving a violation of the provisions hereof or involving another state department and the taxpayer; (2) giving such facts and information to the taxpayer or his duly authorized agent; (3) publishing statistics so classified as to prevent the identification of particular returns or reports or items thereof; (4) giving such facts or information, for official purposes only, to the governor or attorney general, or to any state department or any committee or subcommittee of the legislature dealing with matters of taxation, revenue, trade, commerce, the control of industry or the professions; (5) permitting its records to be audited and examined by the proper state officer, his agents and employees; (6) giving any such facts or information to the proper officer of the internal revenue service of the United States or to the proper officer of the tax department of any state, for official purposes, but only if the statutes of the United States or of such other state, as the case may be, grant substantially similar privileges to the proper officers of this state; or (7) giving any such facts or information to the Department of Justice or the army or navy departments of the United States, or any authorized representative thereof, for official purposes.

Any person acquiring knowledge of such facts or information in the course of his employment with the department of revenue and any person acquiring knowledge of such facts and information as provided under (4), (5), (6) and (7) above, who reveals or makes known any such facts or information to another not entitled to knowledge of such facts or information under the provisions of this section, shall be punished by a fine of not exceeding one thousand dollars and, if the offender or person guilty of such violation is an officer or employee of the state, he shall forfeit such office or employment and shall be incapable of holding any public office or employment in this state for a period of two years thereafter.

NEW SECTION. Sec. 69. If either section 5 or section 11 of this act is held invalid, the whole of this act shall be deemed invalid.

NEW SECTION. Sec. 70. There is added to chapter 84.52 RCW a new section to be known as RCW 84.52.053 as follows:

The amount of any special levy which a school district may impose for maintenance and operations under the procedure prescribed by RCW 84.52.052 in any calendar year in which a tax on income is imposed by the state may not exceed the amount of any regular levy which a school district may impose in the same calendar year without a vote of the electors of the district: PROVIDED, That the foregoing limitation may be exceeded only by a proposition submitted to the electors of the district as a separate proposition, approved by two thirds of the electors voting thereon, and otherwise complying with the requirements of RCW 84.52.052.

NEW SECTION. Sec. 71. The provisions of sections 1 through 69 of this 1969 amendatory act shall take effect as follows:

(1) If the proposed amendment to Article 7 of the state Constitution (Engrossed House Joint Resolution No. 42) authorizing the legislature to impose a tax upon net income is validly submitted and is approved and ratified by the voters at a general election held in November, 1969:



(a) The provisions of sections 1 through 69 of this act authorizing the department to make rules and regulations and prescribe forms shall take effect January 1, 1970; and

(b) All other provisions of sections 1 through 69 of this act shall take effect January 1, 1971.

(2) If the proposed amendment to Article 7 of the state Constitution (Engrossed House Joint Resolution No. 42) authorizing the legislature to impose a tax upon net income is validly submitted and is approved and ratified by the voters at a general election held in November, 1970:

(a) The provisions of sections 1 through 69 of this act authorizing the department to make rules and regulations and prescribe forms shall take effect January 1, 1971; and

(b) All other provisions of sections 1 through 69 of this act shall take effect January 1, 1972.

In the event that sections 1 through 69 of this act do not take effect as provided in this section, sections 1 through 69 of this act shall be null and void.

NEW SECTION. Sec. 72. As used in sections 72 through 89 of this 1969 amendatory act, unless a different meaning is plainly required by the context:

(1) "Population" means the number of residents listed in the most recent census or estimate by the state planning and community affairs agency.

(2) "Principal board of county commissioners" means the legislative authority of the most populous county within a taxing district.

(3) "Taxing district" means an area comprising one or more counties, and the cities and towns situated therein, which is established for the purpose of imposing a tax under this chapter.

(4) "Taxing district authority" means a body composed of delegates named by the legislative bodies of cities, towns, and counties within a taxing district.

NEW SECTION. Sec. 73. A taxing district authority may impose

a tax upon persons within its jurisdiction taxable by the state pursuant to chapter 82.08 RCW and upon persons within its jurisdiction taxable by the state pursuant to chapter 82.12 RCW as either of those chapters now exists or is later amended for the occurrence of any tax incident on which a state tax is imposed under chapters 82.08 or 82.12 RCW as either of those chapters now exists or is later amended. The collection and administration of any tax imposed under authority of this section shall be in accordance with chapters 82.08 and 82.12 RCW as now exists or are later amended and the rules and regulations of the department of revenue of the state of Washington applicable thereto.

NEW SECTION. Sec. 74. The tax which may be imposed by a particular body under the authority granted by section 73 of this 1969 amendatory act shall be of one single rate as imposed by that body for all persons and/or tax incidents within the jurisdiction of the taxing district authority and the rate of taxes imposed under sections 72 through 89 of this 1969 amendatory act shall not exceed a total of three-tenths of one percent on any tax incident.

NEW SECTION. Sec. 75. Whenever any city, town, or county desires to establish a taxing district, its legislative body shall adopt a resolution calling for the formation of a taxing district and containing a description of the area to be included within the proposed taxing district. The resolution shall also include a tax proposition to be considered by the proposed taxing district authority. A resolution adopted by the legislative body of a city or town shall be transmitted to the legislative authority of the county in which the city or town is located.

After the filing with the legislative authority of the county of the first resolution by a city or town or upon the adoption of a resolution by a county before the filing of any other resolution, action by the legislative authority shall be deferred on any subsequent resolution until it is determined whether or not the taxing district proposed in the first resolution will be established as provided in

section 76 of this 1969 amendatory act. If such taxing district is not so established, subsequent resolutions shall be considered, one at a time in like manner, according to their date of adoption.

NEW SECTION. Sec. 76. The legislative authority of the county within five days after the receipt or adoption of the first resolution shall set a time and place for the initial meeting of the proposed taxing district authority. It shall notify the legislative body of each city and town within the county of the appointed time and place, and of the purpose of the meeting. The date for such initial meeting shall be not more than thirty days after a county's adoption of its own resolution or its receipt of a resolution adopted by a city or town. The board also shall notify the legislative authority of every other county proposed for inclusion within the taxing district, and every legislative authority so notified shall in turn notify the legislative body of each city and town within that county of the date, place, and purpose of the meeting.\* Public notice of the meeting shall be given to the communications media within the proposed taxing district, and a notice of meeting shall be published at least once in the official newspaper of each county proposed for inclusion within the taxing district, which publication or publications shall be at least ten days prior to the date of meeting and at the expense of the county wherein the newspaper is published.

NEW SECTION. Sec. 77. Each city and town within the taxing district is entitled to be represented at the meeting by one delegate who shall be appointed by the legislative body of that city or town. Each county within the taxing district is entitled to be represented at the meeting by one delegate who shall be appointed by the legislative authority of that county. The attendance of delegates representing a majority of the population within the taxing district shall be sufficient to establish a taxing district authority.

In the event a county, city, or town is included in more than one taxing district so established, it shall be included only in that district the formation resolution for which was adopted on the earli-

est date.

NEW SECTION. Sec. 78. The chairman of the principal board of county commissioners shall preside over the meeting of the taxing district authority. The presiding officer shall not be the delegate from his county to the authority, and shall have neither vote nor voice in the proceedings, except as may be necessary to fulfill his administrative duties as presiding officer. In addition to presiding over the meeting, he shall prepare a detailed report of the meeting, including a record of all motions and votes, and shall submit his report within ten days after adjournment of the meeting to the state department of revenue.

NEW SECTION. Sec. 79. The presiding officer of the formation meeting of a taxing district authority, shall first determine if there is in attendance delegates representing a majority of the population within the proposed taxing district. If so he shall declare the district formed. Thereupon, the authority shall vote on the tax proposition. If the vote on the tax proposition is negative any delegate may submit for similar consideration and vote any other tax proposal in accordance with the authorization granted by sections 72 through 89 of this 1969 amendatory act. V

NEW SECTION. Sec. 80. On any proposition, the vote of each city, town, or county shall be by weighted vote. The vote of a city or town shall be weighted according to the ratio of its population to the total population within the taxing district. The vote of a county shall be weighted according to the ratio of the population within its unincorporated areas to the total population within the taxing district. An affirmative vote of delegates representing a majority of the population within the taxing district shall be necessary to enact a tax as provided in sections 72 through 89 of this 1969 amendatory act. An oral vote shall be taken on each proposition, and each delegate's vote duly recorded. Except as otherwise provided in sections 72 through 89 of this 1969 amendatory act, Robert's Rules of Order, Revised, shall govern the conduct of all meetings of the taxing dis-

trict authority.

NEW SECTION. Sec. 81. Any meeting of the taxing district authority shall be concluded within two days of its convening, and no more than two meetings shall be held during the year following any meeting in which a tax is levied.

NEW SECTION. Sec. 82. Any tax imposed under the authority of sections 72 through 89 of this 1969 amendatory act on or before August 31st of any year, shall become effective on January 1st of the following year. Any taxes so imposed after August 31st of any year shall not become effective until January 1st of the second year following the imposition of the tax.

NEW SECTION. Sec. 83. The state department of revenue shall administer and collect the taxes imposed under sections 72 through 89 of this 1969 amendatory act, and shall deduct an amount not to exceed two percent of the taxes collected for collection and administrative expenses incurred by the department. The remainder of the taxes collected shall be deposited by the department of revenue in a local government revenue revolving fund, hereby created, in the state treasury.

NEW SECTION. Sec. 84. The state treasurer shall distribute bimonthly from the local government revolving fund to each city and town and to each county within which a tax is imposed under sections 72 through 89 of this 1969 amendatory act the revenue collected minus the amount deducted by the department of revenue for its collection and administration expenses. Apportionment shall be on a per capita basis according to the population of each city, town and total population of unincorporated areas of the county for revenue collected by imposition of a tax under sections 72 through 89 of this 1969 amendatory act by a county or taxing district authority.

NEW SECTION. Sec. 85. A taxing district authority may increase, reduce, or eliminate any tax it has previously imposed, but any such change must be made no later than May 1st of any year if the change is to take effect the following year. Any meeting of the taxing district authority for the purpose of increasing, reducing, or

eliminating any tax shall be initiated, convened, or conducted in the same manner as is provided in sections 72 through 89 of this 1969 amendatory act for the formation meeting of the authority.

NEW SECTION. Sec. 86. If at the formation meeting of a taxing district authority no tax is levied, the taxing district is automatically dissolved. A taxing district is dissolved automatically if a previously levied tax is eliminated.

NEW SECTION. Sec. 87. Before any moneys are collected as a consequence of sections 72 through 89 of this 1969 amendatory act the voters within the jurisdiction of the body imposing the tax shall have approved its imposition by majority vote at the next general election at which the issue may be put on the ballot or a special election called for that purpose. However, if a tax is imposed by a taxing district authority under sections 72 through 89 of this 1969 amendatory act the county government of any county in the taxing district shall place the issue on the ballot at the next general election.

Sec. 88. Section 82.02.020, chapter 15, Laws of 1961 as amended by section 16, chapter 236, Laws of 1967 and RCW 82.02.020 are each amended to read as follows: V

Except only as expressly provided in RCW 67.28.180 and 67.28-190 and sections 72 through 89 of this 1969 amendatory act the state preempts the field of imposing taxes upon retail sales of tangible personal property, the use of tangible personal property, conveyances, and cigarettes, and no county, town, or other municipal subdivision shall have the right to impose taxes of that nature.

NEW SECTION. Sec. 89. If any provision of sections 72 through 89 of this 1969 amendatory act, or its application to any person or circumstance is held invalid, the remainder of the act, or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. Sec. 90. Sections 72 through 89 of this act are necessary for the immediate preservation of the public peace, health and safety, the support of the state government and its existing pub-

V lic institutions, and shall take effect immediately.

Passed the House May 10, 1969

Passed the Senate May 4, 1969

Approved by the Governor May 23, 1969, with the exception of certain items in the title; subsection (9) of section 7; subsection (5) of section 16; a certain item in section

40; section 70 and sections 72 through 90 which are vetoed. Filed in office of Secretary of State May 23, 1969

NOTE: Governor's explanation of partial veto is as follows:  
 "...This bill is a comprehensive revision of Washington's tax structure which will take effect only if the people approve a constitutional amendment restricting basic property tax levies to one percent of true and fair value of property and authorizing a state income tax. The bill is designed to accomplish two principal objectives:

- (1) To make state and local taxes more equitable, particularly with respect to lower income families and certain businesses which bear a disproportionate burden under present tax laws, without shifting tax burdens from business to individuals or vice versa; and
- (2) To produce sufficient revenues for additional state school support so that school districts can sharply reduce special property tax levies.

Because of the importance of this legislation to the financial well being of the state and its local school districts, the House of Representatives took great care to develop a bill which could not be subject to serious attack on constitutional grounds.

The Senate also gave serious consideration to this bill, and adopted a substantial number of amendments. Most of the Senate amendments strengthen the bill and are consistent with its objectives. However, other amendments were hastily considered and adopted on the floor of the Senate in a form which undermine the broad objectives of the bill; one series of amendments threatens the constitutionality of the act.

I do not disapprove of the concepts contained in any of the provisions which are vetoed; and I invite the legislature to reconsider these amendments at a special session to be held prior to the election at which the proposed constitutional amendment will be submitted to the people.

The provisions of the bill which I have vetoed are as follows:

Local Government Sales and Use Tax. I have vetoed sections 72 through 90 and corresponding references to these provisions which were added

to the title of the bill by Senate amendments. This series of amendments which was intended to give local governmental bodies the power to levy sales and use taxes, may invalidate the entire act under the provisions of Article 2, Section 19 of the State Constitution which provides:

'No bill shall embrace more than one subject, and that shall be expressed in the title.'

One purpose of this provision is to apprise both the legislature and the public of the subject of the bill without being misleading as to its contents. On several occasions, the state Supreme Court has invalidated legislation in which the title describes some of the provisions of the bill without describing all of them.

The original bill contained the broad title 'Revenue and Taxation' without any attempt to 'index' the many interrelated revisions of state and local taxes contained in the bill. Most legislative enactments contain such a title to avoid creating a constitutional question. However, when the Senate added section 72 through 90, it also amended the title to describe the substance of these sections. The pertinent portions of the amended title of the bill, set forth on page one of this message, clearly show how misleading the title has become. The only new statutes described relate to the local sales and use taxes. No mention is made of the major portion of the bill -- the state income tax.

It is obvious that no member of the legislature has been misled by this title. Probably no bill has been as thoroughly discussed in committees, party caucuses, and on the floor of both houses. At a time when the title was constitutionally acceptable the bill was passed by the House of Representatives and considered at length by the Senate on first and second reading.

I have exercised my veto power as Governor to prevent the public from being misled by the title and to preserve this major legislative enactment from constitutional question.

Deduction of medical expenses. I have vetoed subsection (9) of Section 7 which would have allowed an individual to deduct certain medical expenses in computing his taxable income. This amendment to the bill was also added on the floor of the Senate, probably with the very laudable intention of assisting taxpayers experiencing major medical expenses; however, the provision actually permits the deduction of up to \$150 of the premium cost of medical insurance, even if the taxpayer had no other medical expenses whatsoever. Such an expense is an ordinary personal



expense incurred by almost everyone. To provide for expenses such as these the House of Representatives simplified the state income tax by allowing each individual a \$1,000 personal exemption (which is doubled for individuals over 65 years of age or who are blind). These personal exemptions are designed to be higher than the combined personal exemption and standard deduction allowed on the federal tax return and take the place of each taxpayer's usual personal deductions. Thus a major portion of the benefits of this Senate amendment will actually duplicate relief for taxpayers already provided in the bill.

The Department of Revenue estimates that in the first biennium in which the income tax is collected, this amendment would reduce state revenues (and the state's ability to relieve special levies) by more than \$18 million. Most of this amount is attributable to the availability of this deduction to all taxpayers - not just those with substantial medical expenses.

I approve of the objective of this Senate amendment, but relief for taxpayers with extraordinary medical expenses can be provided without seriously impairing state revenues by limiting the scope of medical deductions. I recommend that the legislature consider such a provision at the next legislative session.

Income tax credit for personal property taxes on business inventories. I have vetoed subsection (5) of Section 16 which would have permitted businesses to credit against income tax increasing percentages of the personal property taxes paid on business inventories. I am aware that the imposition of a personal property tax on business inventories works a substantial hardship on certain types of businesses, and I approve of the legislature's attempt to readjust taxes on business so as to provide some relief from the inventory tax. The House of Representatives also recognized this problem and provided for a credit of 10% of the tax on business inventories against the business and occupation tax. It also recognized that this credit would reduce the revenues produced by the comprehensive tax bill and thus provided a business and occupation tax rate which took this revenue loss into account. The Senate, however, has provided for an extension of this credit to a point where it will ultimately allow a business to credit against income taxes one hundred percent of the personal property tax on business inventories without providing any additional revenue to compensate for this loss.

Although this bill is designed to make the taxes on business more equitable, no responsible studies of Washington tax structure have indicated

that taxes on business in the aggregate are out of proportion to similar taxes prevailing in other states. For this reason, the compromise measure which passed the House of Representatives was designed to make no shift in the ultimate tax burden to individual taxpayers. The Senate's adoption of this amendment without providing compensating revenue in other forms of business taxes will ultimately shift approximately a hundred million dollars per biennium of taxes from business to individual taxpayers. If this amendment were to remain in the bill, over a period of years the state would be unable to meet its commitment to reduce special levies, with the result that property taxes or other forms of taxation would inevitably increase to replace the revenues lost by the inventory tax credit.

I believe the legislature should further study the inventory tax problem and at its next session provide relief from these taxes in a manner which will not shift the tax burden to individuals and will meet the revenue needs of the state.

Since the House of Representatives has provided for business and occupation taxes at a sufficient level to offset a continuing 10% inventory tax credit against the business and occupation tax, I have also vetoed certain language in Section 40 added by the Senate amendment.

Limitation on special levies. I have vetoed Section 70 which would require approval of 66% of the voters of a school district in order to authorize special school levies for maintenance and operation purposes in excess of 14 mills. I sympathize with the purpose of this amendment which is to provide the people with reasonable assurance that special school levies will be cut to reasonable amounts when the proceeds of the income tax are available for additional school support. However, I consider this limitation to be totally unworkable under our present school apportionment formula.

Developing a school apportionment formula which provides each school district of the state with sufficient funds is a difficult task, and can only be undertaken after a thorough investigation of the relative costs, curriculum, and resources of the various school districts of the state. Such a comprehensive study has been authorized by House Bill No. 893 creating a temporary special levy study commission. By the terms of that statute the commission is required to submit a report to the Governor and the legislature prior to the special session of the legislature to be held in January 1970. It is my hope that the information developed by this commission will permit the legislature to revise the system of furnishing state support to schools so that no district will be required to resort to high

special levies.

With the exception of the items set forth above,  
which I have vetoed, Re-engrossed Substitute  
House Bill No. 582 is approved."

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CHAPTER 263  
[Engrossed House Bill No. 132]  
COMMISSION ON HIGHER EDUCATION

AN ACT Relating to higher education; creating a commission on higher education; repealing sections 1 through 3 and 5 through 7, chapter 128, Laws of 1965 ex. sess., and section 4, chapter 128, Laws of 1965 ex. sess., as amended by section 1, chapter 5, Laws of 1967 ex. sess., and RCW 28.90.010 through 28.90.070.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. Section 1. There is hereby created a commission on higher education. The nine citizen members of the council on higher education, as provided in Senate Bill No. 243, shall constitute this commission. The commission is established for the purpose of the efficient and economical administration of higher education programs in the state of Washington. The members of the commission shall be cognizant of the importance of policy formulation and coordination of higher education policies for all segments of higher education within the state; in the performance of their administrative duties as set forth within this act the commissioners shall not deter from their duties as members of the council.

NEW SECTION. Sec. 2. The commission shall select a chairman from among its members by a majority vote: PROVIDED, That said chairman shall not also be the chairman of the council on higher education.

NEW SECTION. Sec. 3. The commission shall administer the following programs: Title IV-B and VI of the Higher Education Act of 1965; Title I of the Higher Education Facilities Act of 1963; and any other federal act pertaining to higher education which is not administered by another state agency.

NEW SECTION. Sec. 4. The commission shall:

(1) Prepare plans and participation as required by Title VI of the Higher Education Act of 1965 and Title I of the Higher Educa-