VETO MESSAGE ON SB 6470-S
                              April 3, 1998
To the Honorable President and Members,
  The Senate of the State of Washington
Ladies and Gentlemen:
      I am returning herewith, without my approval as to section 8,
Engrossed Substitute Senate Bill No. 6470 entitled:
      "AN ACT Relating to the tax treatment of canned and custom
      software;"
      Sections 1 through 7 of ESSB 6470 specify that the sale of
custom software is the provision of a service, as is the
customization of canned software, and is taxable under the service
classification of the business and occupation (B&O) tax.
      Section 8 of this bill would provide a B&O tax credit for
software businesses that have their principal place of business in
a distressed county. However, the bill as written, would allow a
qualifying software company with headquarters in a distressed
county to also exempt from the B&O tax all its operations located
in a non-distressed county. This could lead to a business
establishing only a small office with few employees in the
distressed county, defeating the purpose of the legislation. While
Section 8 was intended to provide an innovative approach to rural
economic development, this language results in a significant tax
loophole that will not benefit the citizens of rural distressed
counties.
      I proposed several economic development packages for
distressed counties in the 1998 legislative session, and I strongly
agree with the concept presented in section 8 of this bill.
However, section 8 of this bill would have unintended consequences.
I would support a more finely crafted bill.
      For these reasons, I have vetoed section 8 of Engrossed
Substitute Senate Bill No. 6470.
      With the exception of section 8, Engrossed Substitute Senate
Bill No. 6470 is approved.

                              Respectfully submitted,
                              Gary Locke
                              Governor