
SENATE BILL 5449

State of Washington 58th Legislature 2003 Regular Session

By Senators Thibaudeau, Jacobsen and Kohl-Welles

Read first time 01/27/2003. Referred to Committee on Ways & Means.

1 AN ACT Relating to fiscal reform; amending RCW 82.03.130,
2 82.03.140, 2.10.180, 2.12.090, 6.13.030, 41.24.240, 41.35.100,
3 41.40.052, 41.44.240, 43.43.310, and 82.08.020; reenacting and amending
4 RCW 6.15.020, 41.32.052, and 41.26.053; adding a new title to the
5 Revised Code of Washington to be codified as Title 82A RCW; creating
6 new sections; repealing RCW 6.15.025; prescribing penalties; and
7 providing an effective date.

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

9 **PART I**

10 **GENERAL PROVISIONS**

11 NEW SECTION. **Sec. 101.** INTENT. It is the intent of the
12 legislature in adopting this title to provide the necessary revenues
13 for the support of vital state services on a more stable and equitable
14 basis.

15 **PART II**

16 **DEFINITIONS**

1 NEW SECTION. **Sec. 201.** INTRODUCTORY. Unless the context clearly
2 requires otherwise, the definitions in sections 202 through 212 of this
3 act apply throughout this title.

4 NEW SECTION. **Sec. 202.** ADJUSTED GROSS INCOME. "Adjusted gross
5 income" means adjusted gross income as determined under the internal
6 revenue code.

7 NEW SECTION. **Sec. 203.** DEPARTMENT. "Department" means the state
8 department of revenue.

9 NEW SECTION. **Sec. 204.** FEDERAL BASE INCOME. "Federal base
10 income" means:

- 11 (1) For individuals, adjusted gross income;
- 12 (2) For estates and trusts, taxable income as determined for
13 estates and trusts consistent with subtitle A, chapter I, subchapter J
14 of the internal revenue code.

15 NEW SECTION. **Sec. 205.** INDIVIDUAL. "Individual" means a natural
16 person.

17 NEW SECTION. **Sec. 206.** INTERNAL REVENUE CODE. "Internal revenue
18 code" means the United States internal revenue code of 1986 and
19 amendments thereto, as existing and in effect on January 1, 2004.

20 NEW SECTION. **Sec. 207.** PERSON. "Person" includes individuals,
21 partnerships, firms, companies, fiduciaries, estates, trusts, and any
22 other group or combination acting as a unit, but does not include
23 corporations.

24 NEW SECTION. **Sec. 208.** RESIDENT. (1) "Resident" includes an
25 individual who:

- 26 (a) Has resided in this state for the entire tax year; or
- 27 (b) Is domiciled in this state unless the individual:
 - 28 (i) Maintains no permanent place of abode in this state; and
 - 29 (ii) Does not maintain a permanent place of abode elsewhere; and
 - 30 (iii) Spends in the aggregate not more than thirty days in the tax
31 year in this state; or

1 (c) Is not domiciled in this state, but maintains a permanent place
2 of abode in this state and spends in the aggregate more than one
3 hundred eighty-three days of the tax year in this state unless the
4 individual establishes to the satisfaction of the director of revenue
5 that the individual is in the state only for temporary or transitory
6 purposes; or

7 (d) Claims the state of Washington as the individual's tax home for
8 federal income tax purposes.

9 (2) A resident estate means an estate of which a personal
10 representative was appointed by a Washington court or an estate
11 administration of which is carried on in this state.

12 (3) A resident trust means a trust whose situs as determined by RCW
13 11.96A.030 is within the state of Washington.

14 NEW SECTION. **Sec. 209.** S CORPORATION. "S corporation" means an
15 S corporation as defined in section 1361 of the internal revenue code.

16 NEW SECTION. **Sec. 210.** TAXABLE INCOME. "Taxable income" means
17 federal base income as modified under sections 401 through 503 of this
18 act.

19 NEW SECTION. **Sec. 211.** TAXABLE YEAR. "Taxable year" means the
20 taxpayer's taxable year as defined under the internal revenue code.

21 NEW SECTION. **Sec. 212.** TAXPAYER. "Taxpayer" means a person
22 receiving income subject to tax under this title.

23 NEW SECTION. **Sec. 213.** DEFINITION OF TERMS GENERALLY. Except as
24 provided in sections 201 through 212 of this act, any term used in this
25 title has the same meaning as when used in a comparable context in the
26 internal revenue code.

27 **PART III**
28 **DETERMINATION OF TAX**

29 NEW SECTION. **Sec. 301.** TAX IMPOSED--RATES. (1) A tax is imposed
30 on all taxable income of resident individuals, estates, and trusts and

1 on all individuals, estates, and trusts deriving income from sources in
2 Washington for each taxable year in accordance with the following
3 table:

4 If taxable income is:	The tax is:
5 Not over \$20,000	3.0% of taxable income
6 Over \$20,000 but not over \$50,000	\$600 plus 4.8% of the excess over \$20,000
7 Over \$50,000	\$2,040 plus 5.8% of the excess over \$50,000

8 (2) Taxable income of a taxpayer exempt from taxation by internal
9 revenue code section 501 is exempt from taxation by this title.

10 NEW SECTION. **Sec. 302.** CREDIT FOR INCOME TAXES DUE ANOTHER
11 JURISDICTION. (1) A resident individual, estate, or trust is allowed
12 a credit against the tax imposed under this title for the amount of any
13 income tax imposed by another state or foreign country, or political
14 subdivision of the state or foreign country, on income taxed under this
15 title, subject to the following conditions, which shall be imposed
16 separately with respect to each taxing jurisdiction:

17 (a) The credit is allowed only for taxes imposed by the other
18 jurisdiction on net income from sources within that jurisdiction; and

19 (b) The amount of the credit shall not exceed the smaller of:

20 (i) The amount of tax paid to the other jurisdiction on net income
21 from sources within the other jurisdiction; or

22 (ii) The amount of tax due under this title before application of
23 credits allowable by this title, multiplied by a fraction. The
24 numerator of the fraction is the amount of the taxpayer's adjusted
25 gross income subject to tax in the other jurisdiction. The denominator
26 of the fraction is the taxpayer's total adjusted gross income as
27 modified by this title. The fraction shall never be greater than one.

28 (2) If, in lieu of a credit similar to the credit allowed under
29 subsection (1) of this section, the laws of the other taxing
30 jurisdiction contain a provision exempting a resident of this state
31 from liability for the payment of income taxes on income earned for
32 personal services performed in such jurisdiction, then the director is
33 authorized to enter into a reciprocal agreement with such jurisdiction
34 providing a similar tax exemption on income earned for personal
35 services performed in this state.

1 NEW SECTION. **Sec. 303.** DUAL RESIDENCE. If an individual is
2 regarded as a resident both of this state and another jurisdiction for
3 state personal income tax purposes, the department shall reduce the tax
4 on that portion of the taxpayer's income which is subjected to tax in
5 both jurisdictions solely by virtue of dual residence, if the other
6 taxing jurisdiction allows a similar reduction. The reduction shall
7 equal the lower of the two taxes applicable to the income taxed twice,
8 multiplied by a fraction. The numerator of the fraction is the tax
9 imposed by this state on the income taxed twice. The denominator of
10 the fraction is the tax imposed by both jurisdictions on the income
11 taxed twice. The fraction shall never be greater than one.

12 NEW SECTION. **Sec. 304.** BUSINESS AND OCCUPATION TAX CREDIT. (1)
13 There shall be allowed a credit against the tax imposed by this title
14 in the amount of the state of Washington business and occupation tax
15 paid by the taxpayer in the tax year subject to the limitation of
16 subsection (2) of this section.

- 17 (2) The credit shall not exceed the smaller of:
- 18 (a) The amount of business and occupation tax paid; or
- 19 (b) The amount of tax of the taxpayer imposed by this title before
20 the application of credits allowed by this title, multiplied by a
21 fraction:
- 22 (i) The numerator is the amount of the taxpayer's adjusted gross
23 income attributable to activities subject to business and occupation
24 tax; and
- 25 (ii) The denominator is the taxpayer's adjusted gross income as
26 modified by this title. The fraction shall never be greater than one.

27 NEW SECTION. **Sec. 305.** PUBLIC UTILITY TAX CREDIT. (1) There
28 shall be allowed a credit against the tax imposed by this title in the
29 amount of the state of Washington public utility tax paid by the
30 taxpayer in the tax year subject to the limitation of subsection (2) of
31 this section.

- 32 (2) The credit shall not exceed the smaller of:
- 33 (a) The amount of public utility tax paid; or
- 34 (b) The amount of tax of the taxpayer imposed by this title before
35 the application of credits allowed by this title, multiplied by a
36 fraction:

1 (i) The numerator is the amount of the taxpayer's adjusted gross
2 income attributable to activities subject to public utility tax; and

3 (ii) The denominator is the taxpayer's adjusted gross income as
4 modified by this title. The fraction shall never be greater than one.

5 NEW SECTION. **Sec. 306.** CARRYFORWARDS AND CARRYBACKS. The amount
6 of tax credits received by any taxpayer under sections 302, 304, and
7 305 of this act shall not exceed the total amount of tax due, and there
8 shall be no carryback or carryforward of any unused excess credits.

9 **PART IV**

10 **TAXABLE INCOME MODIFICATIONS**

11 NEW SECTION. **Sec. 401.** INTRODUCTORY. In computing taxable
12 income, modifications shall be made to the taxpayer's federal base
13 income as required under sections 301 through 410 of this act, unless
14 the modification has the effect of duplicating an item of income or
15 deduction.

16 NEW SECTION. **Sec. 402.** STATE AND LOCAL OBLIGATIONS. To federal
17 base income, add income which has been excluded under section 103 of
18 the internal revenue code in computing federal base income, except
19 interest on obligations of the state of Washington or political
20 subdivisions of the state of Washington.

21 NEW SECTION. **Sec. 403.** STATE AND LOCAL INCOME TAXES--BUSINESS AND
22 OCCUPATION, PUBLIC UTILITY TAXES. To federal base income, add:

23 (1) Taxes on or measured by net income which have been deducted
24 under the internal revenue code in computing federal base income;

25 (2) The amount of taxes paid or accrued which have been deducted
26 for federal purposes, but for which a business and occupation tax
27 credit or public utility tax credit, or both, is allowed.

28 NEW SECTION. **Sec. 404.** NET OPERATING LOSS. There shall be
29 allowed as a deduction from federal base income the amount of net
30 operating loss as allowed in section 172 of the internal revenue code.
31 The calculation of the loss amount shall reflect the modifications to

1 federal base income as provided in this title and a net operating loss
2 deduction may include a loss carried forward to the tax year but shall
3 not include a loss carried back from a future year.

4 NEW SECTION. **Sec. 405.** CARRYOVERS. To federal base income, add
5 amounts which have been deducted in computing federal base income to
6 the extent the amounts have been carried over from taxable years ending
7 before the effective date of this title.

8 NEW SECTION. **Sec. 406.** FEDERAL OBLIGATIONS. From federal base
9 income, deduct, to the extent included in federal base income, income
10 derived from obligations of the United States which this state is
11 prohibited by federal law from subjecting to a net income tax.
12 However, the amount deducted under this section shall be reduced by any
13 expense, including amortizable bond premiums, incurred in the
14 production of such income to the extent the expense has been deducted
15 in calculating federal base income.

16 NEW SECTION. **Sec. 407.** STANDARD DEDUCTION. There shall be
17 allowed from federal base income the following standard deductions.
18 The standard deduction for an individual shall be:

19 (1) In the case of a joint return or a surviving spouse, forty-five
20 thousand dollars if only one spouse has earned income and forty-five
21 thousand dollars plus the earned income of the spouse with the lesser
22 income, not to exceed sixty thousand dollars in total, if both spouses
23 have earned income;

24 (2) In the case of the head of a household, forty-five thousand
25 dollars;

26 (3) In the case of an individual who is not married and who is not
27 a surviving spouse or head of a household and in the case of a married
28 individual filing a separate return, thirty thousand dollars.

29 NEW SECTION. **Sec. 408.** ADJUSTMENT OF STANDARD DEDUCTIONS FOR
30 NONRESIDENTS. The deduction from federal base income allowed under
31 section 407 of this act for individual taxpayers who are not residents
32 of this state for the entire taxable year shall be reduced by
33 multiplying the amount of the deduction by a fraction. The numerator
34 of the fraction is the individual's adjusted gross income attributable

1 to sources within the state of Washington. The denominator of the
2 fraction is the individual's gross income from all sources. The
3 fraction shall never be greater than one.

4 NEW SECTION. **Sec. 409.** TAX RETURNS FOR FRACTIONAL YEAR. (1) If
5 the first taxable year of any taxpayer with respect to which a tax is
6 imposed by this title ends before December 31st of the calendar year in
7 which this title becomes effective, the taxable income for the
8 fractional taxable year shall be the taxpayer's taxable income for the
9 entire taxable year, adjusted by one of the following methods, at the
10 taxpayer's election:

11 (a) The taxable income shall be multiplied by a fraction. The
12 numerator of the fraction is the number of days in the fractional
13 taxable year. The denominator of the fraction is the number of days in
14 the entire taxable year.

15 (b) The taxable income shall be adjusted, in accordance with rules
16 of the department, so as to include only such income and be reduced
17 only by such deductions as can be clearly determined from the permanent
18 records of the taxpayer to be attributable to the fractional taxable
19 year.

20 (2) If an individual taxpayer's taxable income is adjusted under
21 subsection (1) of this section, the deduction amount allowed under
22 section 407 of this act for the taxpayer shall be reduced by
23 multiplying the amount of the deduction by a fraction. The numerator
24 of the fraction is the number of days in the taxpayer's fractional
25 taxable year. The denominator of the fraction is the number of days in
26 the entire taxable year.

27 NEW SECTION. **Sec. 410.** INDEX FOR INFLATION. For each tax year
28 beginning after December 31, 2005, the standard deduction amounts under
29 section 407 of this act shall be adjusted by the department for
30 inflation by multiplying the standard deduction amounts of the previous
31 tax year by the cost-of-living adjustment as determined under internal
32 revenue code section 1(f)(3) through (5) for the calendar year in which
33 the tax year begins. No adjustment shall be made which decreases the
34 standard deduction amounts. If any adjustment increase is not a
35 multiple of ten dollars, the increase shall be rounded to the next
36 lowest multiple of ten dollars.

1 **PART V**

2 **DIVISION OF INCOME, MODIFICATIONS, AND CREDITS**

3 NEW SECTION. **Sec. 501.** APPORTIONMENT AND ALLOCATION OF INCOME.

4 (1) For resident individuals, estates, and trusts, all income shall be
5 apportioned and allocated to this state.

6 (2) For nonresident individuals, estates, and trusts, income
7 derived from sources within this state shall be apportioned and
8 allocated to this state. For purposes of this title:

9 (a) The adjusted gross income of a nonresident derived from sources
10 within this state is the net amount of items of income, gain, loss, and
11 deduction of the nonresident's federal adjusted gross income that are
12 derived from or connected with sources in this state including any
13 distributive share of partnership income and deductions, and any share
14 of estate or trust income and deductions, including any unrelated
15 business income of an otherwise exempt trust or organization.

16 (b) Items of income, gain, loss, and deduction derived from or
17 connected with sources within this state are those items attributable
18 to the ownership or disposition of any interest in real or tangible
19 personal property in this state, and a business, trade, profession, or
20 occupation carried on within this state. The department shall issue
21 rules to provide consistency of this section with the excise tax
22 provisions.

23 (c) Deduction with respect to expenses, capital losses, and net
24 operating losses shall be based solely on income, gains, losses, and
25 deductions derived from or connected with sources in this state but
26 shall otherwise be determined in the same manner as the corresponding
27 federal deduction except as provided in this title.

28 (d) Income from intangible personal property, including annuities,
29 dividends, interest, and gains from the disposition of intangible
30 personal property, constitutes income derived from sources within the
31 state of Washington only to the extent that such income is from
32 property employed in a business, trade, profession, or occupation
33 carried on within this state: PROVIDED, That distributed and
34 undistributed income of an electing S corporation for federal tax
35 purposes derived from or connected with sources within this state is
36 income derived from sources within this state for a nonresident
37 shareholder. A net operating loss of such corporation does constitute

1 a loss or deduction connected with sources within this state for a
2 nonresident shareholder.

3 (e) Compensation paid by the United States for service in the armed
4 forces of the United States performed in this state by a nonresident
5 does not constitute income derived from sources within this state.

6 (f) If a business, trade, profession, or occupation is carried on
7 partly within and partly without this state, the determination of net
8 income derived or connected with sources within this state as provided
9 in this section shall be made by apportionment and allocation of
10 chapter 82.56 RCW.

11 NEW SECTION. **Sec. 502.** PARTNERSHIPS AND S CORPORATIONS. (1)

12 Partnerships are not subject to tax under this title. Partners are
13 subject to tax in their separate or individual capacities.

14 (2) S corporations are not subject to tax under this title.
15 Shareholders of S corporations are subject to tax in their separate or
16 individual capacities.

17 (3) The taxable incomes of partners shall be computed by including
18 a pro rata share of the modifications under sections 401 through 503 of
19 this act and the credits allowed under sections 302, 304, and 305 of
20 this act, if the modification or credit relates to the income of the
21 partnership. Each partner's pro rata share of a modification or credit
22 is the amount of modification or credit multiplied by a fraction. The
23 numerator of the fraction is the partner's distributive share of
24 partnership income. The denominator of the fraction is the total
25 partnership income. The fraction shall never be greater than one.

26 (4) The taxable incomes of shareholders of S corporations shall be
27 computed by including a share of the modifications under sections 401
28 through 503 of this act and the credits allowed under sections 302,
29 304, and 305 of this act, if the modification or credit relates to the
30 income of the S corporation. Each shareholder's share of a
31 modification or credit is the amount of modification or credit
32 multiplied by a fraction. The numerator of the fraction is the
33 shareholder's pro rata share of S corporation income. The denominator
34 of the fraction is the total S corporation income. The fraction shall
35 never be greater than one.

36 (5) As used in this section:

1 (a) "S corporation income" includes both distributed and
2 undistributed federal taxable income of the S corporation.

3 (b) "Pro rata share" means pro rata share as determined under
4 section 1366(a) of the internal revenue code.

5 NEW SECTION. **Sec. 503.** ESTATES, TRUSTS, AND BENEFICIARIES. (1)
6 The taxable incomes of estates, trusts, and beneficiaries thereof shall
7 be computed by including a share of the modifications under sections
8 401 through 503 of this act and the credits allowed under sections 302,
9 304, and 305 of this act.

10 Each taxpayer's share of a modification or credit is the amount of
11 modification or credit multiplied by a fraction. The numerator of the
12 fraction is the taxpayer's share of the distributable net income of the
13 estate or trust. The denominator of the fraction is the total
14 distributable net income of the estate or trust. The fraction shall
15 never be greater than one.

16 (2) As used in this section, "distributable net income" means
17 distributable net income as defined in the internal revenue code. If
18 an estate or trust has no federal distributable net income, the term
19 means the income of the estate or trust which is distributed or is
20 required to be distributed during the taxable year under local law or
21 the terms of the estate or trust instrument.

22 (3) Any portion of a modification which is not included in
23 calculating the taxable incomes of the beneficiaries shall be included
24 in calculating the taxable income of the trust or estate.

25 **PART VI**

26 **WITHHOLDING--ESTIMATED TAX**

27 NEW SECTION. **Sec. 601.** EMPLOYER WITHHOLDING--REQUIREMENTS. (1)
28 Every employer making a payment of wages or salaries earned in this
29 state, regardless of the place where the payment is made, and who is
30 required by the internal revenue code to withhold taxes, shall deduct
31 and withhold a tax as prescribed by the department by rule. The rules
32 prescribed shall reasonably reflect the annual tax liability of the
33 employee under this title. Every employer making such a deduction and
34 withholding shall furnish to the employee a record of the amount of tax

1 deducted and withheld from the employee on forms provided by the
2 department.

3 (2) If the employee is a resident of this state and earns income
4 from personal services entirely performed in another state which
5 imposes an income tax on the income, and the employer withholds income
6 taxes under the laws of the state in which the income is earned, the
7 employer is not required to withhold any tax imposed by this title on
8 the income if the laws of the state in which the income is earned allow
9 a similar exemption for its residents who earn income in this state.

10 NEW SECTION. **Sec. 602.** LIABILITY OF EMPLOYER FOR TAX WITHHELD.
11 Any person required to deduct and withhold the tax imposed by this
12 title is liable to the department for the payment of the amount
13 deducted and withheld, and is not liable to any other person for the
14 amount of tax deducted and withheld under this title or for the act of
15 withholding. The amount of tax so deducted and withheld shall be held
16 to be a special fund in trust for this state.

17 NEW SECTION. **Sec. 603.** CREDIT FOR TAX WITHHELD--HOW CLAIMED. The
18 amount deducted and withheld as tax under sections 601 through 606 of
19 this act during any taxable year shall be allowed as a credit against
20 the tax imposed for the taxable year by this title. If the liability
21 of any individual for taxes, interest, penalties, or other amounts due
22 the state of Washington is less than the total amount of the credit
23 which the individual is entitled to claim under this section, the
24 individual is entitled to a refund from the department in the amount of
25 the excess of the credit over the tax otherwise due. If any individual
26 entitled to claim a credit under this section is not otherwise required
27 by this title to file a return, a refund may be obtained in the amount
28 of the credit by filing a return, with applicable sections completed,
29 to claim the refund. No credit or refund is allowed under this section
30 unless the credit or refund is claimed on a return filed for the
31 taxable year for which the amount was deducted and withheld.

32 NEW SECTION. **Sec. 604.** WITHHOLDING--EXEMPTION DECLARATIONS. An
33 employee shall be entitled to use and an employer shall use the
34 withholding exemption declaration on file with the employer for federal
35 income tax purposes. The department may redetermine the number of

1 withholding exemptions to which any employee is entitled, and the
2 department may require an additional withholding exemption declaration
3 to be filed on a form prescribed by the department where the department
4 finds that the exemption declaration filed for federal income tax
5 purposes does not properly reflect the number of withholding exemptions
6 to which the employee is entitled.

7 NEW SECTION. **Sec. 605.** WITHHOLDING--FAILURE TO PAY OR COLLECT--
8 PENALTIES. (1) The tax required by this title to be collected by the
9 employer shall be deemed to be held in trust by the employer until paid
10 to the department.

11 (2) In case any employer, or a responsible person within the
12 meaning of internal revenue code section 6672, fails to collect the tax
13 herein imposed or having collected the tax, fails to pay it to the
14 department, the employer or responsible person shall, nevertheless, be
15 personally liable to the state for the amount of the tax. The interest
16 and penalty provisions of chapter 82.32 RCW shall apply to this
17 section.

18 NEW SECTION. **Sec. 606.** ESTIMATED TAX IMPOSED--DUE DATE OF
19 ESTIMATED TAXES--AMOUNT OF ESTIMATED TAX--UNDERPAYMENT PENALTY. (1)
20 Each individual, estate, or trust subject to taxation by this title
21 which is required by the internal revenue code to make payment of
22 estimated taxes shall pay to the department on forms prescribed by the
23 department the estimated taxes due under this title.

24 (2) The provisions of the internal revenue code relating to the
25 determination of reporting periods and due dates of payments of
26 estimated tax applies to the estimated tax payments due under this
27 section.

28 (3) The amount of the estimated tax shall be the annualized tax
29 divided by the number of months in the reporting period. No estimated
30 tax shall be due if the annualized tax is less than five hundred
31 dollars. The provisions of RCW 82.32.050 and 82.32.090 shall apply to
32 underpayments of estimated tax but shall not apply to underpayments, as
33 defined by the internal revenue code, if the tax remitted to the
34 department is either ninety percent of the tax shown on the return or
35 one hundred percent of the tax shown on the previous year's tax return.

1 (4) For purposes of this section, the annualized tax is the
2 taxpayer's projected tax liability for the tax year as computed
3 pursuant to internal revenue code section 6654 and the regulations
4 thereunder.

5 **PART VII**

6 **CRIMES**

7 NEW SECTION. **Sec. 701.** CRIMES. (1) Any person who knowingly
8 attempts to evade the tax imposed under this title or payment thereof
9 is guilty of a class C felony as provided in chapter 9A.20 RCW.

10 (2) Any person required to collect tax imposed under this title who
11 knowingly fails to collect, truthfully account for, or pay over the tax
12 is guilty of a class C felony as provided in chapter 9A.20 RCW.

13 (3) Any person who knowingly fails to pay tax, pay estimated tax,
14 make returns, keep records, or supply information, as required under
15 this title, is guilty of a gross misdemeanor as provided in chapter
16 9A.20 RCW.

17 **PART VIII**

18 **ADMINISTRATIVE PROVISIONS**

19 NEW SECTION. **Sec. 801.** METHOD OF ACCOUNTING. (1) A taxpayer's
20 method of accounting for purposes of the tax imposed under this title
21 shall be the same as the taxpayer's method of accounting for federal
22 income tax purposes. If no method of accounting has been regularly
23 used by a taxpayer for federal income tax purposes or if the method
24 used does not clearly reflect income, tax due under this title shall be
25 computed by a method of accounting which in the opinion of the
26 department fairly reflects income.

27 (2) If a person's method of accounting is changed for federal
28 income tax purposes, it shall be similarly changed for purposes of this
29 title.

30 NEW SECTION. **Sec. 802.** PERSONS REQUIRED TO FILE RETURNS. (1) All
31 taxpayers shall file with the department, on forms prescribed by the
32 department, an income tax return for each tax year. Each person

1 required to file a return under this title shall, without assessment,
2 notice, or demand, pay any tax due thereon to the department on or
3 before the date fixed for the filing of the return.

4 (2) The department may by rule require that certain taxpayers file,
5 on forms prescribed by the department, informational returns for any
6 period. Each person required by rule to file an informational return
7 shall, without assessment, notice, or demand, pay any tax due thereon
8 to the department on or before the date fixed for the filing of the
9 informational return.

10 (3) If an adjustment to a taxpayer's federal return is made by the
11 taxpayer or the internal revenue service, the taxpayer shall, within
12 ninety days of the final determination of the adjustment by the
13 internal revenue service or within thirty days of the filing of a
14 federal return adjusted by the taxpayer, file with the department on
15 forms prescribed by the department a corrected return reflecting the
16 adjustments as finally determined. The taxpayer shall pay any
17 additional tax due resulting from the finally determined internal
18 revenue service adjustment or a taxpayer adjustment without notice and
19 assessment. Notwithstanding any provision of this title or any other
20 title to the contrary, the period of limitation for the collection of
21 the additional tax, interest, and penalty due as a result of an
22 adjustment by the taxpayer or a finally determined internal revenue
23 service adjustment shall begin at the later of thirty days following
24 the final determination of the adjustment or the date of the filing of
25 the corrected return.

26 NEW SECTION. **Sec. 803.** DUE DATE FOR FILING A RETURN--EXTENSIONS--
27 INTEREST AND PENALTIES. The due date of a return required to be filed
28 with the department shall be the due date of the federal income tax
29 return or informational return for federal income tax purposes. The
30 department shall have the authority to grant extensions of times by
31 which returns required to be filed by this title may be submitted. The
32 department shall also have the authority to grant extensions of time to
33 pay tax with regard to taxes imposed by this title. Interest at the
34 rate as specified in RCW 82.32.050 shall accrue during any extension
35 period and the interest and penalty provisions of chapter 82.32 RCW
36 shall apply to late payments and deficiencies. Notwithstanding the
37 limitation of RCW 82.32.090, in the case of the late filing of an

1 informational return, there shall be imposed a penalty the amount of
2 which shall be established by the department by rule. The penalty
3 shall not exceed fifty dollars per month for a maximum of ten months.
4 RCW 82.32.105 shall apply to this section.

5 NEW SECTION. **Sec. 804.** JOINT RETURN. (1) If the federal income
6 tax liabilities of both spouses are determined on a joint federal
7 return for the taxable year, they shall file a joint return under this
8 title unless one spouse is a resident and the other is a nonresident.

9 (2) If neither spouse is required to file a federal income tax
10 return for the taxable year, a joint return may be filed under this
11 title under the same conditions under which a joint return may be filed
12 for purposes of the federal income tax.

13 (3) If the federal income tax liability of either spouse is
14 determined on a separate federal return for the taxable year, they
15 shall file separate returns under this title.

16 (4) If one spouse is a resident and the other is a nonresident,
17 they shall file separate returns under this title, unless they elect to
18 determine their tax liabilities under this title on a joint return as
19 if they were both residents, and:

20 (a) Their federal tax liability for the taxable year was determined
21 on a joint federal return; or

22 (b) Neither spouse has filed a federal income tax return for the
23 taxable year and they would be permitted to file a joint federal return
24 for the taxable year.

25 (5) In any case in which a joint return is filed under this
26 section, the liability of the husband and wife is joint and several,
27 unless the spouse is relieved of liability under section 6013 of the
28 internal revenue code.

29 NEW SECTION. **Sec. 805.** RECORDS--RETURNS. (1) Every taxpayer and
30 every person required to deduct and withhold the tax imposed under this
31 title shall keep records, render statements, make returns, file
32 reports, and perform other acts as the department requires by rule.
33 Each return shall be made under penalty of perjury and on forms
34 prescribed by the department. The department may require other
35 statements and reports be made under penalty of perjury and on forms
36 prescribed by the department. The department may require any taxpayer

1 and any person required to deduct and withhold the tax imposed under
2 this title to furnish to the department a correct copy of any return or
3 document which the taxpayer has filed with the internal revenue service
4 or received from the internal revenue service.

5 (2) All books and records and other papers and documents required
6 to be kept under this title are subject to inspection by the department
7 at all times during business hours of the day.

8 NEW SECTION. **Sec. 806.** ESTIMATION AGREEMENTS. The department may
9 reasonably estimate the items of business or nonbusiness income of a
10 taxpayer having an office within the state and one or more other states
11 or foreign countries which may be apportioned or allocated to the state
12 and may enter into estimation agreements with such taxpayers for the
13 determination of their liability for the tax imposed by this title.

14 NEW SECTION. **Sec. 807.** PROVISIONS OF INTERNAL REVENUE CODE
15 CONTROL. (1) To the extent possible without being inconsistent with
16 this title, all of the provisions of the internal revenue code relating
17 to the following subjects apply to the taxes imposed under this title:

18 (a) Time of payment of tax deducted and withheld under sections 301
19 through 306 of this act;

20 (b) Liability of transferees;

21 (c) Time and manner of making returns, extensions of time for
22 filing returns, verification of returns, and the time when a return is
23 deemed filed.

24 (2) The department by rule may provide modifications and exceptions
25 to the provisions listed in subsection (1) of this section, if
26 reasonably necessary to facilitate the prompt, efficient, and equitable
27 collection of tax under this title.

28 NEW SECTION. **Sec. 808.** REFUNDS OF OVERPAYMENTS--OTHER
29 ADMINISTRATIVE PROVISIONS. (1) The department shall refund all taxes
30 improperly paid or collected.

31 (2) The following sections shall apply to the administration of
32 taxes imposed under this title: 82.32.020, 82.32.050, 82.32.060,
33 82.32.070, 82.32.090, 82.32.100, 82.32.105, 82.32.110, 82.32.120,
34 82.32.130, 82.32.140, 82.32.150, 82.32.160, 82.32.170, 82.32.180,

1 82.32.190, 82.32.200, 82.32.210, 82.32.220, 82.32.230, 82.32.235,
2 82.32.237, 82.32.240, 82.32.245, 82.32.265, 82.32.300, 82.32.310,
3 82.32.320, 82.32.330, 82.32.340, 82.32.350, 82.32.360, and 82.32.380.

4 NEW SECTION. **Sec. 809.** RULES. The department may adopt rules
5 under chapter 34.05 RCW for the administration and enforcement of this
6 title. The rules, to the extent possible without being inconsistent
7 with this title, shall follow the internal revenue code and the
8 regulations and rulings of the United States treasury department with
9 respect to the federal income tax. The department may adopt as a part
10 of these rules any portions of the internal revenue code and treasury
11 department regulations and rulings, in whole or in part.

12 **PART IX**
13 **APPEALS**

14 **Sec. 901.** RCW 82.03.130 and 1998 c 54 s 1 are each amended to read
15 as follows:

16 BOARD OF TAX APPEALS--JURISDICTION. (1) The board shall have
17 jurisdiction to decide the following types of appeals:

18 (a) Appeals taken pursuant to RCW 82.03.190.

19 (b) Appeals from a county board of equalization pursuant to RCW
20 84.08.130.

21 (c) Appeals by an assessor or landowner from an order of the
22 director of revenue made pursuant to RCW 84.08.010 and 84.08.060, if
23 filed with the board of tax appeals within thirty days after the
24 mailing of the order, the right to such an appeal being hereby
25 established.

26 (d) Appeals by an assessor or owner of an intercounty public
27 utility or private car company from determinations by the director of
28 revenue of equalized assessed valuation of property and the
29 apportionment thereof to a county made pursuant to chapter 84.12 and
30 84.16 RCW, if filed with the board of tax appeals within thirty days
31 after mailing of the determination, the right to such appeal being
32 hereby established.

33 (e) Appeals by an assessor, landowner, or owner of an intercounty
34 public utility or private car company from a determination of any

1 county indicated ratio for such county compiled by the department of
2 revenue pursuant to RCW 84.48.075: PROVIDED, That

3 (i) Said appeal be filed after review of the ratio under RCW
4 84.48.075(3) and not later than fifteen days after the mailing of the
5 certification; and

6 (ii) The hearing before the board shall be expeditiously held in
7 accordance with rules prescribed by the board and shall take precedence
8 over all matters of the same character.

9 (f) Appeals from the decisions of sale price of second class
10 shorelands on navigable lakes by the department of natural resources
11 pursuant to RCW 79.94.210.

12 (g) Appeals from urban redevelopment property tax apportionment
13 district proposals established by governmental ordinances pursuant to
14 RCW 39.88.060.

15 (h) Appeals from interest rates as determined by the department of
16 revenue for use in valuing farmland under current use assessment
17 pursuant to RCW 84.34.065.

18 (i) Appeals from revisions to stumpage value tables used to
19 determine value by the department of revenue pursuant to RCW 84.33.091.

20 (j) Appeals from denial of tax exemption application by the
21 department of revenue pursuant to RCW 84.36.850.

22 (k) Appeals pursuant to RCW 84.40.038(3).

23 (l) Appeals relating to income tax deficiencies and refunds,
24 including penalties and interest, under Title 82A RCW (sections 101
25 through 809 of this act).

26 (2) Except as otherwise specifically provided by law hereafter, the
27 provisions of RCW 1.12.070 shall apply to all notices of appeal filed
28 with the board of tax appeals.

29 **Sec. 902.** RCW 82.03.140 and 2000 c 103 s 1 are each amended to
30 read as follows:

31 ELECTION OF FORMAL OR INFORMAL HEARING. In all appeals over which
32 the board has jurisdiction under RCW 82.03.130, a party taking an
33 appeal may elect either a formal or an informal hearing, such election
34 to be made according to rules of practice and procedure to be
35 promulgated by the board: PROVIDED, That nothing shall prevent the
36 assessor or taxpayer, as a party to an appeal pursuant to RCW
37 84.08.130, within twenty days from the date of the receipt of the

1 notice of appeal, from filing with the clerk of the board notice of
2 intention that the hearing be a formal one: PROVIDED, HOWEVER, That
3 nothing herein shall be construed to modify the provisions of RCW
4 82.03.190: AND PROVIDED FURTHER, That upon an appeal under RCW
5 82.03.130(1) (e) or (1), the director of revenue may, within ten days
6 from the date of its receipt of the notice of appeal, file with the
7 clerk of the board notice of its (~~intention that the hearing be held~~
8 ~~pursuant to chapter 34.05 RCW~~) election of a formal hearing. In the
9 event that appeals are taken from the same decision, order, or
10 determination, as the case may be, by different parties and only one of
11 such parties elects a formal hearing, a formal hearing shall be
12 granted.

13 **PART X**

14 **APPLICATION OF TAX TO PUBLIC PENSIONS**

15 **Sec. 1001.** RCW 2.10.180 and 1991 c 365 s 18 are each amended to
16 read as follows:

17 JUDICIAL RETIREMENT SYSTEM. (1) Except as provided in subsections
18 (2), (3), (~~and~~) (4), and (5) of this section, the right of a person
19 to a retirement allowance, disability allowance, or death benefit, the
20 retirement, disability or death allowance itself, any optional benefit,
21 any other right accrued or accruing to any person under the provisions
22 of this chapter, and the moneys in the fund created under this chapter,
23 are hereby exempt from any state, county, municipal, or other local tax
24 and shall not be subject to execution, garnishment, or any other
25 process of law whatsoever.

26 (2) Subsection (1) of this section shall not be deemed to prohibit
27 a beneficiary of a retirement allowance from authorizing deductions
28 therefrom for payment of premiums due on any group insurance policy or
29 plan issued for the benefit of a group comprised of public employees of
30 the state of Washington.

31 (3) Deductions made in the past from retirement benefits are hereby
32 expressly recognized, ratified, and affirmed. Future deductions may
33 only be made in accordance with this section.

34 (4) Subsection (1) of this section shall not prohibit the
35 department of retirement systems from complying with (a) a wage
36 assignment order for child support issued pursuant to chapter 26.18

1 RCW, (b) a notice of payroll deduction issued under chapter 26.23 RCW,
2 (c) an order to withhold and deliver issued pursuant to chapter 74.20A
3 RCW, (d) a mandatory benefits assignment order issued pursuant to
4 chapter 41.50 RCW, (e) a court order directing the department of
5 retirement systems to pay benefits directly to an obligee under a
6 dissolution order as defined in RCW 41.50.500(3) which fully complies
7 with RCW 41.50.670 and 41.50.700, or (f) any administrative or court
8 order expressly authorized by federal law.

9 (5) Subsection (1) of this section does not exempt any pension or
10 other benefit received under this chapter from tax under Title 82A RCW
11 (sections 101 through 809 of this act), nor does it prohibit the
12 department of retirement systems from complying with the tax
13 withholding requirements of that title.

14 **Sec. 1002.** RCW 2.12.090 and 1991 c 365 s 19 are each amended to
15 read as follows:

16 JUDGES' RETIREMENT. (1) Except as provided in subsections (2),
17 (3), (~~and~~) (4), and (5) of this section, the right of any person to
18 a retirement allowance or optional retirement allowance under the
19 provisions of this chapter and all moneys and investments and income
20 thereof are exempt from any state, county, municipal, or other local
21 tax and shall not be subject to execution, garnishment, attachment, the
22 operation of bankruptcy or the insolvency laws, or other processes of
23 law whatsoever and shall be unassignable except as herein specifically
24 provided.

25 (2) Subsection (1) of this section shall not prohibit the
26 department of retirement systems from complying with (a) a wage
27 assignment order for child support issued pursuant to chapter 26.18
28 RCW, (b) a notice of payroll deduction issued under chapter 26.23 RCW,
29 (c) an order to withhold and deliver issued pursuant to chapter 74.20A
30 RCW, (d) a mandatory benefits assignment order issued pursuant to
31 chapter 41.50 RCW, (e) a court order directing the department of
32 retirement systems to pay benefits directly to an obligee under a
33 dissolution order as defined in RCW 41.50.500(3) which fully complies
34 with RCW 41.50.670 and 41.50.700, or (f) any administrative or court
35 order expressly authorized by federal law.

36 (3) Subsection (1) of this section shall not be deemed to prohibit
37 a beneficiary of a retirement allowance from authorizing deductions

1 therefrom for payment of premiums due on any group insurance policy or
2 plan issued for the benefit of a group comprised of public employees of
3 the state of Washington.

4 (4) Deductions made in the past from retirement benefits are hereby
5 expressly recognized, ratified, and affirmed. Future deductions may
6 only be made in accordance with this section.

7 (5) Subsection (1) of this section does not exempt any pension or
8 other benefit received under this chapter from tax under Title 82A RCW
9 (sections 101 through 809 of this act), nor does it prohibit the
10 department of retirement systems from complying with the tax
11 withholding requirements of that title.

12 **Sec. 1003.** RCW 6.13.030 and 1999 c 403 s 4 are each amended to
13 read as follows:

14 HOMESTEADS. A homestead may consist of lands, as described in RCW
15 6.13.010, regardless of area, but the homestead exemption amount shall
16 not exceed the lesser of (1) the total net value of the lands, mobile
17 home, improvements, and other personal property, as described in RCW
18 6.13.010, or (2) the sum of forty thousand dollars in the case of
19 lands, mobile home, and improvements, or the sum of fifteen thousand
20 dollars in the case of other personal property described in RCW
21 6.13.010(~~(, except where the homestead is subject to execution,~~
22 ~~attachment, or seizure by or under any legal process whatever to~~
23 ~~satisfy a judgment in favor of any state for failure to pay that~~
24 ~~state's income tax on benefits received while a resident of the state~~
25 ~~of Washington from a pension or other retirement plan, in which event~~
26 ~~there shall be no dollar limit on the value of the exemption)).~~

27 **Sec. 1004.** RCW 6.15.020 and 1999 c 81 s 1 and 1999 c 42 s 603 are
28 each reenacted and amended to read as follows:

29 EXECUTION OF JUDGMENTS. (1) It is the policy of the state of
30 Washington to ensure the well-being of its citizens by protecting
31 retirement income to which they are or may become entitled. For that
32 purpose generally and pursuant to the authority granted to the state of
33 Washington under 11 U.S.C. Sec. 522(b)(2), the exemptions in this
34 section relating to retirement benefits are provided.

35 (2) Unless otherwise provided by federal law, any money received by
36 any citizen of the state of Washington as a pension from the government

1 of the United States, whether the same be in the actual possession of
2 such person or be deposited or loaned, shall be exempt from execution,
3 attachment, garnishment, or seizure by or under any legal process
4 whatever, and when a debtor dies, or absconds, and leaves his or her
5 family any money exempted by this subsection, the same shall be exempt
6 to the family as provided in this subsection. This subsection shall
7 not apply to child support collection actions issued under chapter
8 26.18, 26.23, or 74.20A RCW, if otherwise permitted by federal law, or
9 to collection actions for taxes imposed under Title 82A RCW (sections
10 101 through 809 of this act).

11 (3) The right of a person to a pension, annuity, or retirement
12 allowance or disability allowance, or death benefits, or any optional
13 benefit, or any other right accrued or accruing to any citizen of the
14 state of Washington under any employee benefit plan, and any fund
15 created by such a plan or arrangement, shall be exempt from execution,
16 attachment, garnishment, or seizure by or under any legal process
17 whatever. This subsection shall not apply to child support collection
18 actions issued under chapter 26.18, 26.23, or 74.20A RCW if otherwise
19 permitted by federal law, or to collection actions for taxes imposed
20 under Title 82A RCW (sections 101 through 809 of this act). This
21 subsection shall permit benefits under any such plan or arrangement to
22 be payable to a spouse, former spouse, child, or other dependent of a
23 participant in such plan to the extent expressly provided for in a
24 qualified domestic relations order that meets the requirements for such
25 orders under the plan, or, in the case of benefits payable under a plan
26 described in sections 403(b) or 408 of the internal revenue code of
27 1986, as amended, or section 409 of such code as in effect before
28 January 1, 1984, to the extent provided in any order issued by a court
29 of competent jurisdiction that provides for maintenance or support.
30 This subsection shall not prohibit actions against an employee benefit
31 plan, or fund for valid obligations incurred by the plan or fund for
32 the benefit of the plan or fund.

33 (4) For the purposes of this section, the term "employee benefit
34 plan" means any plan or arrangement that is described in RCW 49.64.020,
35 including any Keogh plan, whether funded by a trust or by an annuity
36 contract, and in sections 401(a) or 403(a) of the internal revenue code
37 of 1986, as amended; or that is a tax-sheltered annuity described in
38 section 403(b) of such code or an individual retirement account

1 described in section 408 of such code; or a Roth individual retirement
2 account described in section 408A of such code; or a medical savings
3 account described in section 220 of such code; or an education
4 individual retirement account described in section 530 of such code; or
5 a retirement bond described in section 409 of such code as in effect
6 before January 1, 1984. The term "employee benefit plan" also means
7 any rights accruing on account of money paid currently or in advance
8 for purchase of tuition units under the advanced college tuition
9 payment program in chapter 28B.95 RCW. The term "employee benefit
10 plan" shall not include any employee benefit plan that is established
11 or maintained for its employees by the government of the United States,
12 by the state of Washington under chapter 2.10, 2.12, 41.26, 41.32,
13 41.34, 41.35, 41.40 or 43.43 RCW or RCW 41.50.770, or by any agency or
14 instrumentality of the government of the United States.

15 (5) An employee benefit plan shall be deemed to be a spendthrift
16 trust, regardless of the source of funds, the relationship between the
17 trustee or custodian of the plan and the beneficiary, or the ability of
18 the debtor to withdraw or borrow or otherwise become entitled to
19 benefits from the plan before retirement. This subsection shall not
20 apply to child support collection actions issued under chapter 26.18,
21 26.23, or 74.20A RCW, if otherwise permitted by federal law, or to
22 collection actions for taxes imposed under Title 82A RCW (sections 101
23 through 809 of this act). This subsection shall permit benefits under
24 any such plan or arrangement to be payable to a spouse, former spouse,
25 child, or other dependent of a participant in such plan to the extent
26 expressly provided for in a qualified domestic relations order that
27 meets the requirements for such orders under the plan, or, in the case
28 of benefits payable under a plan described in sections 403(b) or 408 of
29 the internal revenue code of 1986, as amended, or section 409 of such
30 code as in effect before January 1, 1984, to the extent provided in any
31 order issued by a court of competent jurisdiction that provides for
32 maintenance or support.

33 (6) Unless contrary to applicable federal law, nothing contained in
34 subsection (3), (4), or (5) of this section shall be construed as a
35 termination or limitation of a spouse's community property interest in
36 an individual retirement account held in the name of or on account of
37 the other spouse, the account holder spouse. At the death of the
38 nonaccount holder spouse, the nonaccount holder spouse may transfer or

1 distribute the community property interest of the nonaccount holder
2 spouse in the account holder spouse's individual retirement account to
3 the nonaccount holder spouse's estate, testamentary trust, inter vivos
4 trust, or other successor or successors pursuant to the last will of
5 the nonaccount holder spouse or the law of intestate succession, and
6 that distributee may, but shall not be required to, obtain an order of
7 a court of competent jurisdiction, including a nonjudicial dispute
8 resolution agreement entered into pursuant to RCW 11.96.170 or other
9 order entered under chapter 11.96A RCW, to confirm the distribution.
10 For purposes of subsection (3) of this section, the distributee of the
11 nonaccount holder spouse's community property interest in an individual
12 retirement account shall be considered a person entitled to the full
13 protection of subsection (3) of this section. The nonaccount holder
14 spouse's consent to a beneficiary designation by the account holder
15 spouse with respect to an individual retirement account shall not,
16 absent clear and convincing evidence to the contrary, be deemed a
17 release, gift, relinquishment, termination, limitation, or transfer of
18 the nonaccount holder spouse's community property interest in an
19 individual retirement account. For purposes of this subsection, the
20 term "nonaccount holder spouse" means the spouse of the person in whose
21 name the individual retirement account is maintained. The term
22 "individual retirement account" includes an individual retirement
23 account and an individual retirement annuity both as described in
24 section 408 of the internal revenue code of 1986, as amended, a Roth
25 individual retirement account as described in section 408A of the
26 internal revenue code of 1986, as amended, and an individual retirement
27 bond as described in section 409 of the internal revenue code as in
28 effect before January 1, 1984. As used in this subsection, an order of
29 a court of competent jurisdiction includes an agreement, as that term
30 is used under RCW 11.96A.220.

31 **Sec. 1005.** RCW 41.24.240 and 1995 c 11 s 13 are each amended to
32 read as follows:

33 FIRE FIGHTERS' PENSIONS. (1) The right of any person to any future
34 payment under the provisions of this chapter shall not be transferable
35 or assignable at law or in equity, and none of the moneys paid or
36 payable or the rights existing under this chapter, shall be subject to
37 execution, levy, attachment, garnishment, or other legal process, or to

1 the operation of any bankruptcy or insolvency law. This section shall
2 not be applicable to any child support collection action taken under
3 chapter 26.18, 26.23, or 74.20A RCW. Benefits under this chapter shall
4 be payable to a spouse or ex-spouse to the extent expressly provided
5 for in any court decree of dissolution or legal separation or in any
6 court order or court-approved property settlement agreement incident to
7 any court decree of dissolution or legal separation.

8 (2) Nothing in this chapter shall be construed to deprive any
9 participant, eligible to receive a pension hereunder, from receiving a
10 pension under any other act to which that participant may become
11 eligible by reason of services other than or in addition to his or her
12 services under this chapter.

13 (3) Subsection (1) of this section does not exempt any pension or
14 other benefit received under this chapter from tax under Title 82A RCW
15 (sections 101 through 809 of this act), nor does it prohibit the
16 department of retirement systems from complying with the tax
17 withholding requirements of that title.

18 **Sec. 1006.** RCW 41.32.052 and 1991 c 365 s 21 and 1991 c 35 s 63
19 are each reenacted and amended to read as follows:

20 TEACHERS' RETIREMENT SYSTEM. (1) Subject to subsections (2)
21 (~~and~~), (3), and (4) of this section, the right of a person to a
22 pension, an annuity, a retirement allowance, or disability allowance,
23 to the return of contributions, any optional benefit or death benefit,
24 any other right accrued or accruing to any person under the provisions
25 of this chapter and the moneys in the various funds created by this
26 chapter shall be unassignable, and are hereby exempt from any state,
27 county, municipal or other local tax, and shall not be subject to
28 execution, garnishment, attachment, the operation of bankruptcy or
29 insolvency laws, or other process of law whatsoever.

30 (2) This section shall not be deemed to prohibit a beneficiary of
31 a retirement allowance who is eligible:

32 (a) Under RCW 41.05.080 from authorizing monthly deductions
33 therefrom for payment of premiums due on any group insurance policy or
34 plan issued for the benefit of a group comprised of public employees of
35 the state of Washington or its political subdivisions;

36 (b) Under a group health care benefit plan approved pursuant to RCW
37 28A.400.350 or 41.05.065 from authorizing monthly deductions therefrom,

1 of the amount or amounts of subscription payments, premiums, or
2 contributions to any person, firm, or corporation furnishing or
3 providing medical, surgical, and hospital care or other health care
4 insurance; or

5 (c) Under this system from authorizing monthly deductions therefrom
6 for payment of dues and other membership fees to any retirement
7 association composed of retired teachers and/or public employees
8 pursuant to a written agreement between the director and the retirement
9 association.

10 Deductions under (a) and (b) of this subsection shall be made in
11 accordance with rules that may be adopted by the director.

12 (3) Subsection (1) of this section shall not prohibit the
13 department from complying with (a) a wage assignment order for child
14 support issued pursuant to chapter 26.18 RCW, (b) an order to withhold
15 and deliver issued pursuant to chapter 74.20A RCW, (c) a notice of
16 payroll deduction issued pursuant to RCW 26.23.060, (d) a mandatory
17 benefits assignment order issued by the department, (e) a court order
18 directing the department of retirement systems to pay benefits directly
19 to an obligee under a dissolution order as defined in RCW 41.50.500(3)
20 which fully complies with RCW 41.50.670 and 41.50.700, or (f) any
21 administrative or court order expressly authorized by federal law.

22 (4) Subsection (1) of this section does not exempt any pension or
23 other benefit received under this chapter from tax under Title 82A RCW
24 (sections 101 through 809 of this act), nor does it prohibit the
25 department of retirement systems from complying with the tax
26 withholding requirements of that title.

27 **Sec. 1007.** RCW 41.35.100 and 1998 c 341 s 11 are each amended to
28 read as follows:

29 SCHOOL EMPLOYEES' RETIREMENT SYSTEM. (1) Subject to subsections
30 (2) (~~and~~), (3), and (4) of this section, the right of a person to a
31 pension, an annuity, or retirement allowance, any optional benefit, any
32 other right accrued or accruing to any person under the provisions of
33 this chapter, the various funds created by this chapter, and all moneys
34 and investments and income thereof, are hereby exempt from any state,
35 county, municipal, or other local tax, and shall not be subject to
36 execution, garnishment, attachment, the operation of bankruptcy or

1 insolvency laws, or other process of law whatsoever, and shall be
2 unassignable.

3 (2) This section does not prohibit a beneficiary of a retirement
4 allowance from authorizing deductions therefrom for payment of premiums
5 due on any group insurance policy or plan issued for the benefit of a
6 group comprised of public employees of the state of Washington or its
7 political subdivisions and which has been approved for deduction in
8 accordance with rules that may be adopted by the state health care
9 authority and/or the department. This section also does not prohibit
10 a beneficiary of a retirement allowance from authorizing deductions
11 therefrom for payment of dues and other membership fees to any
12 retirement association or organization the membership of which is
13 composed of retired public employees, if a total of three hundred or
14 more of such retired employees have authorized such deduction for
15 payment to the same retirement association or organization.

16 (3) Subsection (1) of this section does not prohibit the department
17 from complying with (a) a wage assignment order for child support
18 issued pursuant to chapter 26.18 RCW, (b) an order to withhold and
19 deliver issued pursuant to chapter 74.20A RCW, (c) a notice of payroll
20 deduction issued pursuant to RCW 26.23.060, (d) a mandatory benefits
21 assignment order issued by the department, (e) a court order directing
22 the department of retirement systems to pay benefits directly to an
23 obligee under a dissolution order as defined in RCW 41.50.500(3) which
24 fully complies with RCW 41.50.670 and 41.50.700, or (f) any
25 administrative or court order expressly authorized by federal law.

26 (4) Subsection (1) of this section does not exempt any pension or
27 other benefit received under this chapter from tax under Title 82A RCW
28 (sections 101 through 809 of this act), nor does it prohibit the
29 department of retirement systems from complying with the tax
30 withholding requirements of that title.

31 **Sec. 1008.** RCW 41.40.052 and 1999 c 83 s 1 are each amended to
32 read as follows:

33 PUBLIC EMPLOYEES' RETIREMENT SYSTEM. (1) Subject to subsections
34 (2) (~~and~~), (3), and (4) of this section, the right of a person to a
35 pension, an annuity, or retirement allowance, any optional benefit, any
36 other right accrued or accruing to any person under the provisions of
37 this chapter, the various funds created by this chapter, and all moneys

1 and investments and income thereof, are hereby exempt from any state,
2 county, municipal, or other local tax, and shall not be subject to
3 execution, garnishment, attachment, the operation of bankruptcy or
4 insolvency laws, or other process of law whatsoever, and shall be
5 unassignable.

6 (2)(a) This section shall not be deemed to prohibit a beneficiary
7 of a retirement allowance from authorizing deductions therefrom for
8 payment of premiums due on any group insurance policy or plan issued
9 for the benefit of a group comprised of public employees of the state
10 of Washington or its political subdivisions and which has been approved
11 for deduction in accordance with rules that may be adopted by the state
12 health care authority and/or the department, and this section shall not
13 be deemed to prohibit a beneficiary of a retirement allowance from
14 authorizing deductions therefrom for payment of dues and other
15 membership fees to any retirement association or organization the
16 membership of which is composed of retired public employees, if a total
17 of three hundred or more of such retired employees have authorized such
18 deduction for payment to the same retirement association or
19 organization.

20 (b) This section does not prohibit a beneficiary of a retirement
21 allowance from authorizing deductions from that allowance for
22 charitable purposes on the same terms as employees and public officers
23 under RCW 41.04.035 and 41.04.036.

24 (3) Subsection (1) of this section shall not prohibit the
25 department from complying with (a) a wage assignment order for child
26 support issued pursuant to chapter 26.18 RCW, (b) an order to withhold
27 and deliver issued pursuant to chapter 74.20A RCW, (c) a notice of
28 payroll deduction issued pursuant to RCW 26.23.060, (d) a mandatory
29 benefits assignment order issued by the department, (e) a court order
30 directing the department of retirement systems to pay benefits directly
31 to an obligee under a dissolution order as defined in RCW 41.50.500(3)
32 which fully complies with RCW 41.50.670 and 41.50.700, or (f) any
33 administrative or court order expressly authorized by federal law.

34 (4) Subsection (1) of this section does not exempt any pension or
35 other benefit received under this chapter from tax under Title 82A RCW
36 (sections 101 through 809 of this act), nor does it prohibit the
37 department of retirement systems from complying with the tax
38 withholding requirements of that title.

1 **Sec. 1009.** RCW 41.44.240 and 1989 c 360 s 28 are each amended to
2 read as follows:

3 STATEWIDE CITY EMPLOYEES' RETIREMENT. (1) The right of a person to
4 a pension, annuity or a retirement allowance, to the return of
5 contribution, the pension, annuity or retirement allowance itself, any
6 optional benefit, any other right accrued or accruing to any person
7 under the provisions of this chapter, and the moneys in the fund
8 created under this chapter shall not be subject to execution,
9 garnishment, or any other process whatsoever.

10 (2) This section shall not apply to child support collection
11 actions taken under chapter 26.18, 26.23, or 74.20A RCW against
12 benefits payable under any such plan or arrangement. Benefits under
13 this chapter shall be payable to a spouse or ex-spouse to the extent
14 expressly provided for in any court decree of dissolution or legal
15 separation or in any court order or court-approved property settlement
16 agreement incident to any court decree of dissolution or legal
17 separation.

18 (3) Subsection (1) of this section does not exempt any pension or
19 other benefit received under this chapter from tax under Title 82A RCW
20 (sections 101 through 809 of this act), nor does it prohibit the
21 department of retirement systems from complying with the tax
22 withholding requirements of that title.

23 **Sec. 1010.** RCW 41.26.053 and 1991 c 365 s 20 and 1991 c 35 s 25
24 are each reenacted and amended to read as follows:

25 LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM.

26 (1) Subject to subsections (2) (~~and~~), (3), and (4) of this section,
27 the right of a person to a retirement allowance, disability allowance,
28 or death benefit, to the return of accumulated contributions, the
29 retirement, disability or death allowance itself, any optional benefit,
30 any other right accrued or accruing to any person under the provisions
31 of this chapter, and the moneys in the fund created under this chapter,
32 are hereby exempt from any state, county, municipal, or other local tax
33 and shall not be subject to execution, garnishment, attachment, the
34 operation of bankruptcy or insolvency laws, or any other process of law
35 whatsoever, and shall be unassignable.

36 (2) On the written request of any person eligible to receive
37 benefits under this section, the department may deduct from such

1 payments the premiums for life, health, or other insurance. The
2 request on behalf of any child or children shall be made by the legal
3 guardian of such child or children. The department may provide for
4 such persons one or more plans of group insurance, through contracts
5 with regularly constituted insurance carriers or health care service
6 contractors.

7 (3) Subsection (1) of this section shall not prohibit the
8 department from complying with (a) a wage assignment order for child
9 support issued pursuant to chapter 26.18 RCW, (b) an order to withhold
10 and deliver issued pursuant to chapter 74.20A RCW, (c) a notice of
11 payroll deduction issued pursuant to RCW 26.23.060, (d) a mandatory
12 benefits assignment order issued by the department, (e) a court order
13 directing the department of retirement systems to pay benefits directly
14 to an obligee under a dissolution order as defined in RCW 41.50.500(3)
15 which fully complies with RCW 41.50.670 and 41.50.700, or (f) any
16 administrative or court order expressly authorized by federal law.

17 (4) Subsection (1) of this section does not exempt any pension or
18 other benefit received under this chapter from tax under Title 82A RCW
19 (sections 101 through 809 of this act), nor does it prohibit the
20 department of retirement systems from complying with the tax
21 withholding requirements of that title.

22 **Sec. 1011.** RCW 43.43.310 and 1991 c 365 s 23 are each amended to
23 read as follows:

24 WASHINGTON STATE PATROL RETIREMENT. (1) Except as provided in
25 subsections (2) (~~and~~), (3), and (4) of this section, the right of any
26 person to a retirement allowance or optional retirement allowance under
27 the provisions hereof and all moneys and investments and income thereof
28 are exempt from any state, county, municipal, or other local tax and
29 shall not be subject to execution, garnishment, attachment, the
30 operation of bankruptcy or the insolvency laws, or other processes of
31 law whatsoever and shall be unassignable except as herein specifically
32 provided.

33 (2) Subsection (1) of this section shall not prohibit the
34 department of retirement systems from complying with (a) a wage
35 assignment order for child support issued pursuant to chapter 26.18
36 RCW, (b) an order to withhold and deliver issued pursuant to chapter
37 74.20A RCW, (c) a notice of payroll deduction issued pursuant to RCW

1 26.23.060, (d) a mandatory benefits assignment order issued pursuant to
2 chapter 41.50 RCW, (e) a court order directing the department of
3 retirement systems to pay benefits directly to an obligee under a
4 dissolution order as defined in RCW 41.50.500(3) which fully complies
5 with RCW 41.50.670 and 41.50.700, or (f) any administrative or court
6 order expressly authorized by federal law.

7 (3) Subsection (1) of this section shall not be deemed to prohibit
8 a beneficiary of a retirement allowance from authorizing deductions
9 therefrom for payment of premiums due on any group insurance policy or
10 plan issued for the benefit of a group comprised of members of the
11 Washington state patrol or other public employees of the state of
12 Washington, or for contributions to the Washington state patrol
13 memorial foundation.

14 (4) Subsection (1) of this section does not exempt any pension or
15 other benefit received under this chapter from tax under Title 82A RCW
16 (sections 101 through 809 of this act), nor does it prohibit the
17 department of retirement systems from complying with the tax
18 withholding requirements of that title.

19 NEW SECTION. **Sec. 1012.** RCW 6.15.025 (Exemption of pension or
20 retirement plan benefits from execution for judgment for out-of-state
21 income tax) and 1991 c 123 s 3 are each repealed.

22 PART XI

23 REDUCING THE STATE SALES TAX

24 **Sec. 1101.** RCW 82.08.020 and 2000 2nd sp.s. c 4 s 1 are each
25 amended to read as follows:

26 (1) There is levied and there shall be collected a tax on each
27 retail sale in this state equal to (~~six~~) three and five-tenths
28 percent of the selling price.

29 (2) There is levied and there shall be collected an additional tax
30 on each retail car rental, regardless of whether the vehicle is
31 licensed in this state, equal to five and nine-tenths percent of the
32 selling price. The revenue collected under this subsection shall be
33 deposited in the multimodal transportation account created in RCW
34 47.66.070.

1 (3) The taxes imposed under this chapter shall apply to successive
2 retail sales of the same property.

3 (4) The rates provided in this section apply to taxes imposed under
4 chapter 82.12 RCW as provided in RCW 82.12.020.

5 **PART XII**
6 **MISCELLANEOUS**

7 NEW SECTION. **Sec. 1201.** NONSEVERABILITY. The imposition of the
8 income tax and the reduction in the sales and use tax under this act
9 constitute an integrated scheme for reforming the state's tax
10 structure. It is the intent of the legislature that the constitutional
11 invalidity of the income tax also invalidates the reduction of the
12 sales and use tax.

13 NEW SECTION. **Sec. 1202.** CAPTIONS AND PART HEADINGS. Captions and
14 part headings as used in this act constitute no part of the law.

15 NEW SECTION. **Sec. 1203.** CODIFICATION. Sections 101 through 809
16 of this act constitute a new title in the Revised Code of Washington,
17 to be codified as Title 82A RCW.

18 NEW SECTION. **Sec. 1204.** This act takes effect January 1, 2004.

--- END ---