
HOUSE BILL 2350

State of Washington 61st Legislature 2009 Regular Session

By Representatives Chase, Green, Nelson, Kagi, and Darneille

Read first time 04/13/09. Referred to Committee on Finance.

1 AN ACT Relating to the taxation of intangible property to provide
2 additional funding for public schools; amending RCW 28A.150.210,
3 84.36.070, and 84.36.110; adding a new chapter to Title 84 RCW;
4 creating new sections; and providing for submission of this act to a
5 vote of the people.

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

7 NEW SECTION. **Sec. 1.** LEGISLATIVE FINDINGS AND PURPOSE. (1) The
8 legislature finds that our state is facing a financial emergency so
9 great that we are unable to meet our constitutional obligation to fully
10 fund our public schools under our current tax structure. The
11 legislature further finds that, even prior to the current financial
12 emergency, our state was forty-second in the nation in per pupil
13 funding and forty-sixth in class size, placing many school districts on
14 the verge of bankruptcy. It would take more than one billion dollars
15 in additional funding just to bring our public schools up to the
16 national average. The legislature further finds that while our state
17 ranks seventeenth in the nation in per capita income, we rank thirty-
18 seventh in the nation in state taxes as a percentage of income. Our
19 underlying problem is we have the most regressive tax structure in

1 America due to excessive reliance on sales taxes. This tax structure
2 places an unfair state tax burden on our poor and our middle class,
3 with these groups paying more than ten percent of their net income in
4 state taxes, while the wealthy in our state pay less than three percent
5 of their income in state taxes. Those who are most able to pay are
6 paying the least, while those least able to pay are paying the most.

7 (2) The legislature finds that this great disparity in taxes is
8 contrary to Article VII, section 1 of the state Constitution, which
9 requires a uniform system of taxation. Our state supreme court has
10 consistently recognized that tax uniformity is a central component of
11 Washington's tax system. In 1984, our state supreme court declared:
12 "One fundamental premise pervades the constitutional limitations on the
13 exercise by the legislature of the power of taxation. This premise is
14 that the distribution of the burdens of taxation should be uniform."

15 (3) This act makes the distribution of state taxes more uniform by
16 eliminating the intangible property exception which disproportionately
17 benefits the wealthiest one percent of our citizens at the expense of
18 our middle class, our poor, and our school children.

19 (4) Our supreme court has also found that the legislature has
20 failed to comply with Article IX, section 1 of the state Constitution
21 which states: "It is the paramount duty of the state to make ample
22 provision for the education of all children residing within its
23 borders." The legislature finds that the only way we will be able to
24 meet this constitutional duty to fully fund our public schools and to
25 provide for a uniform system of taxation is through enacting a fairer
26 tax structure. This act would bring us closer to the national average
27 in terms of the percentage of state taxes collected and the
28 distribution of state taxes collected. Since any change in our tax
29 structure requires a vote of the people, we propose to place this
30 referendum before the people.

31 (5) The legislature finds that intangible wealth, such as stocks
32 and bonds, now represents over one-third of all property wealth with a
33 taxable location in this state. The legislature further finds that the
34 present system of taxing only tangible property and of exempting all
35 intangible property from taxation is regressive, in that such a system
36 benefits the richest residents and businesses in Washington who have
37 sufficient wealth to own substantial intangible property. The
38 legislature further finds that while the transfer, sale, or use of

1 tangible property is subject to various excise taxes in the state of
2 Washington, no comparable taxes are imposed on intangible property. We
3 can no longer afford to have the wealthiest citizens of our state not
4 paying their fair share of state taxes. Moreover, having the
5 wealthiest citizens pay their fair share of state taxes would not harm
6 them financially as they can deduct their state taxes from their
7 federal taxes.

8 Currently our state exempts intangible property from our state
9 property tax. If you have three hundred thousand dollars invested in
10 stocks or bonds, you pay no state property tax on that investment.
11 However, if you invest the same three hundred thousand dollars in a
12 five hundred thousand dollar home, you have to pay property tax not
13 just on the three hundred thousand dollars that you invested, but on
14 the entire five hundred thousand dollar value of the home! This
15 penalizes home ownership. Eliminating the property tax exemption on
16 intangible property would lead to a fairer tax structure because our
17 middle class typically invests nearly all of their financial assets in
18 tangible property (their family home). Meanwhile, millionaires
19 typically invest less than half of their assets in tangible property
20 putting the majority of their assets into stocks and bonds.

21 (6) Elimination of the exemption for intangibles from state
22 property tax will lead to a fairer tax system by raising the amount of
23 state tax paid by millionaires from the current three percent to about
24 four percent. They would still pay much less in state taxes than our
25 middle class, which pays about twelve percent. This would generate
26 about four billion dollars in additional state revenue per biennium
27 without any substantial increase in taxes on our middle class. State
28 taxes are deductible from federal taxes. Thus, millionaires are not
29 likely to be financially harmed by these taxes. We are really
30 transferring two billion dollars from the federal tax rolls to the
31 state tax rolls. This could bring school funding to the national
32 average.

33 (7) This act, supplementing the sales tax on tangible goods, is
34 made necessary not only because the sales tax is regressive, but
35 because the new "e-commerce" economy is ravaging traditional sales tax.
36 For 2005, state and local sales tax revenue losses from e-commerce were
37 over ten billion dollars.

1 (8) In addition, the information technology revolution has meant a
2 significant shift away from tangible property towards intangible
3 property. Finally, the dramatic shift in wealth that has occurred in
4 the past ten years with the rich getting richer while everyone else
5 falls behind means that the most stable type of property is intangible
6 property of the very wealthy.

7 (9) Exemptions are made for the retirement accounts of senior
8 citizens. The fair funding act also provides exemptions from this act
9 to those who are already paying their fair share of state taxes,
10 including those who have under one hundred thousand dollars in
11 intangible assets. It is also the goal of the fair funding act to
12 provide exemptions from this act to those who are elderly, disabled, or
13 are otherwise on fixed incomes and unable to pay their fair share of
14 state taxes.

15 (10) The legislature declares the purpose of this chapter is to
16 subject intangible property to a tax on the privilege of ownership of
17 the property, subject to the exemptions contained in this chapter for
18 the limited intangible holdings of individuals, in order to provide a
19 more equitable and fair system of taxation of both tangible and
20 intangible wealth in this state.

21 (11) Data indicates that less than five percent of our state's
22 residents would owe anything under this tax, and seventy-five percent
23 of those who would pay this tax have assets in excess of one million
24 dollars.

25 (12) The legislature further finds that:

26 (a) Article VII, section 2 of the state Constitution permits
27 taxation of both tangible and intangible property;

28 (b) Our unfair tax system is partially the result of our state's
29 exemption of intangible property (such as stocks and bonds) from state
30 property taxes; and

31 (c) Taxing intangible property would lead to a more uniform tax
32 system.

33 (13) The legislature finds that this act is required by Article IX,
34 section 1 of the state Constitution, which states that adequately
35 funding public schools is the paramount duty of the legislature. The
36 legislature further finds that it will be impossible for the
37 legislature to meet its duty to fully fund public schools without
38 eliminating tax breaks on intangible property from property taxes.

1 (14) Therefore, it is the intent of the legislature that the
2 exemption of intangible property from state property taxes be
3 eliminated.

4 (15) The legislature also finds that it is the intent of this act
5 to provide for the levy of a tax on certain intangible property, define
6 the types of intangible property subject to tax, provide tax
7 exemptions, and provide for the administration of the tax.

8 (16) The legislature further finds that since 1980 the legislature
9 has approved a series of tax reform bills that have had the net effect
10 of reducing per pupil funding in our state from eleventh in the nation
11 to forty-second in the nation. As a result, we have some of the lowest
12 funded and most over-crowded schools in America. The legislature
13 intends in this act to specifically define adequate school funding as
14 being per pupil funding, which is at least at the national average.

15 NEW SECTION. **Sec. 2.** SHORT TITLE. This act shall be known and
16 cited as the "fair school funding act of 2009."

17 NEW SECTION. **Sec. 3.** DEFINITIONS. For the purposes of this
18 chapter, the following definitions apply, unless the context clearly
19 indicates otherwise.

20 (1) "Intangible property" includes, without limitation, moneys on
21 hand or on deposit or in transit; shares of stock, and other units of
22 interest, in corporations, joint stock companies, and other
23 associations conducted for profit, business, or investment activity;
24 securities such as bonds, certificates of indebtedness, debentures, and
25 notes receivable; land contracts receivable, real estate and chattel
26 mortgages receivable, conditional sales contracts receivable, and other
27 obligations for the payment of money; whether such intangible property
28 is secured or unsecured; shares or units of companies or trusts
29 including mutual funds, money market funds, unit investment trusts, and
30 exchange traded funds; notes; bonds; debentures; accounts receivable;
31 certificates of deposit; cashier's and certified checks; bills of
32 exchange; drafts; and similar instruments; bank accounts; and other
33 obligations for the payment of money; publicly traded options; futures
34 contracts; commodities contracts; certificates of interest in gold and
35 other precious metals or gems; and similar financial instruments.
36 "Intangible property" does not include computer software or any rights

1 with respect to real property, including oil, gas, and mineral
2 interests and royalties, leases, interests in condominiums, or
3 timeshare interests in real property. "Intangible property" also does
4 not include the interest of a partner under a partnership agreement.

5 (2) "Own" means a beneficial ownership as distinguished from legal
6 title.

7 (3) "Subchapter K entity" means a partnership, including a limited
8 partnership, limited liability partnership, or limited liability
9 limited partnership, limited liability company, or any other entity
10 subject to subchapter K of the internal revenue code, Title 26 U.S.C.
11 Secs. 701-761, not including a single member limited liability company.

12 (4) "Company" or "association," when used in reference to a
13 corporation, includes successors and assigns of the company or
14 association.

15 (5) "Financial organization" means any bank, trust company, savings
16 bank, industrial bank, land bank, safe deposit company, private banker,
17 savings and loan association, building and loan association, credit
18 union, currency exchange, cooperative bank, small loan company, sales
19 finance company, or investment company, and any other corporation at
20 least ninety percent of whose assets consist of intangible property and
21 at least ninety percent of whose gross income consists of dividends or
22 interest or other charges resulting from the use of money or credit.

23 (6) "Fiscal year" means an accounting period of twelve months
24 ending on the last day of any month other than December.

25 (7) "Income" means: (a) Interest received upon intangible
26 property; (b) dividends and other distributions, whether in the form of
27 cash or property, to the extent that they represent the yield of
28 intangible property; and (c) all other earnings or yield, including
29 capital gains, of intangible property regardless of the name by which
30 designated. For the purpose of computing the tax imposed under this
31 chapter, the gross income, including taxes, charges, and other
32 deductions that may be made therefrom, must be the basis upon which the
33 tax is measured.

34 (8) "Nonresident" means a person who is not a resident.

35 (9) "Owner" means any person who:

36 (a) Has both the entire legal and equitable interest in intangible
37 personal property or both a legal and equitable estate therein which
38 entitles him or her to the present enjoyment thereof;

1 (b) Holds intangible personal property as an administrator,
2 executor, personal representative, receiver, trustee in bankruptcy, or
3 assignee for the benefit of creditors; or

4 (c) Is the beneficiary of an inter vivos or testamentary trust to
5 the extent that the trust embraces intangible personal property. If
6 there is more than one beneficiary, the person who is entitled to the
7 present enjoyment of the trust property is the "owner." If more than
8 one beneficiary is entitled to the present enjoyment of the trust
9 property, all the beneficiaries so entitled are the "owners" according
10 to their respective interests. If there is more than one beneficiary,
11 only some of which are entitled to the present enjoyment of the trust
12 property, those beneficiaries who are so entitled are the "owners." If
13 a trustee of a trust may accumulate the income thereof, the trustee is
14 the "owner" to the extent that the income is so accumulated. A
15 beneficiary domiciled in this state is taxable irrespective of the
16 state or other jurisdiction of the creation or administration of the
17 trust.

18 (10) "Partnership" means a syndicate, group, pool, joint venture,
19 or other unincorporated organization, through or by means of which any
20 business, financial operation, or venture is carried on, and which is
21 not a trust, an estate, or a corporation; and the term "partner" means
22 a member in the syndicate, group, pool, joint venture, or organization.

23 (11) "Person" has the same meaning as provided in RCW 82.04.030,
24 except the term does not include any municipal corporation, the state
25 of Washington or any political subdivision of the state of Washington,
26 or the United States or any instrumentality of the United States.

27 (12) "Resident" or "domicile" means:

28 (a) An individual who is domiciled in this state unless the person
29 maintains no permanent place of abode in this state and does maintain
30 a permanent place of abode elsewhere and spends in the aggregate not
31 more than thirty days of the taxable year in this state; or who is not
32 domiciled in this state but maintains a permanent place of abode in
33 this state and spends in the aggregate more than one hundred eighty-
34 three days of the taxable year in this state;

35 (b) The estate of a decedent who at the person's death was
36 domiciled in this state;

37 (c) A trust created by a will of a decedent who at the person's
38 death was domiciled in this state;

1 (d) An irrevocable trust, the grantor of which was domiciled in
2 this state at the time the trust became irrevocable. For purpose of
3 this subsection (12)(d), a trust is considered irrevocable to the
4 extent that the grantor is not treated as the owner thereof under Title
5 26 U.S.C. Secs. 671 through 678 of the federal internal revenue code;
6 and

7 (e) When referring to a corporation, the commercial domicile (the
8 principal place from which the corporation conducts its business).

9 (13) "Situs" or location of intangible personal property means the
10 domicile of the owner of the property, except that any intangible
11 personal property, not otherwise exempt under the laws of this state,
12 owned by a person having a domicile outside of this state but owned or
13 used in connection with the conduct of the person's business in
14 Washington, or placed in the hands of a manager or agent in Washington
15 to the extent that the intangible personal property is invested in a
16 course of repeated transactions in obligations of persons residing in
17 Washington or secured by property located in Washington has a situs at
18 the place of business, or where the manager or agent resides, as the
19 case may be, within this state; however, in the case of intangible
20 personal property owned or used in connection with the owner's business
21 both within and outside the state of Washington, all such property has
22 a situs in this state to the extent of the percentage of the whole of
23 the property as determined by the allocation formula set forth in this
24 chapter.

25 (14) "State" when applied to a jurisdiction other than this state,
26 means any state of the United States, the District of Columbia, the
27 Commonwealth of Puerto Rico, and any territory or possession of the
28 United States.

29 (15) "Tax" means all taxes, interest, or penalties levied under
30 this chapter.

31 (16) "Tax year" or "taxable year" means:

32 (a) The calendar year, or the taxpayer's fiscal year when
33 permission is obtained from the department to use the taxpayer's fiscal
34 year as the tax period in lieu thereof; or

35 (b) In the case of a return made for a fractional part of a year
36 under this chapter, the period for which the return is made.

37 (17) "Taxpayer" means any individual subject to the tax levied by
38 this act, or, in the case of a joint return, both individuals.

1 NEW SECTION. **Sec. 4.** LEVY OF INTANGIBLE PROPERTY TAX. A tax is
2 levied annually as of January 1st of each year at the rate of one
3 dollar per one hundred dollars (one percent) of the fair market value
4 of all intangible property owned by any individual resident in
5 Washington state, except as exempted in sections 5 and 6 of this act.

6 NEW SECTION. **Sec. 5.** EXEMPT INTANGIBLE PROPERTY. The tax levied
7 by this chapter does not apply to:

8 (1) Obligations or evidences of debt of the United States and
9 obligations of United States government agencies and corporations
10 established by acts of the congress of the United States to the extent
11 required by federal law to be exempt from ad valorem taxation by the
12 states;

13 (2) Obligations or evidences of debt of the state of Washington and
14 its political subdivisions and agencies and instrumentalities of the
15 state of Washington and its political subdivisions (including municipal
16 bonds);

17 (3) Interests in retirement plans including, without limitation:

18 (a) Pension, profit-sharing, annuity, or stock bonus plans exempt
19 from federal income tax under Title 26 U.S.C. Sec. 401 of the federal
20 internal revenue code;

21 (b) Annuity contracts or custodial accounts described in Title 26
22 U.S.C. Sec. 403 of the federal internal revenue code;

23 (c) Individual retirement accounts or individual retirement
24 annuities exempt from federal income tax under Title 26 U.S.C. Sec. 408
25 of the federal internal revenue code;

26 (d) Employee stock options, whether or not the options are subject
27 to Title 26 U.S.C. Sec. 421 of the federal internal revenue code, and
28 stock that would be received upon exercise of such options, unless the
29 employee stock option, or stock to be received upon exercise, has been
30 included in the taxable income of the holder of the employee stock
31 option;

32 (e) Eligible deferred compensation plans described in Title 26
33 U.S.C. Sec. 457 of the federal internal revenue code;

34 (f) Retirement plans provided by the federal government for its
35 officials and employees including, without limitation, the civil
36 service, foreign service, and armed forces;

- 1 (g) Retirement plans provided by quasi-governmental agencies of the
2 federal government for their employees;
- 3 (h) Unfunded deferred compensation arrangements created and
4 maintained by employers for employees unless the contributions to such
5 arrangement have been included in the employee's income;
- 6 (i) Retirement plans organized or created under the Washington
7 state teachers' retirement system or public employees' retirement
8 system; and
- 9 (j) Retirement plans, including any "supplemental" plans, organized
10 or created by any Washington state county or municipal government for
11 its officials and employees;
- 12 (4) Obligations of an employer to an employee for services rendered
13 including, without limitation, deferred compensation not described in
14 this subsection (4) and fringe benefits;
- 15 (5) Cash and cash equivalents including, without limitation,
16 checking accounts and demand deposits with banks and other financial
17 institutions;
- 18 (6) Interests in charitable remainder trusts, charitable lead
19 trusts, pooled income funds, and charitable annuities;
- 20 (7) Intangible personal property owned by or irrevocably held in
21 trust for the exclusive benefit of a religious, educational, or
22 charitable institution, no part of the net profit from the operation of
23 which inures to the benefit of any private person;
- 24 (8) Assets representing mandatory reserve requirements imposed, by
25 statute or otherwise, on depository financial institutions subject to
26 the tax on intangible property;
- 27 (9) Stock of the federal reserve bank, the government national
28 mortgage association, the federal national mortgage association, and
29 other corporations and associations established by acts of the congress
30 of the United States;
- 31 (10) Mandatory deposits with the federal reserve bank or others
32 required by statute or regulations;
- 33 (11) Federal or correspondent funds sold and securities and other
34 intangible assets purchased under agreements to resell to the extent
35 they are offset by federal or correspondent funds purchased and
36 securities and other intangible assets sold under agreements to
37 repurchase;

1 (12) Customer's liabilities to depository financial institutions on
2 acceptances outstanding to the extent they are offset by liabilities of
3 depository financial institutions on acceptances executed and
4 outstanding;

5 (13) Receivables arising from the lease of tangible personal
6 property provided that tangible property tax is due upon such property;

7 (14) Intercompany loans or advances from a parent corporation to a
8 subsidiary, or vice versa, or from one subsidiary to another
9 subsidiary, provided that the parent corporation owns, either directly
10 or through other subsidiaries, more than ninety percent of the common
11 voting stock of any subsidiary which is a party to any such
12 transaction;

13 (15) Intangible personal property owned by an international banking
14 agency or domestic international banking facility licensed to do
15 business in this state;

16 (16) Interests in an estate or a trust, but not including a grantor
17 trust as defined in subpart E of subchapter J of Title 26 U.S.C. Secs.
18 671 through 679 of the federal internal revenue code;

19 (17) Life insurance and annuity policies;

20 (18) Interests in qualified tuition plans, as defined in Title 26
21 U.S.C. Sec. 529 of the federal internal revenue code, and education
22 savings accounts, as defined in Title 26 U.S.C. Sec. 530 of the federal
23 internal revenue code;

24 (19) Cash resulting from a line of credit on tangible property,
25 collateral security loans, and long-term notes secured by real estate
26 as these assets are already being taxed as tangible property;

27 (20) Processing of intangible property does not constitute control
28 of that property and therefore is not taxable under this tax.

29 NEW SECTION. **Sec. 6.** PERSONAL EXEMPTION. (1) Every individual is
30 allowed an exemption not to exceed one hundred thousand dollars of the
31 fair market value of intangible property otherwise subject to the tax
32 levied by this act.

33 (2) A husband and wife who file a joint intangibles tax return are
34 allowed an exemption not to exceed four hundred thousand dollars with
35 respect to property owned by either of them or by them jointly.

36 (3) Custodians under transfers to minors acts and similar acts,

1 conservators, and guardians are allowed to claim the exemption provided
2 in subsection (1) of this section on behalf of the minor or person on
3 whose behalf the intangibles are held.

4 (4) No individual is entitled to more than one exemption under this
5 section.

6 NEW SECTION. **Sec. 7.** VALUATION. (1) Intangible property is
7 subject to the annual tax at its fair market value as of the last day
8 of the calendar year ending with or within the taxpayer's taxable year
9 for income tax purposes.

10 (2) Property must be valued under the general rule of subsection
11 (3) of this section, unless provided otherwise in this section.

12 (3) The fair market value of property is the price at which the
13 property would change hands between a willing buyer and a willing
14 seller, neither being under any compulsion to buy or sell and both
15 having reasonable knowledge of the relevant facts.

16 (4) Shares of stock of corporations or interests in subchapter K
17 entities or options based on such shares or interest in subchapter K
18 entities that are listed on any public stock exchange or are regularly
19 traded over-the-counter shall be valued at their closing prices on the
20 exchange where the primary trading in the shares, interests, or options
21 takes place. When closing quotes are not available, the bid price is
22 considered the fair market value.

23 (5) Shares or units of companies or trusts registered under the
24 federal investment company act of 1940, as amended, including mutual
25 funds, money market funds, and unit investment trusts must be valued at
26 the net asset value of such shares or units.

27 (6) Bonds regularly listed on any public stock exchange or
28 regularly traded over-the-counter shall be valued at their closing bid
29 prices on the exchange where the primary trading in the bonds takes
30 place.

31 (7) The fair market value of shares of stocks, bonds, or similar
32 instruments of corporations, interests in subchapter K entities, and
33 options based on such shares or interests that are not listed on any
34 public stock exchange and are not regularly traded over-the-counter
35 shall be presumed to be their book value, determined in accordance with
36 generally accepted accounting principles.

1 (8) Accounts receivable must be valued at their face value less a
2 reasonable allowance for uncollectible accounts.

3 (9) The fair market value of all notes and other obligations is
4 presumed to be their unpaid balances.

5 (10) In determining the value of an interest in a subchapter K
6 entity or a regulated investment company, there is deducted the value
7 of any property that section 5 (1) or (2) of this act exempts from the
8 tax levied by this chapter.

9 (11) Either the taxpayer or the department may present evidence to
10 rebut the presumptions stated in subsections (7) and (9) of this
11 section and establish a different fair market value of the property
12 under the rule provided in subsection (3) of this section.

13 NEW SECTION. **Sec. 8.** TAX EXCLUSIVE. No county or municipality of
14 this state or agency or instrumentality of any of the foregoing may
15 levy an ad valorem tax on intangible property as defined in this act.

16 NEW SECTION. **Sec. 9.** ANNUAL RETURNS AND PAYMENT OF TAX. (1) Each
17 resident taxpayer who owes an intangibles tax of more than two hundred
18 dollars must file an intangible property tax return with the
19 department. The return required by this section is due at the same
20 time as the taxpayer's income tax return for the year and must, to the
21 extent practical, become an integral part of the income tax return.
22 The due date of the return may be extended as provided by the
23 department by regulations, which must be similar to those applicable to
24 extensions of time for filing income tax returns.

25 (2) If the sum of the fair market values of the taxpayer's
26 intangible property that is not exempt under section 5 of this act
27 exceeds the exemption to which the taxpayer is entitled, the taxpayer
28 must file a return containing all the information required to compute
29 the tax levied by this chapter including, without limitation:

30 (a) A detailed description of all intangible property owned by the
31 taxpayer as of the last day of the calendar year ending with or within
32 the taxpayer's taxable year for income tax purposes;

33 (b) The fair market value of each item of intangible property;

34 (c) A statement either that the fair market values have been
35 determined in accordance with section 7 (4) through (9) of this act or

1 that the taxpayer elects to rebut the presumptions in section 7 (7)
2 through (9) of this act or elects to make the deduction allowed by
3 section 7(10) of this act; and

4 (d) Other information required by the department as provided by
5 rule or regulation.

6 (3) Payment of the tax levied by this chapter is due at the same
7 time as payment of the taxpayer's income tax, without regard to any
8 extension of time for filing the return.

9 (4) Taxpayers, who file a joint income tax return, may file a joint
10 return with regard to all intangible property held jointly or
11 individually by them. They must then be jointly and severally liable
12 for the payment of the tax levied by this chapter.

13 (5) The person who is required to file a tax return for a minor or
14 other incompetent must return the minor's or incompetent's intangible
15 property and pay the annual tax on it.

16 (6) Except as provided in subsection (5) of this section, the
17 principal must file a return with respect to property controlled or
18 managed by an agent and shall pay the annual tax on it. Any person
19 including, but not limited to, an agent holding money belonging to
20 others may make returns for the other persons and may pay the tax on
21 the money as provided in this chapter when so authorized by the person
22 owning the money.

23 (7) Any bank or trust company organized under the laws of this
24 state or of the United States and having on deposit money subject to
25 taxation under this chapter may make a return to the department of the
26 aggregate amount of money on deposit with the bank owned by a taxpayer
27 and may pay the tax on the money on the taxpayer's behalf when so
28 authorized by the taxpayer. A return by a bank or trust company must
29 state the aggregate amount of money it has on deposit which is subject
30 to taxation under this chapter and which is owned by the taxpayer
31 authorizing the bank to make the return. If a bank or trust company
32 elects to make a return and pay the tax, any person having money on
33 deposit on which the bank has made a return and paid the taxes are
34 deemed to have made a return of his or her money for taxation if he or
35 she states in his or her return the name of the bank or trust company
36 authorized to make a return of his or her money for taxation and to pay
37 the tax on the money. The amount of tax paid by any bank for a
38 taxpayer must be charged to the account of the taxpayer.

1 (8) The taxpayer must transmit the return to the department with
2 the taxpayer's remittance covering the tax payable for the preceding
3 tax year. The department, for good cause shown, may, on the
4 application of any taxpayer, extend the time by not more than ninety
5 days for making the return but interest at twelve percent per annum
6 shall be added to the amount of tax due for the period of the
7 extension. In collecting the tax levied under this chapter, the
8 department may in special circumstances prescribe a different return.
9 In addition to all other penalties and interest provided by law, every
10 taxpayer failing to return for taxation all intangible personal
11 property that is the taxpayer's duty to return as required by this
12 chapter must pay a penalty, as part of the tax imposed by this chapter,
13 in an amount equal to ten percent of the original tax on property not
14 returned.

15 NEW SECTION. **Sec. 10.** ANNUAL INFORMATION REPORTS. (1) On or
16 before March 1st of each year, each corporation doing business in
17 Washington state must give a written notice reflecting the value of
18 each class of its securities as of the last business day of the
19 preceding calendar year to each shareholder of record whose mailing
20 address as of such day was within Washington state. However, no notice
21 is required as to any class of securities that is listed on a public
22 stock exchange or regularly traded over-the-counter, unless the
23 securities are subject to restrictions and the value returnable by the
24 shareholder is less than the fair market value determined under section
25 7 of this act.

26 (2) On or before March 1st of each year, each corporation doing
27 business in Washington state must file with the department a copy of
28 any written notice to stockholders required by subsection (1) of this
29 section.

30 (3) On or before March 1st of each year, each subchapter K entity
31 doing business in Washington state must give a written notice
32 reflecting the value of each class of its partnership interests as of
33 the last business day of the preceding calendar year to each owner of
34 an interest in the subchapter K entity of record whose mailing address
35 as of such day was within Washington state.

36 (4) On or before March 1st of each year, each subchapter K entity

1 doing business in Washington state must file with the department a copy
2 of any written notice to partners required by subsection (3) of this
3 section.

4 NEW SECTION. **Sec. 11.** INTANGIBLE TAX. An annual tax on the just
5 value of intangible property having a taxable situs in Washington state
6 is levied as follows: All firms, partnerships, joint ventures,
7 associations, corporations, estates, trustees, personal
8 representatives, receivers, guardians, custodians, and other
9 fiduciaries as well as natural persons filing an individual or joint
10 return are subject to a tax rate of one percent of just value of
11 intangible property having a taxable situs in Washington state. Those
12 with one hundred thousand dollars or less in intangible property are
13 exempted from paying this tax. If a taxpayer owes two hundred dollars
14 or less, they do not have to pay the tax or file a return.

15 NEW SECTION. **Sec. 12.** SPECIFIC ASSIGNMENT OF REVENUE. All
16 revenues collected by the department under this chapter must be
17 deposited into the general fund and used as provided in section 13 of
18 this act.

19 NEW SECTION. **Sec. 13.** GENERAL FUND ALLOCATION. (1) This section
20 is intended to insure that the majority of funds generated by chapter
21 84.-- RCW (the new chapter created in section 18 of this act) are
22 devoted to public schools.

23 (2)(a) Once revenue generated as a result of the provisions in
24 chapter 84.-- RCW (the new chapter created in section 18 of this act)
25 permits total per pupil funding in Washington state to meet or exceed
26 the national average in per pupil funding:

27 (i) The legislature must provide school funding sufficient to bring
28 average actual class sizes down to the national average for actual
29 class sizes;

30 (ii) The legislature must provide school funding sufficient to
31 permit school districts to fully fund national average graduation
32 requirements, also known as "CORE 24" requirements;

33 (iii) The legislature must provide school funding sufficient to
34 permit school districts to provide full day kindergarten;

1 (iv) The legislature must provide school funding for each school
2 district sufficient to provide that the lowest funded school district
3 in the state has per pupil funding within at least ninety percent of
4 the average per pupil funding in the state (fully funding levy
5 equalization).

6 (b) The objectives in (a)(i) through (iv) of this subsection, once
7 fully funded, must become part of the goals of the basic education act
8 in RCW 28.150.210.

9 (c) Once the objectives in (a)(i) through (iv) of this subsection,
10 are fully funded, any remaining funds may be placed in the state
11 general fund and used for any authorized purpose.

12 NEW SECTION. **Sec. 14.** ADMINISTRATION. The department must
13 administer the tax levied by this chapter.

14 **Sec. 15.** RCW 28A.150.210 and 2007 c 400 s 1 are each amended to
15 read as follows:

16 The goal of the basic education act for the schools of the state of
17 Washington set forth in this chapter shall be to provide students with
18 the opportunity to become responsible and respectful global citizens,
19 to contribute to their economic well-being and that of their families
20 and communities, to explore and understand different perspectives, and
21 to enjoy productive and satisfying lives. Additionally, the state of
22 Washington intends to provide for a public school system that is able
23 to evolve and adapt in order to better focus on strengthening the
24 educational achievement of all students, which includes high
25 expectations for all students and gives all students the opportunity to
26 achieve personal and academic success. Furthermore, the goals of the
27 basic education act also include the objectives provided in section 13
28 (2)(a) (i) through (iv) of this act, once fully funded, as provided in
29 section 13 of this act. To these ends, the goals of each school
30 district, with the involvement of parents and community members, shall
31 be to provide opportunities for every student to develop the knowledge
32 and skills essential to:

33 (1) Read with comprehension, write effectively, and communicate
34 successfully in a variety of ways and settings and with a variety of
35 audiences;

1 (2) Know and apply the core concepts and principles of mathematics;
2 social, physical, and life sciences; civics and history, including
3 different cultures and participation in representative government;
4 geography; arts; and health and fitness;

5 (3) Think analytically, logically, and creatively, and to integrate
6 different experiences and knowledge to form reasoned judgments and
7 solve problems; and

8 (4) Understand the importance of work and finance and how
9 performance, effort, and decisions directly affect future career and
10 educational opportunities.

11 **Sec. 16.** RCW 84.36.070 and 1997 c 181 s 1 are each amended to read
12 as follows:

13 (1) Intangible personal property up to one hundred thousand dollars
14 per person is exempt from ad valorem taxation.

15 (2) "Intangible personal property" means:

16 (a) All moneys and credits including mortgages, notes, accounts,
17 certificates of deposit, tax certificates, judgments, state, county and
18 municipal bonds and warrants and bonds and warrants of other taxing
19 districts, bonds of the United States and of foreign countries or
20 political subdivisions thereof and the bonds, stocks, or shares of
21 private corporations;

22 (b) Private nongovernmental personal service contracts, private
23 nongovernmental athletic or sports franchises, or private
24 nongovernmental athletic or sports agreements provided that the
25 contracts, franchises, or agreements do not pertain to the use or
26 possession of tangible personal or real property or to any interest in
27 tangible personal or real property; and

28 (c) Other intangible personal property such as trademarks, trade
29 names, brand names, patents, copyrights, trade secrets, franchise
30 agreements, licenses, permits, core deposits of financial institutions,
31 noncompete agreements, customer lists, patient lists, favorable
32 contracts, favorable financing agreements, reputation, exceptional
33 management, prestige, good name, or integrity of a business.

34 (3) "Intangible personal property" also includes all property
35 defined as "intangible property" in section 3 of this act.

36 (4) "Intangible personal property" does not include zoning,
37 location, view, geographic features, easements, covenants, proximity to

1 raw materials, condition of surrounding property, proximity to markets,
2 the availability of a skilled workforce, and other characteristics or
3 attributes of property.

4 ~~((4))~~ (5) This section does not preclude the use of, or permit a
5 departure from, generally accepted appraisal practices and the
6 appropriate application thereof in the valuation of real and tangible
7 personal property, including the appropriate consideration of licenses,
8 permits, and franchises granted by a government agency that affect the
9 use of the property.

10 (6) "Intangible personal property" must be separated into distinct
11 classes in order to tax each class of intangible personal property
12 uniformly. These classes include, but are not limited to:

13 (a) All intangible personal property, up to one hundred thousand
14 dollars per person, which is exempt from taxation;

15 (b) All retirement accounts, which are exempt from taxation;

16 (c) All other intangible property that is exempt from taxation as
17 specified in this section or chapter 84.-- RCW (the new chapter created
18 in section 18 of this act); and

19 (d) All other intangible property that is not exempt from taxation
20 as specified in this section or chapter 84.-- RCW (the new chapter
21 created in section 18 of this act). All such intangible property must
22 be taxed at a uniform tax rate of one percent of the fair market value
23 of the property as of the end of the calendar year.

24 **Sec. 17.** RCW 84.36.110 and 2006 c 281 s 2 are each amended to read
25 as follows:

26 The following property shall be exempt from taxation:

27 (1) All household goods and furnishings in actual use by the owner
28 thereof in equipping and outfitting his or her residence or place of
29 abode (~~and not for sale or commercial use,~~) and all personal effects
30 (~~held by any person for his or her exclusive use and benefit and not~~
31 ~~for sale or commercial use)) up to one hundred thousand dollars of
32 personal tangible property and one hundred thousand dollars of personal
33 intangible property, including but not limited to, personal tangible
34 and/or intangible property used in part for a small business.~~

35 (2) (~~The personal property, other than specified in subsection (1)~~
36 ~~of this section, of each head of a family liable to assessment and~~
37 ~~taxation of which the individual is the actual and bona fide owner to~~

1 ~~an amount of fifteen thousand dollars of true and fair value.))~~ This
2 exemption shall not apply to any private motor vehicle or mobile home.
3 If the county assessor is satisfied that all of the personal property
4 of any person is exempt from taxation under the provisions of this
5 statute or any other statute providing exemptions for personal
6 property, no listing of such property shall be required. However, if
7 the personal property described in this subsection exceeds in value the
8 amount allowed as exempt, then a complete list of said personal
9 property shall be made as provided by law, and the county assessor
10 shall deduct the amount of the exemption authorized by this subsection
11 from the total amount of the assessment and impose taxes on the
12 remainder.

13 NEW SECTION. **Sec. 18.** CODIFICATION. Sections 1 through 14 of
14 this act constitute a new chapter in Title 84 RCW.

15 NEW SECTION. **Sec. 19.** SEVERABILITY. If any provision of this act
16 or its application to any person or circumstance is held invalid, the
17 remainder of the act or the application of the provision to other
18 persons or circumstances is not affected.

19 NEW SECTION. **Sec. 20.** APPLICABILITY. This act applies to taxes
20 levied for collection in 2010 and thereafter.

21 NEW SECTION. **Sec. 21.** CAPTIONS NOT LAW. Captions used in this
22 act are not any part of the law.

23 NEW SECTION. **Sec. 22.** The secretary of state shall submit this
24 act to the people for their adoption and ratification, or rejection, at
25 the next general election to be held in this state, in accordance with
26 Article II, section 1 of the state Constitution and the laws adopted to
27 facilitate its operation.

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