H-3273.1

HOUSE BILL 2354

State of Washington 61st Legislature 2009 Regular Session

By Representatives Chase and Hunt

Read first time 04/16/09. Referred to Committee on Finance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(12) The legislature further finds that:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(9) "Owner" means any person who:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(g) Retirement plans provided by quasi-governmental agencies of the federal government for their employees;

(h) Unfunded deferred compensation arrangements created and maintained by employers for employees unless the contributions to such arrangement have been included in the employee's income;

(i) Retirement plans organized or created under the Washington state teachers' retirement system or public employees' retirement system; and

(j) Retirement plans, including any "supplemental" plans, organized or created by any Washington state county or municipal government for its officials and employees;

(4) Obligations of an employer to an employee for services rendered including, without limitation, deferred compensation not described in this subsection (4) and fringe benefits;

(5) Cash and cash equivalents including, without limitation, checking accounts and demand deposits with banks and other financial institutions;

(6) Interests in charitable remainder trusts, charitable lead trusts, pooled income funds, and charitable annuities;

(7) Intangible personal property owned by or irrevocably held in trust for the exclusive benefit of a religious, educational, or charitable institution, no part of the net profit from the operation of which inures to the benefit of any private person;

(8) Assets representing mandatory reserve requirements imposed, by statute or otherwise, on depository financial institutions subject to the tax on intangible property;

(9) Stock of the federal reserve bank, the government national mortgage association, the federal national mortgage association, and other corporations and associations established by acts of the congress of the United States;

(10) Mandatory deposits with the federal reserve bank or others required by statute or regulations;

(11) Federal or correspondent funds sold and securities and other intangible assets purchased under agreements to resell to the extent they are offset by federal or correspondent funds purchased and securities and other intangible assets sold under agreements to repurchase;

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

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

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

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

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

(17) Life insurance and annuity policies;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) A statement either that the fair market values have been determined in accordance with section 7 (4) through (9) of this act or that the taxpayer elects to rebut the presumptions in section 7 (7) through (9) of this act or elects to make the deduction allowed by section 7(10) of this act; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>NEW SECTION.</u> **Sec. 14.** ADMINISTRATION. The department must administer the tax levied by this chapter.

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

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

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

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

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

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

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

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

(2) "Intangible personal property" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

The following property shall be exempt from taxation:

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

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

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

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

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

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

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

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

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