

HOUSE JOINT RESOLUTION 42

Proposed Constitutional Amendment

Vote cast by members of the 1969 Legislature on final passage:
HOUSE: (99 members) Yeas, 84; Nays, 12; Absent or not voting, 3.
SENATE: (49 members) Yeas, 34; Nays, 15; Absent or not voting, 0.

*Explanatory comment issued by the
Attorney General as required by law*

Official ballot title:*

REVISING REVENUE LIMITATIONS

Shall the state constitution be amended to reduce the maximum allowable rate of taxation against property to 1 percent of true and fair value in the absence of authorized excess levies, and to permit the legislature to tax income at a single rate without regard to this limitation or, after 1975, at a graduated rate if the voters in that year or thereafter approve the removal of the single rate limitation?

*Ballot Title as issued by the Attorney General.

The Law as it now exists:

The state constitution currently provides that regular real and personal property taxes shall not exceed 40 mills on the dollar of assessed valuation, and that assessed valuation shall be 50% of the actual value of the property. This means that the property tax, excluding excess levies approved by the voters, cannot exceed 2% of the actual value of the property taxed. For example, a piece of property valued at \$10,000 may not presently be taxed more than \$200 a year, excluding voter approved excess levies.

In addition, the state constitution as currently interpreted prohibits the imposition of a state net income tax.

Statement **FOR**

The Sensible Method of Changing Our Tax System

The present Washington state tax system does not meet any of the essentials necessary for a good tax structure. It is unfair because it places the heaviest tax burden on low-income families and senior citizens living on fixed incomes. It is unfair because much income-producing property—stocks, bonds and savings accounts—is exempt from taxation. Further, it places increasing pressure on the property tax to finance basic education.

Need Broader Tax Base

There are three basic types of taxes which can be used to provide services to the public: property, sales and income. The Washington state tax structure is based primarily on sales and property taxes and does not adequately reflect the state's economic growth. The Constitution prevents the use of the net income tax, *however this restriction has not kept governmental costs from rising*. It has forced the taxpayer to meet them with unfair and increasingly burdensome taxes.

Sales and Property Tax Relief

The only realistic hope of relief from sales and property taxes and excess levy money is to balance our structure with an income tax and constitutionally limit property tax to 1% of true and fair value.

An income tax is the fairest and most equitable means of obtaining revenue. *It reflects a person's ability to pay*. The adoption of a state income tax provides flexibility necessary for a fair tax system. And, it provides the state with a source of revenue which increases in proportion to the state's personal income.

Constitutional Amendment

In order to include net income as a tax base and achieve a more fair and flexible tax system, the State Constitution must be changed.

The financial soundness of our state government rests, essentially, in its taxing powers, which in a growing economy must be permitted to meet changing requirements of its population.

HJR 42 is one way of meeting these requirements.

Committee appointed to compose statement **FOR** House Joint Resolution No. 42:

ROBERT C. RIDDER, State Senator; JONATHAN WHETZEL, State Representative; WALTER B. WILLIAMS, State Senator.

Effect of House Joint Resolution No. 42 if approved into Law:

This proposed constitutional amendment would fix the maximum rate of taxation upon real and personal property at 1% of its actual value, exclusive of excess levies approved by the voters. Thus, under this amendment the maximum tax which could be imposed each year upon a piece of property valued at \$10,000 would be \$100, exclusive of voter approved excess levies, rather than \$200 under the constitution as it now exists.

The proposed amendment would also authorize the imposition of a state income tax at a single rate upon all individual taxpayers and at a single rate upon all corporations. The two rates could differ. Certain credits, exclusions and exceptions could be allowed in determining the amount of income subject to tax.

In November of 1975, an election would be held on the question of whether to remove the single rate restriction from the constitution so as, thereafter, to allow graduated rates for the net income tax. In any year after 1975, a similar proposition to remove the single rate restriction could be placed on the ballot by an affirmative vote of 60% of the members of both houses of the legislature.

Approval of this proposed constitutional amendment, in addition to reducing the maximum rate of property taxation, will validate the provisions of chapter 262, Laws of 1969, Ex. Sess. Among the major provisions of this act (which, if validated, will remain in effect until altered by law) are:

- (1) A 3.5% tax on the adjusted gross income of individuals, minus exemptions of \$1,000 per person;
- (2) A 3.5% tax on the taxable income of corporations, estates and trusts;
- (3) A credit against the income tax of \$15.00 per person for state sales tax paid on food;
- (4) An exemption of prescription drugs from the state and local sales tax;
- (5) A reduction of the state sales tax from 4.5% to 3.5%;
- (6) A general reduction of the business and occupation tax by 50% or more;
- (7) The allowance of a credit of 10% of the property tax on inventories against business and occupation tax liabilities; and
- (8) A reduction of the amount of property taxes paid, either directly or through rent by senior citizens with limited incomes.

Note: Complete text of House Joint Resolution No. 42 starts on Page 27.

Statement **AGAINST**

Reform means to improve, to change for the better. A reformed criminal commits less crime, not more crime. This proposal is not tax reform, it is purely and simply a tax increase. The proponents vary their story depending on which group they talk to. When they talk to the employees, they tell them it will bring in more money and give them salary raises. When they talk to home owners and farmers, they say it will reduce their real estate tax, which it does not. When they talk to businessmen, they say "we will reduce your B & O tax." When they talk to school groups, they say it will eliminate special levies. And then when they talk to taxpayers generally, they say it will not be a tax increase.

This measure opens up a brand new field of taxation with no limit. Efforts to place a ceiling on it in the Senate were voted down. Already the proponents are admitting that the proposed rate of tax is not enough and must be made higher even before this is enacted. Likewise the sales tax has to go back up. This measure is unnecessary except to provide monies for a wasteful program making us the third highest welfare state in the nation in the ADC category, a program which supports trips and stipends.

The time has come not to open up any avenues to tax with no guarantee of any reduction. The time has come to make some

changes in spending habits and cease being so generous with the taxpayers' money. Remember, once this avenue of taxation is opened, there is no limit as to what rates succeeding Legislatures may impose. The present discussed rates are merely openers and to lure the uninformed.

This is taxation unlimited. Be sure and vote no.

*Committee appointed to compose statement **AGAINST** House Joint Resolution No. 42:*

PERRY B. WOODALL, State Senator; WILLIAM J. S. (BILL) MAY, State Representative; JIM BENDER, Secretary, King County Labor Council.

There shall be no denial of the elective franchise at any election on account of sex.

BE IT FURTHER RESOLVED, That the secretary of state shall cause notice of the foregoing constitutional amendment to be published at least four times during the four weeks next preceding the election in every legal newspaper in the state.

Passed the House January 21, 1970. Passed the Senate February 5, 1970.
DON ELDRIDGE, Speaker of the House. JOHN A. CHERBERG, President of the Senate.
EXPLANATORY COMMENT H.J.R. NO. 6:

All words in double parentheses and lined through are in our State Constitution at the present and are being taken out by this amendment. All words underscored do not appear in the State Constitution as it is now written but will be put in if this amendment is adopted.

COMPLETE TEXT OF

Proposed Constitutional Amendment

HOUSE JOINT RESOLUTION 42

Ballot Title as issued by the Attorney General:

REVISING REVENUE LIMITATIONS

Shall the State Constitution be amended to reduce the maximum allowable rate of taxation against property to 1 percent of true and fair value in the absence of authorized excess levies, and to permit the legislature to tax income at a single rate without regard to this limitation or, after 1975, at a graduated rate if the voters in that year or thereafter approve the removal of the single rate limitation?

BE IT RESOLVED, *By the Senate and House of Representatives of the State of Washington, in Legislative Session Assembled:*

THAT, At the next general election to be held in this state there shall be submitted to the qualified voters of the state for their approval and ratification, or rejection, a proposal to amend Article VII of the Constitution of the state of Washington by amending section 2, as amended by Amendment 17, to read as follows:

Article VII, section 2. (1) Except as hereinafter provided and notwithstanding any other provision of this Constitution, the aggregate of all tax levies upon real and personal property by the state and all taxing districts now existing or hereafter created shall not in any year exceed [~~forty mills on the dollar of assessed valuation, which assessed valuation shall be fifty~~] one per centum of the true and fair value of such property in money: *Provided, however,* That nothing herein shall prevent levies at the rates now provided by law by or for any port or public utility district.

The term "taxing district" for the purposes of this section shall mean any political subdivision, municipal corporation, district, or other governmental agency authorized by law to levy, or have levied for it, ad valorem taxes on property, other than a port or public utility district. Such aggregate limitation or any specific limitation imposed by law in conformity therewith may be exceeded only

(a) By any taxing district when specifically authorized so to do by a majority of at least three-

fifths of the electors thereof voting on the proposition to levy such additional tax submitted not more than twelve months prior to the date on which the proposed levy is to be made and not oftener than twice in such twelve month period, either at a special election or at the regular election of such taxing district, at which election the number of persons voting on the proposition shall constitute not less than forty per centum of the total number of votes cast in such taxing district at the last preceding general election;

(b) By any taxing district otherwise authorized by law to issue general obligation bonds for capital purposes, for the sole purpose of making the required payments of principal and interest on general obligation bonds issued solely for capital purposes, other than the replacement of equipment, when authorized so to do by majority of at least three-fifths of the electors thereof voting on the proposition to issue such bonds and to pay the principal and interest thereon by an annual tax levy in excess of the limitation herein provided during the term of such bonds, submitted not oftener than twice in any calendar year, at an election held in the manner provided by law for bond elections in such taxing district, at which election the total number of persons voting on the proposition shall constitute not less than forty per centum of the total number of votes cast in such taxing district at the last preceding general election: *Provided,* That any such taxing district shall have the right by vote of its governing body to refund any general obligation bonds of said district issued for capital purposes only, and to provide for the interest thereon and amortization thereof by annual levies in excess of the tax limitation provided for herein, *And provided further,* That the provisions of this section shall also be subject to the limitations contained in Article VIII, Section 6 of this Constitution;

(c) By the state or any taxing district for the purpose of paying the principal or interest on general obligation bonds outstanding on December 6, 1934; or for the purpose of preventing the impairment of the obligation of a contract when ordered so to do by a court of last resort.

(2) Notwithstanding any other provision of this Constitution, the legislature shall have the power,

(a) To impose a tax upon income from whatever source derived, at a rate or rates in excess of that permitted by subsection (1) of this section: *Provided,* That the tax may be imposed only (i) at a single rate upon the income of all taxpayers, or (ii) at a single rate upon the income of corporations which may be different from the single rate imposed upon other income;

(b) To provide for allowance of credits, exclusions, exemptions, and deductions to be used in determining the amount of income subject to tax or in computing such tax; and to provide further for direct payments to an individual or corporation to the extent that (i) insufficient income tax liability exists for full application of an otherwise applicable credit, and (ii) such credit is granted for the purpose of providing direct or indirect relief from other state or local taxes;

(c) To coordinate the administration and collection of state income taxes with the income tax laws and procedures of the United States, and to delegate to such state administrators as it may designate the authority to prescribe the means of coordination of state and United States tax laws and methods for the allocation of income for taxing purposes. The legislature may adopt by reference any federal statutes relating to the determination of taxable income, as existing at time of adoption and as amended from time to time.

A proposition to remove the limitations contained in clause (a) of this subsection (2) upon the types of income tax which may be imposed shall be submitted to the qualified voters of this state at the general election to be held in this state in November, 1975.

At a general election to be held in this state in November of any year after 1975, there may be submitted to the qualified voters of this state a proposition to remove the limitations contained in clause (a) of this subsection (2) upon the types of income tax which may be imposed, if a resolution providing for submission of such proposition is adopted, at the legislative session immediately preceding such election, by a majority of at least sixty percent of the members elected to each of the two houses of the legislature.

Whenever such a proposition is submitted to the qualified voters of this state, the secretary of state shall cause the proposition to be prepared and placed upon the ballot at the November general election as follows:

"Shall Article VII, section 2(2) of the state Constitution be changed to authorize a state graduated net income tax? Yes

No "

If a majority of the qualified voters voting upon the proposition vote for removing such limitations, the limitations shall be removed, and thereafter the tax may be imposed upon income at such rate or rates, single or graduated, as may be prescribed by law. If a majority of the qualified voters voting upon the proposition vote against removing such limitations, the limitations shall be continued, unless changed by subsequent amendment to this Constitution or as provided in this subsection (2).

BE IT FURTHER RESOLVED, That the foregoing amendment shall be construed as a single amendment within the meaning of Article XXIII, section 1 (Amendment 37) of this Constitution.

The legislature finds that the changes contained in the foregoing amendment constitute a single integrated plan for a balanced revision of the tax structure for state and local government. It is the intention of the legislature that in the event the foregoing amendment is held to be separate amendments, this house joint resolution shall be void in its entirety and shall be of no further force and effect.

AND BE IT FURTHER RESOLVED, That the secretary of state shall cause notice of the foregoing constitutional amendment to be published at least four times during the four weeks next preceding the election in every legal newspaper in the state.

Passed the House May 8, 1969.

DON ELDRIDGE,

Speaker of the House.

Passed the Senate May 8, 1969.

JOHN A. CHERBERG,

President of the Senate.

EXPLANATORY COMMENT H.J.R. NO. 42:

All words in double parentheses and lined through are in our State Constitution at the present and are being taken out by this amendment. All words underscored do not appear in the State Constitution as it is now written but will be put in if this amendment is adopted.