

Initiative Measure No.

# 732

Initiative Measure No. 732 concerns taxes.

This measure would impose a carbon emission tax on certain fossil fuels and fossil-fuel-generated electricity, reduce the sales tax by one percentage point and increase a low-income exemption, and reduce certain manufacturing taxes.

Should this measure be enacted into law?

Yes

No

**Explanatory Statement . . . . . 37**  
**Fiscal Impact Statement . . . . . 38**  
**Arguments For and Against . . . . . 42**



The Secretary of State is not responsible for the content of statements or arguments (WAC 434-381-180).

## Explanatory Statement

Written by the Office of the Attorney General

### The Law as it Presently Exists

The sales tax is imposed on retail sales of most articles of personal property, digital products, and some services. The current state sales tax rate is 6.5 percent, though some local governments impose their own sales taxes that make the rate paid by purchasers higher.

The state business and occupation tax is imposed on the gross income of business activities conducted in Washington. The business and occupation tax rate varies by the type of business or occupation. Most manufacturing businesses are taxed at a rate of 0.484 percent of their gross income, but some manufacturers pay lower rates.

Burning fossil fuels (such as coal, oil, and natural gas) produces carbon dioxide, which can trap heat in the Earth's atmosphere. There is no state tax on carbon dioxide emissions in Washington.

### The Effect of the Proposed Measure if Approved

This measure would create a new tax and reduce certain existing taxes. It would impose a new "carbon emission tax" that applies to the sale or use of certain fossil fuels and electricity generated from fossil fuels. It also would reduce the state sales tax rate, reduce the business and occupation tax rate on manufacturing, and fund a partial sales tax exemption for low-income families.

#### New Carbon Emission Tax

A new carbon emission tax would start July 1, 2017. It would apply when fossil fuels are burned in Washington. The tax would be collected by the first person or company in Washington who sells or burns the coal, oil, or other fossil fuel. The measure includes provisions to avoid double-taxing a fuel. For most fossil fuels, the tax rate would start at \$15 per metric ton of carbon dioxide emitted. Then, the tax rate would rise to \$25 per metric ton on July 1, 2018. After that, it would increase by 3.5 percent plus inflation each year until the tax rate reaches a maximum of \$100 per metric ton, adjusted for inflation. The state Department of Revenue would adopt rules for calculating the amount of carbon dioxide emitted for each type of fuel and fuel use and for paying the tax. The carbon emission tax would apply to electricity producers, but only on the proportion of electricity produced using fossil fuels. It would not apply to electricity produced using hydroelectric dams, nuclear power, wind, or solar power. Certain industries that obtain

electricity generated outside Washington also may be required to pay the tax.

The carbon emission tax would be phased in more slowly for some kinds of fuel used for specific purposes. These fuels include certain fuels used solely for agricultural purposes; fuel purchased for public transportation or by a private nonprofit transportation provider; fuel purchased by the Washington state ferry system for use in its ferries; and fuel purchased for school buses. For these fuels, the initial tax rate would be 5 percent of the tax rate imposed on other fuels. On July 1, 2019, the tax rate would increase to 10 percent of the tax rate imposed on other fuels. The rate would increase in 5 percent increments every two years after that until July 1, 2055, when it would be the same as the carbon emission tax rate imposed on other fuels.

#### Reductions in Existing Taxes

This measure also would reduce some taxes. On July 1, 2017, the state sales tax rate would be reduced from 6.5 percent to 6.0 percent. On July 1, 2018, it would be reduced again, to 5.5 percent. The state business and occupation tax rate for manufacturing would be reduced to 0.001 percent on July 1, 2017, from the current rate of 0.484 percent for most manufacturers.

#### Working Family Tax Exemption

Finally, the measure would expand and fund a working family tax exemption. That exemption would allow low-income taxpayers (those who qualify for the federal earned income tax credit) to receive a refund for some of the state sales taxes they paid during the year. In 2017, an eligible applicant would receive 15 percent of the federal earned income tax credit or \$100, whichever is larger. Starting in 2018, the refund amount would be 25 percent of the federal earned income tax credit or \$100, whichever is larger.

#### Other Provisions

The state would adopt rules needed to implement the measure. The measure also requires reports to the Governor and Legislature on how the measure is affecting state revenues. The reports would be submitted every year from 2017 through 2027, and every two years after that.

## Fiscal Impact Statement

Written by the Office of Financial Management  
For more information visit [www.ofm.wa.gov/ballot](http://www.ofm.wa.gov/ballot)

### Summary

During the first six fiscal years, state General Fund revenue would decrease by a net amount of \$797.2 million. This results from implementing a new carbon tax, reducing the state retail sales tax rate by 1 percentage point and reducing certain manufacturing business and occupation taxes. The Working Families Tax Exemption Program would be funded. Sales tax revenue for the state Performance Audits of Government Account would decrease by \$8.9 million. Local tax revenue would increase by \$156.1 million. State expenditures would increase by \$37.4 million.

### General assumptions

- The effective date of the initiative is July 1, 2017.
- Estimates use the state's fiscal year of July 1 through June 30. Fiscal year 2016 is July 1, 2015, to June 30, 2016.
- The provisions of the initiative apply prospectively, not retroactively.

### State revenue assumptions

- Revenue estimates are based on the February 2016 Economic and Revenue Forecast, Department of Revenue tax return data and the Washington State Department of Commerce, State Energy Office, Carbon Tax Assessment Model (CTAM) – version 3.1c.

### State revenue impacts

The initiative contains four provisions that affect state revenue — increased revenues from a new carbon tax, reduced state revenue from a 1 percentage point retail sales tax rate reduction, reduced state revenues from a business and occupation (B&O) tax reduction for certain manufacturing taxpayers and decreased revenues from expansion of the Working Families Tax Exemption Program.

### Carbon tax

Estimates are based on the CTAM and the Global Insight forecast for the consumer price index for all urban areas (CPI-U), November 2015. The Department of Commerce periodically updates data in the CTAM. Any data updates to the CTAM made between preparation and publication of this fiscal impact statement are not reflected in the estimates displayed here.

Revenue assumptions:

- The carbon tax rate is equal to \$15 per metric ton of carbon dioxide as of July 1, 2017.

- The carbon tax rate is equal to \$25 per metric ton of carbon dioxide as of July 1, 2018, and increases by 3.5 percent, plus the inflation rate, each year thereafter.
- The inflation rate is equal to the CPI-U.
- The phased-in tax rates associated with several fuel uses are not reflected in this analysis, although lowering the carbon tax rate for the specific fuel uses outlined in the bill would result in lower carbon tax revenues.
- No carbon tax reductions or refunds are made for long-term storage of carbon emissions (qualified sequestration).
- No credits are granted for payment of a similar carbon tax in another state.
- The following assumptions are made in the CTAM for modeling purposes:
  - Year One is set to calendar year 2017 to most closely correspond to the July 1, 2017, effective date of the proposed carbon tax.
  - The baseline reference energy forecast (option A) is specified in the CTAM.
  - Industrial process emissions are not included.
  - Jet fuels are not exempted.
  - Marine fuels are not exempted.
  - “Transition coal” is not exempted.
  - The additional 11.9 cents of state gasoline/diesel taxes that became law in 2015 are included in the model as a supplemental fuel tax, as the CTAM does not include this in its current baseline assumptions.

The carbon tax increases revenues that are deposited in the state General Fund. Table 1 provides estimates of the carbon tax revenue during the next six fiscal years to the state General Fund. Revenues deposited in the state General Fund may be used for any government purpose such as education; social, health and environmental services; and other general government activities.

(See Table 1 on page 41)

### Business and occupation tax

The state B&O tax is a gross receipts tax measured on the value of products, gross proceeds of sales or gross income of the business.

Revenue assumptions:

- The following B&O tax classifications are reduced to a rate of 0.001 percent:
  - Manufacturing
  - Manufacturing Dairy/Biodiesel/Alcohol/Split Peas/Fresh Fruit & Vegetables

- Slaughter-Breaking-Processing Perishable Meat Wholesaling and Manufacturing
- Manufacturing Commercial Airplanes, Components & Aero Tooling
- Wholesaling Commercial Airplanes, Components & Aero Tooling
- Retailing Commercial Airplanes, Components & Aero Tooling
- Processing for Hire Timber Products
- Manufacturing of Timber Products
- Manufacturing of Semiconductors
- As a result of these tax rate changes, the multiple activities tax credit has been recalculated and factored into this analysis.
- The growth rate mirrors the total B&O taxable activity forecast reflected in the Economic and Revenue Forecast Council's February 2016 forecast.
- All B&O tax rate changes are effective July 1, 2017, and none of these changes is retroactive.

Table 2 provides estimates of the decrease in state B&O tax revenue for the next six fiscal years to the state General Fund, rounded to the nearest \$1,000.

(See Table 2 on page 41)

### Sales tax

The state retail sales tax rate decreases from 6.5 percent to 6.0 percent on July 1, 2017, and from 6.0 percent to 5.5 percent on July 1, 2018. This change reduces revenues deposited in two funds: the state General Fund and the state Performance Audits of Government Account.

In addition, changes in the state retail sales tax rate could affect the amount of goods purchased, which would affect state and local tax revenue. The Department of Revenue prepared the revenue estimates assuming a price elasticity of 1.01. Price elasticity is a method used to calculate the change in consumption of a good when price increases or decreases. Due to price elasticity, state B&O tax revenue could increase with the change in the state retail sales tax rate.

Table 3 provides estimates of the decrease in state retail sales tax revenue for the next six fiscal years to the state General Fund.

(See Table 3 on page 41)

Table 4 provides estimates of the decrease in state retail sales tax revenue for the next six fiscal years to the state Performance Audits of Government Account. This account is used by the Washington State Auditor to conduct comprehensive performance audits required under RCW 43.09.470.

(See Table 4 on page 41)

Table 5 provides estimates of the increase in state B&O tax revenue deposited in the state General Fund over the next six fiscal years.

(See Table 5 on page 41)

### Working Families Tax Exemption

Estimates are based on 2013 individual income tax returns filed with the Internal Revenue Service. The initiative modifies the Working Families Tax Exemption Program, which is an exemption in the form of a refund for eligible taxpayers. Under current law, the exemption amount for a qualified taxpayer for the prior federal tax year is the greater of 10 percent of the federal earned income tax credit (EITC) or \$50. The initiative increases that amount to the greater of 15 percent of the EITC or \$100 for exemptions claimed in 2017, and the greater of 25 percent of the EITC or \$100 for exemptions claimed in 2018 and thereafter.

Revenue assumptions:

- Applications for calendar year 2016 would be received beginning July 1, 2017.
- Applications for calendar year 2017 would be received beginning Jan. 1, 2018.
- Calendar year 2016 and calendar year 2017 refunds would both be paid during fiscal year 2018.
- The participation rate in the Working Families Tax Exemption Program is assumed at 90 percent in the first year, 93 percent in the second year and 95 percent in the third year and thereafter.
- The Working Families Tax Exemption is based on the EITC from the prior year.
- The number of qualified applicants grows 3 percent annually.
- All refunds are paid by June 30 of the year that the Working Families Tax Exemption is claimed. However, applications for the first year cannot be submitted until July 1, 2017. This estimate assumes refunds for calendar year 2016 (requested in 2017) will be paid by Dec. 31, 2017.

Table 6 provides estimates of the decrease in state General Fund revenues due to the changes in the Working Families Tax Exemption Program.

(See Table 6 on page 41)

### Local government revenue

Due to price elasticity from the change in the state retail sales tax rate, local retail sales tax revenue could increase. Table 7 provides estimates of the increased local government revenues collected during the next six fiscal years.

(See Table 7 on page 41)

### State expenditure assumptions

- Expenditures for staff salaries reflect a general wage increase of 1.8 percent effective July 1, 2016, and corresponding adjustments to benefits reflecting 30 percent of the salary adjustment.
- One full-time equivalent (FTE) employee equates to 2,080 hours of work for one calendar year.

### State expenditures

To implement the initiative, the Department of Revenue will incur expenditures of about \$37.4 million and need additional FTEs during the first six fiscal years. Table 8 provides cost estimates and FTEs by fiscal year. Expenditures are rounded to the nearest \$1,000.

(See Table 8 on page 41)

About 200,000 taxpayers are affected by changes in the retail sales tax rate and about 12,000 taxpayers are affected by changes in manufacturing B&O tax rates. Costs for implementing the B&O tax and retail sales tax changes include:

- Programming and testing computer system changes.
- Creating a special notice for affected taxpayers and updating publications and web pages.
- Printing and mailing special notices to affected taxpayers who do not file electronically.
- Responding to questions from affected taxpayers.

About 1,500 taxpayers are affected by the carbon tax. Costs for implementing the carbon tax include:

- Programming and testing computer system changes, including new addenda for calculation of the carbon tax and a new software application to submit fuel mix reports.
- Creating new educational and informational materials for affected taxpayers in hard copy and electronic formats, including updates to these materials, as needed.
- Responding to questions and assisting affected taxpayers with return preparation and other compliance assistance.
- Technical advice for implementation, including procedures, forms, worksheets and guidance documents, and development of the carbon calculation.
- Additional work with affected parties and coordinating implementation among several state agencies during the startup process.
- Preparation of required reports to the governor and Legislature.
- Adoption of two new administrative rules.

For the Working Families Tax Exemption, the initiative modifies several provisions affecting program administration by

the Department of Revenue. The Department of Revenue assumes 460,600 individuals will file a claim the first year applications are accepted, beginning July 1, 2017. Costs to operate the program will change if the number of claims increases or decreases substantially.

The Department of Revenue is in the middle of its tax and licensing system replacement project. The timing of the initiative means only a minimum level of functionality of the new system is in place by July 1, 2017, to accept Working Families Tax Exemption applications. Other costs for implementing the Working Families Tax Exemption provisions of the initiative include:

- Programming (through contracting with third-party programmers) to set up, test and verify the computer systems to process refund applications for payment, including an Internet-based application process, processing queues, tracking, imaging and electronic funds transfers.
- Creating printed materials, Web information and media advertising.
- Designing and developing forms and other materials to process exemption claims.
- Organizing a group to receive and process claims for remittance.
- Responding to questions and assisting affected taxpayers.
- Preparing and training new staff to begin processing applications July 1, 2017.
- Adopting one new administrative rule.
- Printing and mailing notices to those who would qualify for the Working Families Tax Exemption, based on the best available information.
- Processing applications, including verification of claims.
- Processing and sending refund checks to eligible claimants.
- Collecting refunds processed in error or fraudulently filed.

**Table 1 – Carbon tax revenues deposited in the state General Fund**

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$0	\$0	\$1,455,135,000	\$1,972,166,000	\$2,089,715,000	\$2,189,309,000

**Table 2 – Reductions in state B&O tax revenues deposited in the state General Fund**

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$0	\$0	(\$371,907,000)	(\$426,871,000)	(\$449,128,000)	(\$472,545,000)

**Table 3 – Reductions in state retail sales tax revenues deposited in the state General Fund**

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$0	\$0	(\$678,294,000)	(\$1,493,684,000)	(\$1,638,849,000)	(\$1,716,348,000)

**Table 4 – Reductions in state retail sales tax revenues deposited in the Performance Audits of Government Account**

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$0	\$0	(\$1,087,000)	(\$2,394,000)	(\$2,626,000)	(\$2,751,000)

**Table 5 – Increases in state B&O tax revenues deposited in the state General Fund**

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$0	\$0	\$3,404,000	\$7,458,000	\$8,181,000	\$8,568,000

**Table 6 – Decreases in state General Fund revenues due to changes in the Working Families Tax Exemption Program**

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$0	\$0	(\$420,639,000)	(\$279,150,000)	(\$287,525,000)	(\$296,151,000)

**Table 7 – Increases in local retail sales tax revenue**

FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
\$0	\$0	\$19,245,000	\$42,165,000	\$46,251,000	\$48,439,000

**Table 8 – Department of Revenue implementation costs**

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
FTEs	0.0	49.6	72.8	60.1	58.7	60.4
Dollars	\$0	\$7,380,000	\$11,435,000	\$6,204,000	\$6,078,000	\$6,256,000

## Argument for

### Yes On I-732: Act Now for Clean Energy

Dirty fossil fuels pollute our air and water, threaten our forests, harm our kids, and damage our climate. I-732 *makes polluters pay*. It accelerates the shift to clean energy like solar, wind, and hydropower. And it returns the money polluters pay to *everyone's* pocket by lowering other taxes.

### Clean Air, Clean Water, Healthy Forests

Washington families and kids deserve a safe environment with clean air and water and healthy forests. I-732 puts a price on carbon pollution from fossil fuels like coal and oil, but not on clean energy like solar and wind. It accelerates clean energy, creating good, local jobs, while driving down the burning of fossil fuels and the pollution, asthma, and smog they cause.

### Fights Pollution and Climate Change

I-732 fights climate change by *making big polluters pay*. It's an effective, bipartisan policy similar to one that's been working successfully in British Columbia since 2008.

### Makes Polluters Pay. Protects Working Families.

Our current tax system hits lower- and middle-income families hardest. I-732 changes that. It uses the money *polluters pay* to *lower* sales taxes, saving the average family hundreds of dollars a year. And it sends tax refunds to hundreds of thousands of working families. It makes Washington's taxes *fairer* as it makes our state *cleaner*.

Protecting our air, water, and climate *just can't wait*. We have a moral obligation to leave our kids a healthier, cleaner Washington! Vote Yes on I-732.

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## Rebuttal of argument against

I-732 taxes polluters and uses that money to lower sales taxes on working families. Our opponents' main argument, *based on a disputed analysis*, is that tax revenue over 6 years *might* decline less than 1%. Our main argument is that droughts, fires, and floods from climate change will *definitely* threaten our environment, our economy, and our kids' futures. I-732 *reduces pollution* and *boosts clean energy* with a proven, bipartisan approach. Vote Yes!

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## Written by

**Cliff Mass**, Professor of Atmospheric Sciences, University of Washington; **Howard Behar**, Former President, Starbucks; **Sharon Nelson**, Former Chairman, Washington Utility Commission and Consumer Reports; **Bill Finkbeiner**, Former Washington State Senate Majority Leader (R); **Rogers Weed**, Washington State Department of Commerce Director 2009-2012; **Ramez Naam**, Author, Energy and Environment Co-Chair, Singularity University

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## Argument against

### State Deficit

I-732 will make Washington's budget mess worse. A Department of Revenue analysis found I-732 will cut funding available for education, health care, and other vital services by \$797 million over the next six years. Our state faces a \$5 billion deficit and court orders to meet basic education and mental health needs. I-732 makes this situation worse.

### Climate and Jobs

Climate policy must be comprehensive, so it doesn't harm people and kill jobs. I-732 fails this test. A clean-energy economy can reduce carbon emissions and reverse climate change while also creating family-wage jobs, rebuilding crumbling infrastructure, investing in areas hardest hit by pollution, and providing a "Just Transition" for workers and communities. I-732 doesn't do any of this.

Instead, I-732 imposes an accelerating carbon tax on businesses, with no provisions for compliance flexibility or energy-efficiency incentives. Some businesses will simply move their jobs and pollution across state lines.

### Equity

Vulnerable families in communities near pollution hot spots and workers in energy intensive industries are hardest hit by pollution. But I-732's "Working Families Tax Exemption" provides less than half of this population with any relief from increased energy costs. These communities will need investments and jobs to make an equitable transition to a forward-thinking clean-energy economy. I-732 ignores this.

At a time when we are struggling to maintain good jobs and fund basic services, I-732 would send Washington in the wrong direction. *Vote no.*

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## Rebuttal of argument for

We need to get climate policy right. I-732 has too many unintended consequences. I-732 gives tax breaks to polluters without any accountability and fails to invest in clean air and water, jobs and clean energy, or healthy forests and communities. I-732 further strips our state budget, harming education and infrastructure programs our communities need. This accelerating carbon tax will only push jobs and businesses elsewhere, and will not significantly address climate change.

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## Written by

**Rich Stolz**, Executive Director, One America; **Jill Mangaliman**, Executive Director, Got Green; **Jeffrey Johnson**, President, Washington State Labor Council, AFL-CIO; **Rosalinda Guillen**, Executive Director, Community to Community; **De'Sean Quinn**, Tukwila City Council member; **Rebecca Saldana**, Executive Director, Puget Sound SAGE

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## Complete Text

### Initiative Measure No. 732

AN ACT Relating to taxation; amending RCW 82.04.240, 82.04.240, 82.04.2404, 82.08.020, and 82.08.0206; reenacting and amending RCW 82.32.790 and 82.04.260; adding a new chapter to Title 82 RCW; and providing an effective date.

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

**NEW SECTION. Sec. 1. INTENT.** (1) The intent of this act is to encourage sustainable economic growth with a phased-in one percentage point reduction of the state sales tax, a reduction of the business and occupation tax on manufacturing, and the implementation and enhancement of the existing working families' sales tax exemption for qualifying low-income persons, all funded by a phased-in carbon pollution tax on fossil fuels sold or used in this state and on the consumption or generation in this state of electricity generated by the consumption of fossil fuels.

(2) Sections 4 through 8 of this act concern the carbon pollution tax and the overall impact of this act; sections 9 through 13 of this act reduce the business and occupation tax on manufacturers engaged in those activities subject to the "manufacturing tax" categories identified in RCW 82.04.440(5)(c)(i); section 14 of this act reduces the state sales tax; and section 15 of this act modifies and increases the working families' tax exemption.

(3) The proceeds of the carbon pollution tax are not intended to be used for highway purposes and must be deposited into the state general fund pursuant to RCW 82.32.380. This chapter is not intended to exempt any person from tax liability under any other law.

**NEW SECTION. Sec. 2. FINDINGS AND DECLARATION OF POLICY.** The people find that reduction of Washington state's high sales tax will increase commerce in this state; reduction of the business and occupation tax on manufacturers will encourage business formation and expansion by reducing the burden of this tax; the implementation and enhancement of the working families' sales tax exemption will provide the benefits expressed at the inception of that program; and the imposition of a carbon pollution tax to fund these actions will establish Washington state's national leadership in addressing both climate change and the acidification of the oceans.

**NEW SECTION. Sec. 3. DEFINITIONS.** The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Aircraft fuel" has the same meaning as in RCW 82.42.010.

(2) "Carbon calculation" means a calculation made by the department for purposes of calculating the tax pursuant to section 4 of this act. Among other resources, the department may consider carbon dioxide content measurements for fossil

fuels from the United States energy information administration or the United States environmental protection agency.

(3) "Carbon content inherent in electricity" means the carbon dioxide generated by the production of electricity from fossil fuels.

(4) "Carbon pollution tax" means the tax created in section 4 of this act.

(5) "Coal" means coal of any kind, including anthracite coal, bituminous coal, subbituminous coal, lignite, waste coal, syncoal, and coke of any kind.

(6) "Consumer price index" means, for any calendar year, that year's annual average consumer price index, for Washington state, for wage earners and clerical workers, all items, compiled by the bureau of labor and statistics, United States department of labor. If the bureau of labor and statistics develops more than one consumer price index for areas within the state, the index covering the greatest number of people, covering areas exclusively within the boundaries of the state, and including all items must be used for the adjustments for inflation in this section.

(7) "Direct service industrial customer" has the same meaning as provided in RCW 82.16.0495.

(8) "Fossil fuel" means petroleum products, motor vehicle fuel, special fuel, aircraft fuel, natural gas, petroleum, coal, or any form of solid, liquid, or gaseous fuel derived from these products, including without limitation still gas, propane, and petroleum residuals including bunker fuel.

(9) "Motor vehicle fuel" has the same meaning as provided in RCW 82.38.020.

(10) "Natural gas" means naturally occurring mixtures of hydrocarbon gases and vapors consisting principally of methane, whether in gaseous or liquid form, including methane clathrate.

(11) "Person" means any individual, division, or instrumentality of a government, business, corporation, partnership, or trust.

(12) "Petroleum product" has the same meaning as in RCW 82.23A.010.

(13) "Qualified sequestration" means sequestration qualified for credit pursuant to RCW 80.70.020 or in accordance with a method established by the department with reference to methods approved by the United States environmental protection agency or its successor.

(14) "Qualifying utility" means any electric utility that is:

(a) An "electrical company" as defined in RCW 80.04.010;

(b) Operating under authority of chapter 35.92 or 87.03 RCW or Title 54 RCW; or

(c) A profit, nonprofit, cooperative, or mutual corporation operating within this state for the sale or distribution of electricity to others.

(15) "Special fuel" has the same meaning as in RCW 82.38.020 and includes fuel that is sold or used to propel vessels.

(16) "Year" means the twelve-month period commencing January 1st and ending December 31st unless otherwise specified.



**NEW SECTION. Sec. 4. CARBON POLLUTION TAX.** (1) There is levied and the department must collect a tax upon (a) the carbon content of fossil fuels sold or used within this state including, but not limited to, fossil fuels sold or used for aviation or marine purposes, and (b) the carbon content inherent in electricity consumed within this state, including electricity that is generated within Washington; imported (by way of wheeling or otherwise) into Washington; or acquired from the Bonneville power administration.

(2) The tax rate is equal to fifteen dollars per metric ton of carbon dioxide as of July 1, 2017, increasing to twenty-five dollars per metric ton as of July 1, 2018, with automatic increases thereafter by three and one-half percent plus inflation, as measured using the consumer price index for the most recent year for which data are available, each year beginning July 1st, but not to exceed a rate of one hundred dollars per metric ton when converted into 2016 dollars by adjusting for inflation using the consumer price index.

(3) The department must determine the tax in each case by applying a carbon calculation as follows:

(a) For electricity consumed within the state, the department must adopt by rule criteria for making the carbon calculation and must consider, among other information, the reports filed pursuant to section 7 of this act;

(b) For fossil fuels used to refine fossil fuels, the department must adopt by rule criteria for making the carbon calculation and must consider, among other information, the reports filed pursuant to section 7 of this act; and

(c) For all other fossil fuels sold or used in Washington by any person, the department must adopt by rule criteria for making the carbon calculation.

(4) The department must adopt rules and provide forms with respect to the reporting of consumption of fossil fuels as follows:

(a) Motor vehicle fuel, in accordance with and at the intervals provided in chapter 82.36 RCW;

(b) Special fuel, in accordance with and at the intervals provided in chapter 82.36 RCW, and to the extent not covered therein, then in accordance with chapter 82.38 RCW;

(c) Aircraft fuel, in accordance with and at the intervals provided in chapter 82.42 RCW;

(d) Every other product derived from the refining of crude oil as defined in chapter 82.23A RCW, in accordance with and at the intervals provided in chapter 82.23A RCW;

(e) Fossil fuels not listed elsewhere in this subsection, in accordance with chapters 82.08 and 82.12 RCW unless expressly provided otherwise in this section; and

(f) Carbon dioxide emanating into the atmosphere as a result of the consumption of fossil fuels in refineries must be reported by each refinery operator as provided in section 7 of this act, and the tax on the carbon reported thereon must be paid to the department within fifteen days thereafter in accordance with regulations adopted by the department.

(5) The department must adopt rules and provide forms with respect to the reporting of electricity generated by the consumption of fossil fuels as required in section 7 of this

act. The department and the department of commerce may cooperate to adopt a consolidated form to be submitted to both departments.

(6) The carbon pollution tax must be reduced or refunded for uses of fossil fuels that can be demonstrated not to contribute to increasing the atmospheric carbon dioxide concentration, for example by reason of qualified sequestration. The tax reduction in such cases must be proportional to the fraction of emissions that can be demonstrated not to contribute to increasing the atmospheric carbon dioxide concentration. The right to carbon pollution tax reduction under this subsection may not be transferred, traded, or banked.

(7) The department must adopt rules as necessary to implement the carbon pollution tax provided for in this section. The department must develop and make available worksheets and guidance documents necessary to calculate the carbon pollution tax for various fossil fuels.

(8) In relation to the tax on the consumption of electricity, the tax imposed in this chapter is on the consumer of the electricity, but if the seller is located within the state, that seller must collect from the consumer the full amount of the tax. If any seller fails to collect the tax imposed in this chapter or, having collected the tax, fails to pay it to the department as required, the seller is nevertheless liable to the state for the amount of the tax.

**NEW SECTION. Sec. 5. EXEMPTIONS, PHASE-INS, AND CREDITS.** (1) The tax levied under section 4 of this act does not apply to:

(a) Fossil fuels brought into this state by means of the fuel supply tank of a motor vehicle, vessel, locomotive, or aircraft;

(b) Fuel that the state is prohibited from taxing under the Constitution of this state or the Constitution or laws of the United States; or

(c) Fuel intended for export outside this state. Export to a federally recognized Indian tribal reservation located within this state is not considered export outside this state.

(2)(a) The tax levied under section 4 of this act is phased-in as described in this subsection for:

(i) Diesel fuel, biodiesel fuel, or aircraft fuel used solely for agricultural purposes, as those terms are defined in RCW 82.08.865. This phase-in is available only if the buyer provides the seller with a certificate in a form and manner prescribed by the department;

(ii) Fuel that is purchased for the purpose of public transportation and for which the purchaser is entitled to a refund or an exemption under RCW 82.38.080(1) (f) and (g) or 82.38.180(3)(b);

(iii) Fuel that is purchased by a private, nonprofit transportation provider certified under chapter 81.66 RCW and for which the purchaser is entitled to a refund or an exemption under RCW 82.38.080(1)(d) or 82.38.180(3)(a);

(iv) Fuel purchased by the Washington state ferry system for use in a state-owned ferry; and

(v) Fuel purchased for school buses defined in RCW 46.04.521 and used for the purposes therein set forth.

(b) The tax rate for these fuels will be five percent of the rate described in section 4 of this act effective July 1, 2017, ten percent of the rate described in section 4 of this act effective July 1, 2019, and continuing to increase thereafter at five percentage points per biennium until it reaches one hundred percent of the rate described in section 4 of this act effective July 1, 2055.

(3) Nothing in this chapter may be construed to exempt the state or any political subdivision thereof from the payment of the tax.

(4) The tax is imposed only once and at the time and place of the first taxable event and upon the first taxable person within this state. If a person pays the tax imposed under this chapter on fuel that is consumed in the generation of electricity, the electricity so generated or used will not be subject to the tax imposed under this chapter provided that the department receives evidence, pursuant to rules adopted by the department, that the tax has been paid by the person using the fuel to generate electricity.

(5) Persons taxable under this chapter with respect to electricity consumed in this state but generated in another state are allowed a credit against those taxes for any similar carbon pollution taxes paid to that other state on the fossil fuels consumed in the generation of that electricity. The amount of the credit may not exceed the tax liability arising under this chapter with respect to the consumption of that electricity in this state. Persons claiming this credit must provide the department with evidence, pursuant to rules adopted by the department, that the tax has been paid to another state.

**NEW SECTION. Sec. 6. PROCEDURE.** The provisions of chapter 82.32 RCW apply to this chapter. If there is a conflict between a provision in this chapter and a provision of chapter 82.32 RCW, the provision in this chapter controls.

**NEW SECTION. Sec. 7. REPORTS BY UTILITIES, ELECTRICITY USERS, AND REFINERIES.** (1) Each utility and each user of electricity not generated in-state and not acquired from a qualifying utility must file with the department by the tenth day of each month a fuel mix report containing the information contained in RCW 19.29A.060 and such other information as the department may require for purposes of this chapter for the previous calendar month together with the tax calculated thereon based on tax tables adopted by the department. If a utility or an electricity user reports electricity products comprised of no declared resources as described in RCW 19.29A.060(1)(b) or otherwise fails to provide the source of the resources that provide the electricity, the department must assume the carbon content inherent in that electricity to be one metric ton of carbon dioxide per megawatt-hour.

(2) Persons using fossil fuels to refine fossil fuels must file with the department by the tenth day of each month a fuel use report similar to the United States environmental protection agency facility level information on greenhouse gases tool report containing their fossil fuel carbon dioxide emissions and such other information as the department may require for purposes of this chapter for the previous calendar

month together with the tax calculated thereon based on tax tables adopted by the department.

(3) If the information required in subsection (1) or (2) of this section is not available, the utility, electricity user, or refinery may file an interim report based on estimates together with an estimated payment based thereon and then file a final report at a later date. Interest and penalties on underpayments are to be imposed in accordance with chapter 82.32 RCW.

**NEW SECTION. Sec. 8. REPORT BY DEPARTMENT.** On or before December 31st of each year from 2017 through 2027 and biennially thereafter, the department must submit a report to the governor and the legislature containing the following with respect to the annual or biennial period ending July 1st immediately preceding the reporting date, annualized if in a biennial report:

(1) The total carbon pollution tax collected during the reporting period;

(2) The total revenue foregone by the state resulting from disbursements made under the working families tax exemption and resulting from reductions in sales taxes, use taxes, and business and occupation taxes enacted under this chapter, with the business and occupation tax reductions measured both relative to the rates applicable on January 1, 2017, and to the rates applicable during the annual or biennial period ending the July 1st immediately preceding the reporting date;

(3) The revenue foregone by the state resulting from the phase-ins described in section 5 of this act, with a separate amount given for each subsection in section 5(2)(a) of this act;

(4) Costs directly associated with administration of the carbon pollution tax shown both in dollar amounts and as a percentage of the state general fund; and

(5) The overall net revenue gain or loss calculated by comparison of subsections (1) and (2) of this section in dollar amounts and as a percentage of the state general fund.

**Sec. 9.** RCW 82.04.240 and 2004 c 24 s 4 are each amended to read as follows:

(1) Upon every person engaging within this state in business as a manufacturer, except persons taxable as manufacturers under other provisions of this chapter; as to such persons the amount of the tax with respect to such business ~~((shall be))~~ is equal to the value of the products, including byproducts, manufactured, multiplied by the rate of ~~((0.484))~~ 0.001 percent.

(2) The measure of the tax is the value of the products, including byproducts, so manufactured regardless of the place of sale or the fact that deliveries may be made to points outside the state.

**Sec. 10.** RCW 82.04.240 and 2010 c 114 s 104 are each amended to read as follows:

(1) Upon every person engaging within this state in business as a manufacturer, except persons taxable as manufacturers under other provisions of this chapter; as to such persons the amount of the tax with respect to such business

is equal to the value of the products, including byproducts, manufactured, multiplied by the rate of ~~((0.484))~~ 0.001 percent.

(2)(a) Upon every person engaging within this state in the business of manufacturing semiconductor materials, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured, or, in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of ~~((0.275))~~ 0.001 percent. For the purposes of this subsection “semiconductor materials” means silicon crystals, silicon ingots, raw polished semiconductor wafers, compound semiconductors, integrated circuits, and microchips.

(b) A person reporting under the tax rate provided in this subsection (2) must file a complete annual report with the department under RCW 82.32.534.

(c) This subsection (2) expires twelve years after the effective date of this act.

(3) The measure of the tax is the value of the products, including byproducts, so manufactured regardless of the place of sale or the fact that deliveries may be made to points outside the state.

**Sec. 11.** RCW 82.32.790 and 2010 c 114 s 201 are each reenacted and amended to read as follows:

(1)(a) Section 10, chapter ..., Laws of 2015 (section 10 of this act), section 206, chapter 106, Laws of 2010, sections 104, 110, 117, 123, 125, 129, 131, and 150, chapter 114, Laws of 2010, section 3, chapter 461, Laws of 2009, section 7, chapter 300, Laws of 2006, and section 4, chapter 149, Laws of 2003 are contingent upon the siting and commercial operation of a significant semiconductor microchip fabrication facility in the state of Washington.

(b) For the purposes of this section:

(i) “Commercial operation” means the same as “commencement of commercial production” as used in RCW 82.08.965.

(ii) “Semiconductor microchip fabrication” means “manufacturing semiconductor microchips” as defined in RCW 82.04.426.

(iii) “Significant” means the combined investment of new buildings and new machinery and equipment in the buildings, at the commencement of commercial production, will be at least one billion dollars.

(2) Chapter 149, Laws of 2003 takes effect the first day of the month in which a contract for the construction of a significant semiconductor fabrication facility is signed, as determined by the director of the department of revenue.

(3)(a) The department of revenue must provide notice of the effective date of section 10, chapter ..., Laws of 2015 (section 10 of this act), section 206, chapter 106, Laws of 2010, sections 104, 110, 117, 123, 125, 129, 131, and 150, chapter 114, Laws of 2010((f,)), section 3, chapter 461, Laws of 2009, section 7, chapter 300, Laws of 2006, and section 4, chapter 149, Laws of 2003 to affected taxpayers, the legislature, and others as deemed appropriate by the department.

(b) If, after making a determination that a contract has

been signed and chapter 149, Laws of 2003 is effective, the department discovers that commencement of commercial production did not take place within three years of the date the contract was signed, the department must make a determination that chapter 149, Laws of 2003 is no longer effective, and all taxes that would have been otherwise due are deemed deferred taxes and are immediately assessed and payable from any person reporting tax under RCW 82.04.240(2) or claiming an exemption or credit under section 2 or 5 through 10, chapter 149, Laws of 2003. The department is not authorized to make a second determination regarding the effective date of chapter 149, Laws of 2003.

**Sec. 12.** RCW 82.04.2404 and 2010 c 114 s 105 are each amended to read as follows:

(1) Upon every person engaging within this state in the business of manufacturing or processing for hire semiconductor materials, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured, or, in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of ~~((0.275))~~ 0.001 percent.

(2) For the purposes of this section “semiconductor materials” means silicon crystals, silicon ingots, raw polished semiconductor wafers, and compound semiconductor wafers.

(3) A person reporting under the tax rate provided in this section must file a complete annual report with the department under RCW 82.32.534.

(4) This section expires December 1, 2018.

**Sec. 13.** RCW 82.04.260 and 2014 c 140 s 6 and 2014 c 140 s 4 are each reenacted and amended to read as follows:

(1) Upon every person engaging within this state in the business of manufacturing:

(a) Wheat into flour, barley into pearl barley, soybeans into soybean oil, canola into canola oil, canola meal, or canola by-products, or sunflower seeds into sunflower oil; as to such persons the amount of tax with respect to such business is equal to the value of the flour, pearl barley, oil, canola meal, or canola by-product manufactured, multiplied by the rate of ~~((0.138))~~ 0.001 percent;

(b) Beginning July 1, 2015, seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing by that person; or selling manufactured seafood products that remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing, to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales, multiplied by the rate of ~~((0.138))~~ 0.001 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state;

(c)(i) Beginning July 1, 2015, dairy products; or selling dairy products that the person has manufactured to purchasers

who either transport in the ordinary course of business the goods out of state or purchasers who use such dairy products as an ingredient or component in the manufacturing of a dairy product; as to such persons the tax imposed is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of ~~((0.138))~~ 0.001 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state or sold to a manufacturer for use as an ingredient or component in the manufacturing of a dairy product.

(ii) For the purposes of this subsection (1)(c), “dairy products” means:

(A) Products, not including any marijuana-infused product, that as of September 20, 2001, are identified in 21 C.F.R., chapter 1, parts 131, 133, and 135, including by-products from the manufacturing of the dairy products, such as whey and casein; and

(B) Products comprised of not less than seventy percent dairy products that qualify under (c)(ii)(A) of this subsection, measured by weight or volume.

(iii) The preferential tax rate provided to taxpayers under this subsection (1)(c) does not apply to sales of dairy products on or after July 1, 2023, where a dairy product is used by the purchaser as an ingredient or component in the manufacturing in Washington of a dairy product;

(d)(i) Beginning July 1, 2015, fruits or vegetables by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables, or selling at wholesale fruits or vegetables manufactured by the seller by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables and sold to purchasers who transport in the ordinary course of business the goods out of this state; as to such persons the amount of tax with respect to such business is equal to the value of the products manufactured or the gross proceeds derived from such sales multiplied by the rate of ~~((0.138))~~ 0.001 percent. Sellers must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state.

(ii) For purposes of this subsection (1)(d), “fruits” and “vegetables” do not include marijuana, useable marijuana, or marijuana-infused products;

(e) Until July 1, 2009, alcohol fuel, biodiesel fuel, or biodiesel feedstock, as those terms are defined in RCW 82.29A.135; as to such persons the amount of tax with respect to the business is equal to the value of alcohol fuel, biodiesel fuel, or biodiesel feedstock manufactured, multiplied by the rate of ~~((0.138))~~ 0.001 percent; and

(f) Wood biomass fuel as defined in RCW 82.29A.135; as to such persons the amount of tax with respect to the business is equal to the value of wood biomass fuel manufactured, multiplied by the rate of ~~((0.138))~~ 0.001 percent.

(2) Upon every person engaging within this state in the business of splitting or processing dried peas; as to such persons the amount of tax with respect to such business is

equal to the value of the peas split or processed, multiplied by the rate of ~~((0.138))~~ 0.001 percent.

(3) Upon every nonprofit corporation and nonprofit association engaging within this state in research and development, as to such corporations and associations, the amount of tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of 0.484 percent.

(4) Upon every person engaging within this state in the business of slaughtering, breaking and/or processing perishable meat products and/or selling the same at wholesale only and not at retail; as to such persons the tax imposed is equal to the gross proceeds derived from such sales multiplied by the rate of ~~((0.138))~~ 0.001 percent.

(5) Upon every person engaging within this state in the business of acting as a travel agent or tour operator; as to such persons the amount of the tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of 0.275 percent.

(6) Upon every person engaging within this state in business as an international steamship agent, international customs house broker, international freight forwarder, vessel and/or cargo charter broker in foreign commerce, and/or international air cargo agent; as to such persons the amount of the tax with respect to only international activities is equal to the gross income derived from such activities multiplied by the rate of 0.275 percent.

(7) Upon every person engaging within this state in the business of stevedoring and associated activities pertinent to the movement of goods and commodities in waterborne interstate or foreign commerce; as to such persons the amount of tax with respect to such business is equal to the gross proceeds derived from such activities multiplied by the rate of 0.275 percent. Persons subject to taxation under this subsection are exempt from payment of taxes imposed by chapter 82.16 RCW for that portion of their business subject to taxation under this subsection. Stevedoring and associated activities pertinent to the conduct of goods and commodities in waterborne interstate or foreign commerce are defined as all activities of a labor, service or transportation nature whereby cargo may be loaded or unloaded to or from vessels or barges, passing over, onto or under a wharf, pier, or similar structure; cargo may be moved to a warehouse or similar holding or storage yard or area to await further movement in import or export or may move to a consolidation freight station and be stuffed, unstuffed, containerized, separated or otherwise segregated or aggregated for delivery or loaded on any mode of transportation for delivery to its consignee. Specific activities included in this definition are: Wharfage, handling, loading, unloading, moving of cargo to a convenient place of delivery to the consignee or a convenient place for further movement to export mode; documentation services in connection with the receipt, delivery, checking, care, custody and control of cargo required in the transfer of cargo; imported automobile handling prior to delivery to consignee; terminal stevedoring and incidental vessel services, including but not limited to

plugging and unplugging refrigerator service to containers, trailers, and other refrigerated cargo receptacles, and securing ship hatch covers.

(8)(a) Upon every person engaging within this state in the business of disposing of low-level waste, as defined in RCW 43.145.010; as to such persons the amount of the tax with respect to such business is equal to the gross income of the business, excluding any fees imposed under chapter 43.200 RCW, multiplied by the rate of 3.3 percent.

(b) If the gross income of the taxpayer is attributable to activities both within and without this state, the gross income attributable to this state must be determined in accordance with the methods of apportionment required under RCW 82.04.460.

(9) Upon every person engaging within this state as an insurance producer or title insurance agent licensed under chapter 48.17 RCW or a surplus line broker licensed under chapter 48.15 RCW; as to such persons, the amount of the tax with respect to such licensed activities is equal to the gross income of such business multiplied by the rate of 0.484 percent.

(10) Upon every person engaging within this state in business as a hospital, as defined in chapter 70.41 RCW, that is operated as a nonprofit corporation or by the state or any of its political subdivisions, as to such persons, the amount of tax with respect to such activities is equal to the gross income of the business multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5 percent thereafter.

(11)(a) Beginning October 1, 2005, upon every person engaging within this state in the business of manufacturing commercial airplanes, or components of such airplanes, or making sales, at retail or wholesale, of commercial airplanes or components of such airplanes, manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of:

(i) 0.4235 percent from October 1, 2005, through June 30, 2007; and

(ii) ~~(0.2904)~~ 0.001 percent beginning July 1, 2007.

(b) Beginning July 1, 2008, upon every person who is not eligible to report under the provisions of (a) of this subsection (11) and is engaging within this state in the business of manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes, or making sales, at retail or wholesale, of such tooling manufactured by the seller, as to such persons the amount of tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured and the gross proceeds of sales of the product manufactured, or in the case of processors for hire, be equal to the gross income of the business, multiplied by the rate of ~~(0.2904)~~ 0.001 percent.

(c) For the purposes of this subsection (11), “commercial airplane” and “component” have the same meanings as pro-

vided in RCW 82.32.550.

(d) In addition to all other requirements under this title, a person reporting under the tax rate provided in this subsection (11) must file a complete annual report with the department under RCW 82.32.534.

(e)(i) Except as provided in (e)(ii) of this subsection (11), this subsection (11) does not apply on and after July 1, 2040.

(ii) With respect to the manufacturing of commercial airplanes or making sales, at retail or wholesale, of commercial airplanes, this subsection (11) does not apply on and after July 1st of the year in which the department makes a determination that any final assembly or wing assembly of any version or variant of a commercial airplane that is the basis of a siting of a significant commercial airplane manufacturing program in the state under RCW 82.32.850 has been sited outside the state of Washington. This subsection (11) (e)(ii) only applies to the manufacturing or sale of commercial airplanes that are the basis of a siting of a significant commercial airplane manufacturing program in the state under RCW 82.32.850.

(12)(a) Until July 1, 2024, upon every person engaging within this state in the business of extracting timber or extracting for hire timber; as to such persons the amount of tax with respect to the business is, in the case of extractors, equal to the value of products, including by-products, extracted, or in the case of extractors for hire, equal to the gross income of the business, multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, 2024.

(b) Until July 1, 2024, upon every person engaging within this state in the business of manufacturing or processing for hire: (i) Timber into timber products or wood products; or (ii) timber products into other timber products or wood products; as to such persons the amount of the tax with respect to the business is, in the case of manufacturers, equal to the value of products, including by-products, manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and ~~(0.2904)~~ 0.001 percent from July 1, 2007, through June 30, 2024.

(c) Until July 1, 2024, upon every person engaging within this state in the business of selling at wholesale: (i) Timber extracted by that person; (ii) timber products manufactured by that person from timber or other timber products; or (iii) wood products manufactured by that person from timber or timber products; as to such persons the amount of the tax with respect to the business is equal to the gross proceeds of sales of the timber, timber products, or wood products multiplied by the rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and 0.2904 percent from July 1, 2007, through June 30, 2024.

(d) Until July 1, 2024, upon every person engaging within this state in the business of selling standing timber; as to such persons the amount of the tax with respect to the business is equal to the gross income of the business multiplied by the rate of 0.2904 percent. For purposes of this subsection (12)(d), “selling standing timber” means the sale

of timber apart from the land, where the buyer is required to sever the timber within thirty months from the date of the original contract, regardless of the method of payment for the timber and whether title to the timber transfers before, upon, or after severance.

(e) For purposes of this subsection, the following definitions apply:

(i) "Biocomposite surface products" means surface material products containing, by weight or volume, more than fifty percent recycled paper and that also use nonpetroleum-based phenolic resin as a bonding agent.

(ii) "Paper and paper products" means products made of interwoven cellulosic fibers held together largely by hydrogen bonding. "Paper and paper products" includes newsprint; office, printing, fine, and pressure-sensitive papers; paper napkins, towels, and toilet tissue; kraft bag, construction, and other kraft industrial papers; paperboard, liquid packaging containers, containerboard, corrugated, and solid-fiber containers including linerboard and corrugated medium; and related types of cellulosic products containing primarily, by weight or volume, cellulosic materials. "Paper and paper products" does not include books, newspapers, magazines, periodicals, and other printed publications, advertising materials, calendars, and similar types of printed materials.

(iii) "Recycled paper" means paper and paper products having fifty percent or more of their fiber content that comes from postconsumer waste. For purposes of this subsection (12)(e)(iii), "postconsumer waste" means a finished material that would normally be disposed of as solid waste, having completed its life cycle as a consumer item.

(iv) "Timber" means forest trees, standing or down, on privately or publicly owned land. "Timber" does not include Christmas trees that are cultivated by agricultural methods or short-rotation hardwoods as defined in RCW 84.33.035.

(v) "Timber products" means:

(A) Logs, wood chips, sawdust, wood waste, and similar products obtained wholly from the processing of timber, short-rotation hardwoods as defined in RCW 84.33.035, or both;

(B) Pulp, including market pulp and pulp derived from recovered paper or paper products; and

(C) Recycled paper, but only when used in the manufacture of biocomposite surface products.

(vi) "Wood products" means paper and paper products; dimensional lumber; engineered wood products such as particleboard, oriented strand board, medium density fiberboard, and plywood; wood doors; wood windows; and biocomposite surface products.

(f) Except for small harvesters as defined in RCW 84.33.035, a person reporting under the tax rate provided in this subsection (12) must file a complete annual survey with the department under RCW 82.32.585.

(13) Upon every person engaging within this state in inspecting, testing, labeling, and storing canned salmon owned by another person, as to such persons, the amount of tax with respect to such activities is equal to the gross income derived from such activities multiplied by the rate of

0.484 percent.

(14)(a) Upon every person engaging within this state in the business of printing a newspaper, publishing a newspaper, or both, the amount of tax on such business is equal to the gross income of the business multiplied by the rate of 0.2904 percent.

(b) A person reporting under the tax rate provided in this subsection (14) must file a complete annual report with the department under RCW 82.32.534.

**Sec. 14.** RCW 82.08.020 and 2014 c 140 s 12 are each amended to read as follows:

(1) There is levied and collected a tax equal to six and five-tenths percent, decreasing to six percent beginning July 1, 2017, and to five and five-tenths percent beginning July 1, 2018, of the selling price on each retail sale in this state of:

(a) Tangible personal property, unless the sale is specifically excluded from the RCW 82.04.050 definition of retail sale;

(b) Digital goods, digital codes, and digital automated services, if the sale is included within the RCW 82.04.050 definition of retail sale;

(c) Services, other than digital automated services, included within the RCW 82.04.050 definition of retail sale;

(d) Extended warranties to consumers; and

(e) Anything else, the sale of which is included within the RCW 82.04.050 definition of retail sale.

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

(3) Beginning July 1, 2003, there is levied and collected an additional tax of three-tenths of one percent of the selling price on each retail sale of a motor vehicle in this state, other than retail car rentals taxed under subsection (2) of this section. The revenue collected under this subsection must be deposited in the multimodal transportation account created in RCW 47.66.070.

(4) For purposes of subsection (3) of this section, "motor vehicle" has the meaning provided in RCW 46.04.320, but does not include:

(a) Farm tractors or farm vehicles as defined in RCW 46.04.180 and 46.04.181, unless the farm tractor or farm vehicle is for use in the production of marijuana;

(b) Off-road vehicles as defined in RCW 46.04.365;

(c) Nonhighway vehicles as defined in RCW 46.09.310; and

(d) Snowmobiles as defined in RCW 46.04.546.

(5) Beginning on December 8, 2005, 0.16 percent of the taxes collected under subsection (1) of this section must be dedicated to funding comprehensive performance audits required under RCW 43.09.470. The revenue identified in this subsection must be deposited in the performance audits of government account created in RCW 43.09.475.

(6) The taxes imposed under this chapter apply to successive retail sales of the same property.

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

**Sec. 15.** RCW 82.08.0206 and 2008 c 325 s 2 are each amended to read as follows:

(1) A working families' tax exemption, in the form of a remittance tax due under this chapter and chapter 82.12 RCW, is provided to eligible low-income persons for sales taxes paid under this chapter after January 1, 2008.

(2) For purposes of the exemption in this section, an eligible low-income person is:

(a) An individual ~~(, or an individual and that individual's spouse if they file a federal joint income tax return)~~ who is alive at the time of filing of a complete application for remittance under subsection (3) of this section;

(b) ~~((An individual who))~~ An individual who is eligible for, and ((is granted)) has claimed, the credit provided in Title 26 U.S.C. Sec. 32; and

(c) ~~((An individual who))~~ An individual who properly files a federal income tax return as a Washington resident, and has been a resident of the state of Washington more than one hundred eighty days of the year for which the exemption is claimed.

(3) For remittances made in 2009 and 2010, the working families' tax exemption for the prior year is a retail sales tax exemption equal to the greater of five percent of the credit ~~((granted as a result of))~~ claimed and claimable under Title 26 U.S.C. Sec. 32 of the federal internal revenue code in the most recent year for which data is available or twenty-five dollars. For ~~((2011 and thereafter))~~ 2017, the working families' tax exemption for the prior year is equal to the greater of ~~((ten))~~ fifteen percent of the credit ~~((granted as a result of))~~ claimed and claimable under Title 26 U.S.C. Sec. 32 of the federal internal revenue code in the most recent year for which ~~((data is available or fifty))~~ the applicant has filed a federal income tax return with the internal revenue service or one hundred dollars. For 2018 and thereafter, the working families' tax exemption for the prior year is equal to the greater of twenty-five percent of the credit claimed and claimable under 26 U.S.C. Sec. 32 of the federal internal revenue code in the most recent year for which the applicant has filed a federal income tax return with the internal revenue service or one hundred dollars.

(4) ~~((For any fiscal period, the working families' tax exemption authorized under this section shall must be approved by the legislature in the state omnibus appropriations act before persons may claim the exemption during the fiscal period.~~

~~(5))~~ The working families' tax exemption ((shall)) must be administered as provided in this subsection.

(a) An eligible low-income person claiming an exemption under this section must pay the tax imposed under chapters 82.08, 82.12, and 82.14 RCW in the year for which the exemption is claimed. The eligible low-income person may then apply to the department for the remittance as calculated under subsection (3) of this section.

(b) Application ~~((shall))~~ must be made to the department

under penalty of perjury and must include a true and complete copy of the applicant's federal income tax return to which the application pertains including the applicant's claim under 26 U.S.C. Sec. 32 of the federal internal revenue code, all in a form and manner determined by the department, but the department must provide alternative filing methods for applicants who do not have access to electronic filing. Application for the exemption remittance under this section must include authorizing the department to make such inquiries and obtain such information from the internal revenue service as the department may deem necessary or appropriate to verify the information set forth in the application for the exemption remittance.

(c) Application for the exemption remittance under this section must be made in the year following the year for which the federal return was filed, but in no case may any remittance be provided for any period before January 1, 2008. The department may use the best available data to process the exemption remittance. The department ~~((shall))~~ must begin accepting applications October 1, 2009.

(d) The department ~~((shall))~~ must review the application and determine eligibility for the working families' tax exemption based on information provided by the applicant and through audit and other administrative records, including, when it deems it necessary, verification through internal revenue service data.

(e) The department ~~((shall))~~ must remit the exempted amounts to eligible low-income persons who submitted applications. Remittances may be made by electronic funds transfer or other means.

(f) The department may, in conjunction with other agencies or organizations, design and implement a public information campaign to inform potentially eligible persons of the existence of and requirements for this exemption.

(g) The department may contact persons who appear to be eligible low-income persons as a result of information received from the internal revenue service under such conditions and requirements as the internal revenue service may by law require.

~~((6))~~ (5) The provisions of chapter 82.32 RCW apply to the exemption in this section.

~~((7))~~ (6) The department may adopt rules necessary to implement this section.

~~((8))~~ The department shall limit its costs for the exemption program to the initial start-up costs to implement the program. The state omnibus appropriations act shall specify funding to be used for the ongoing administrative costs of the program. These ongoing administrative costs include, but are not limited to, costs for: The processing of internet and mail applications, verification of application claims, compliance and collections, additional full-time employees at the department's call center, processing warrants, updating printed materials and web information, media advertising, and support and maintenance of computer systems.)

**NEW SECTION. Sec. 16. RULE MAKING.** (1) The directors of the department and of the department of licensing must

adopt such rules and regulations as necessary for the implementation and proper administration of this chapter and may coordinate concerning the process, timelines, and documentation related to such rule making, as necessary.

(2) The department and the department of licensing may commence administrative work, including rule making, necessary to implement this act beginning July 1, 2016, as deemed necessary.

**NEW SECTION. Sec. 17.** This chapter may be known and cited as the carbon pollution tax act.

**NEW SECTION. Sec. 18.** Sections 1 through 8, 16, and 17 of this act constitute a new chapter in Title 82 RCW.

**NEW SECTION. Sec. 19.** This act takes effect July 1, 2017.

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## Complete Text

### Initiative Measure No. 735

An Act Relating to the influence of corporations and money in our political system; and creating new section.

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

#### **New Section. Sec. 1. INTENT**

This act declares that the people of Washington State support amending The Constitution of the United States to eliminate the undue influence of concentrated money and political power on elections and governmental policy. The amendment would overturn decisions by the Supreme Court of the United States extending constitutional rights to corporations and other artificial legal entities as well as those decisions equating the spending of money with free speech. It also provides for the regulation and disclosure of political contributions and spending.

#### **New Section. Sec. 2. FINDINGS**

1. Free and fair elections, as well as honest representation, are essential to self-determination and self-governance as described in The Declaration of Independence and established in The Constitution of the United States.
2. The American people have lost faith in the political process because their voices are not heard and their interests are not represented. Thus, an ever smaller percentage of Americans is motivated to vote.
3. The U.S. Constitution makes no mention of corporations or other artificial entities; there are no provisions extending rights to such entities. However, through a series of decisions equating a "corporation" with a "person," the U.S. Supreme Court extended to corporations the constitutional rights and protections intended for people only.
4. Unlike human beings, corporations can exist in perpetuity and in many countries at the same time. As a result many large corporations, both foreign and domestic, invest in campaigns to invalidate or bypass regulatory law intended to protect the public. Thus, corporate participation in the political process often conflicts with the public interest.
5. Money is property; it is not speech. Nowhere in the U.S. Constitution is money equated with speech. Because advertising is limited and costly, equating the spending of money with free speech gives those with the most money the most speech.
6. Whenever special interests, including very wealthy individuals, are able to spend unlimited amounts of money on political speech, candidates and officeholders can be corrupted and intimidated, and the free speech of most citizens is drowned out and denied. Monopolizing public speech neither promotes nor protects free speech.

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