

Seattle City Clerk's Office

Comptroller File

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File no 130602

**RULES AND INSTRUCTIONS GOVERNING**

**THE CITY OF SEATTLE**

# **Business License and Occupation Tax**

**PROVIDED BY ORDINANCE**

**No. 72630**

*as amended.* **Effective July 4, 1943**



Prescribed and Issued by  
**W. C. THOMAS, City Comptroller**

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## FOREWORD

The Business License Tax provided by Ordinance No. 72630, as amended, is similar to the State Business and Occupation Tax except as to rates and minor modifications; accordingly, the rulings of the Comptroller will generally conform with those of the State Tax Commission. Doubtless additional specific rulings will be necessary in the administration of the law. It is suggested that whenever the taxpayer is in doubt concerning the correct interpretation of any provision in the ordinance or the rules relative to tax liability, measure of tax, exemptions, penalties, etc., specific questions be submitted in writing to the City Comptroller.

**Penalties.** Section 30 of the ordinance provides that "any person violating or failing to comply with any of the provisions of this ordinance or any lawful rule or regulation adopted by the Comptroller pursuant thereto, upon conviction thereof, shall be punished by a fine in any sum not to exceed Three Hundred Dollars (\$300.00) or by imprisonment in the City Jail for ninety (90) days or by both such fine and imprisonment.

"Any taxpayer who engages in or carries on any business subject to the tax hereunder without having his 'Business License' so to do shall be guilty of a violation of this ordinance for each day during which the business is engaged in, or carried on; any taxpayer who fails or refuses to pay the license fee or tax, or any part thereof, on or before the due date shall be deemed to be operating without having his license so to do."

The ordinance specifically fixed upon the taxpayer the burden of responsibility for securing a license to do business, for filing his tax returns, and accurately reporting his true tax liability.

The Comptroller will mail to taxpayers forms for applications for licenses and forms for making tax returns whenever the correct mailing address of the taxpayer is available but the ordinance provides that "failure of the taxpayer to receive any such forms shall not excuse the taxpayer from making application for and securing the license required, making returns and payment of the license fee or tax when and as due hereunder."

In calling the taxpayer's attention to specific provisions in the ordinance and in the preparation of these rules it is the purpose of the City Comptroller to assist the taxpayer to a full understanding of the requirements of the law in order that he may determine his true tax liability. Consistent with this policy, the Comptroller will furnish additional rulings and information upon request.

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OF THE CITY OF SEATTLE BUSINESS AND OCCUPATION TAX,  
ORDINANCE No. 72639**

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**CITY OF SEATTLE**  
**Comptroller's Department**

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**RULES AND INSTRUCTIONS APPLICABLE TO  
BUSINESS LICENSE AND OCCUPATION TAX**

**Ordinance No. 72630, as Amended**

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The following list of businesses or occupations shall be subject to the tax provided in Ordinance No. 72630, as amended. The rate of tax shall be one-tenth of one per cent (1/10%) of the gross proceeds derived from such businesses or occupations, except that upon those persons engaged within this City in the business of buying wheat, oats, corn, barley or other grains, but not including any manufactured or processed products thereof, and selling the same at wholesale, the tax shall be one one-hundredth of one per cent (1/100%) on the gross proceeds derived therefrom.

- 1. Extracting:**
  - a. Timber and forest products
  - b. Coal mining
  - c. Sand, gravel, clay, stone
  - d. Other extracting
  
- 2. Manufacturing:**
  - a. Beverages
  - b. Bakeries
  - c. Dairies and creameries
  - d. Canneries, food processing
  - e. Flour, feed and cereal milling
  - f. Meat packing
  - g. Miscellaneous foods
  - h. Clothing and shoes
  - i. Lumber and lumber products
  - j. Cement, concrete, clay products
  - k. Pulp and paper
  - l. Furniture, house furnishings
  - m. Hardware, machinery, equipment
  - n. Iron and steel
  - o. Other manufacturing
  
- 3. Wholesaling:**
  - a. General groceries
  - b. Confections, beverages
  - c. Dairies, creameries
  - d. Flour and feed
  - e. Miscellaneous foods
  - f. Clothing and shoes
  - g. Lumber and building materials
  - h. Paper and allied products
  - i. Automotive equipment
  - j. Gasoline and oil
  - k. Chemicals and drugs
  - l. Hardware, machinery, equipment
  - m. Subcontractors
  - n. Other wholesaling

**4. Retailing:**

- a. General groceries
- b. Restaurants, diners
- c. Confectioneries, beverage stores
- d. Bakeries
- e. Dairies, creameries
- f. General contractors
- g. Clothing, accessories, shoes
- h. General merchandise
- i. Motor vehicle dealers
- j. Garages, auto accessories
- k. Filling-stations
- l. Furniture, furnishings, supplies
- m. Building materials
- n. Hardware and equipment
- o. Drug stores
- p. Machinery and implements
- q. Fuel and ice
- r. Cigar stores
- s. Jewelry stores
- t. Laundries, dyers, cleaners
- u. Stationery and book stores
- v. Other retailing

**5. Grain Brokerage**

**6. Printing and Publishing:**

- a. Newspapers
- b. Magazines
- c. Other publications
- d. Job printing

**7. Service and Other Business Activities:**

- a. Stock brokers, loan companies
- b. Amusements
- c. Advertising, collections, other agents
- d. Abstract companies, real estate and insurance
- e. General contractors
- f. Local transfer
- g. Engineers and architects
- h. Barbers and beauty shops
- i. Hotels, rooms, tourist camps
- j. Attorneys
- k. Physicians, dentists and hospitals
- l. Other services

## BUSINESS LICENSES

### Rule 1—Persons Required to Obtain Licenses:

**PERSONS REQUIRED TO OBTAIN LICENSES**—Any person engaged in any business for which a tax is imposed under Ordinance No. 72630, as amended, shall, whether taxable or not, apply for and obtain a license from the City Comptroller upon the payment of a fee of one dollar. This license shall expire at the end of the calendar year in which it is issued and a new license shall be required for each succeeding calendar year. Said license is personal and not transferable to any other person. In case business is transacted at two or more separate places by one taxpayer, a separate license for each place at which business is transacted with the public shall be required, but for such additional licenses no additional fee shall be required. Each license shall be conspicuously posted in the place of business for which it is issued.

The term "place at which business is transacted with the public" means (1) any separate establishment, office, stand, coin operated device or other object or location, the relationship of which is definitely fixed, at least temporarily, or (2) where the taxpayer has no fixed place of business in this City, any vehicle, vessel, train, and the like, at which the taxpayer solicits or confirms sales of tangible personal property or contracts for the rendition of services in this City, collects accounts or monies due, or otherwise transacts with customers the taxable business engaged in.

**CHANGE IN OWNERSHIP.** Whenever there is a change in ownership of a business, the license previously issued to the withdrawing owner or owners must be surrendered to the City Comptroller for cancellation. The new owner shall apply for and obtain a new license upon payment of the license fee of one dollar.

A "change in ownership" occurs upon the sale of the business by one individual, firm or corporation to another individual, firm or corporation; upon the withdrawal of one or more partners; upon the substitution or addition of one or more new partners; upon transferring the business to a corporation, all the stock of which is owned by the former owner or owners, etc.

No "change in ownership" occurs upon the transfer of assets to an assignee for the benefit of creditors or upon the appointment of a receiver or trustee in bankruptcy.

If any license is lost, destroyed or defaced as a result of accident or of natural "wear and tear," a new license will be issued to the licensee free of charge upon request.

**PENALTIES FOR NON-COMPLIANCE.** The ordinance provides that it shall be unlawful for any person to engage in any taxable business without having first obtained a "Business License" or to engage in business after such "Business License" shall have been revoked by the City Comptroller. Any person violating this provision shall be punished by a fine in any sum not in excess of \$300.00, or by imprisonment in the City Jail for a term not exceeding 90 days, or by both such fine and imprisonment.

**REVOCATION OF LICENSE.** The Comptroller may revoke the license issued to any taxpayer who is in default in any payment of any license fee or tax, or who shall fail to comply with any other provision of Ordinance No. 72630 as amended. Notice of such revocation shall be mailed to the taxpayer by the City Comptroller.

### Rule 2—Exemptions:

The provisions of Ordinance No. 72630 as amended shall not apply to:

(a) Any person engaged in business activities taxable under **only one** classification whose taxable amount of business for any bi-monthly period is below \$600.00 is exempt for that period from the payment of the business tax.

Any person engaged in business activities taxable under two or more classifications is exempt if the combined taxable amount under the several classifications is below \$600.00 for the bi-monthly period.

(b) Any person in respect to a business activity with respect to which the tax liability is specifically imposed under the provisions of Ordinance No. 62662, as amended.

(c) Any fruits, vegetables, berries, butter, eggs, fish, milk, poultry, meats or farm produce, or edibles raised, caught, produced or manufactured and sold by any farmer or gardener.

(d) Any person in respect to the business of conducting boxing contests and sparring and/or wrestling matches and exhibitions for the conduct of which a license must be secured from the State Athletic Commission.

(e) Any person in respect to the business of conducting race meets for the conduct of which a license must be secured from the State Horse Racing Commission.

(f) Any person in respect to his employment in the capacity of an employee or servant as distinguished from that of an independent contractor.

(g) Fraternal benefit societies, as defined in Rem. Rev. Stat., Section 7259, fraternal fire insurance associations, as described in subdivision third of Rem. Rev. Stat., Section 7131, and beneficiary corporations or societies organized under and existing by virtue of Rem. Rev. Stat., Sections 3872 and 3883, inclusive, if such corporations or societies provide in their by-laws for the payment of death benefits as set forth in Rem. Rev. Stat., Section 3879.

(h) The gross income received by the United States or any instrumentality thereof, by the State of Washington, or any municipal subdivision thereof, or by any religious society, association or corporation, through the operation of any hospital, clinic, resort or other institution devoted exclusively to the care or healing of human beings: Provided, That no exemption is granted where the income therefrom inures to the benefit of any physician, surgeon, stockholder or individual by virtue of ownership or control of such hospital, clinic, resort or other institution.

(i) Amounts derived from the lease, rental or sale of real estate: Provided, however, That nothing herein shall be construed to allow a deduction of amounts derived from engaging in any business wherein a mere license to use or enjoy real property is granted, or to allow a deduction of amounts received as commissions from the sale or rental of real estate.

(j) National banks, state banks, trust companies, mutual savings banks, building and loan and savings and loan associations with respect to their banking business, trust business or savings and loan business but not with respect to engaging in any other business taxable hereunder, even though such other business be conducted primarily for the purpose of liquidating the assets thereof.

(k) The business of manufacturing, selling or distributing motor vehicle fuel, as that term is defined in Chapter 58, Laws of 1933, as amended.

(l) Liquor as defined by State law (Sec. 7306-3, Rem. Rev. Stat.)

### **Rule 3—Employees Distinguished from Persons Engaging in Business:**

The "business license" tax is imposed upon persons engaged in business but does not apply to persons acting solely in the capacity of employees or servants.

The question of whether a person is engaged in business or is acting in the capacity of an employee is not always readily determinable. The following rules may, however, be accepted as a guide but are not controlling in individual cases. In any case where there is a doubt, all the facts should be submitted to the Comptroller for a specific ruling.

(a) A person engaged in business is one to whom gross income of the business inures; one upon whom liability for losses lies or who bears the expenses of conducting a business; one, generally, acting in an independent capacity, whether or not subject to immediate control and supervision of a superior, or one who acts as an employer and has employees subject to his control and supervision.

Persons employed by retailers or wholesalers, and selling on their own account tangible personal property of a type sold by their employers, are deemed to be engaging in business and must apply for and obtain a "Business License" and pay the Business License Tax upon sales made by them, irrespective of the amount or frequency of such sales.

(b) An employee or servant is one whose entire compensation is fixed at a certain rate per day, week or month, or at a certain percentage of the business obtained by such employee or servant; one who has no direct interest in the income or profits of the business other than a wage or commission; one who has no liability for the expenses of maintaining an office or place of business, for other overhead or for compensation of employees; one who has no liability for losses or indebtedness incurred in conducting the business; one whose conduct with respect to services rendered, obtaining of or transacting business, is supervised or controlled by the employer.

The fact that a person is construed to be an employee under provisions of the Unemployment Compensation Act or the Social Security Act does not conclusively establish such person as an employee within the provisions of the Business License Ordinance. However, where a person is not construed to be an employee under either the Unemployment Compensation Act or the Social Security Act, he shall not be considered an employee under the Business License Ordinance.

#### **Rule 4—Rental of Real Estate—License to Use Real Estate:**

Amounts derived from the lease, rental or sale of real estate are exempt from taxation under the Business License tax. However, this ruling shall not be construed to allow an exemption of amounts derived from engaging in any business wherein a mere license to use or enjoy real property is granted, or to allow a deduction for amounts received as commissions from the sale or rental of real estate.

**LEASE OR RENTAL OF REAL ESTATE.** A lease or rental of real property conveys an estate or interest in a certain designated area of real property with an exclusive right of continuous possession against the world, including the owner, and grants to the lessee the absolute right of control and occupancy during the term of the lease or rental agreement. An agreement will not be construed as a lease of real property unless a relation of "landlord and tenant" is created thereby. It will be presumed that the rental of apartments and leased departments constitute a rental of real estate.

**LICENSE TO USE REAL ESTATE.** A license grants merely a right to use the real property of another but does not confer exclusive control or domination over the same. Usually, where the grant conveys only a license to use, the owner controls such things as lighting, heating, cleaning, repairing, opening and closing the premises.

It will be presumed that a license to use or enjoy real property is granted in the rental of the following:

- (a) Hotel rooms
- (b) Tourist camp cabins
- (c) Cold storage lockers
- (d) Safety deposit boxes
- (e) Storage space

#### **Rule 5—Selling Price—Gross Proceeds of Sales—Trade-Ins:**

The term "value proceeding or accruing" means the consideration, whether money, credits, rights or other property, expressed in terms of money, paid or delivered, by a buyer or seller, all without any deduction on account of the cost of tangible property sold, the cost of materials used, labor costs, interest, discount, delivery costs, taxes or any other expense whatsoever paid or accrued and without any deduction on account of losses.

The term "gross proceeds of sales" means the consideration, whether money, credits, rights or other property, expressed in terms of money, actually received or accrued from a sale without any deduction on account of the

cost of the property sold, the cost of materials used, labor costs, interest, discount paid, delivery costs, taxes, or any other expense whatsoever paid or accrued and without any deductions on account of losses.

#### **Rule 6—Returns—Allowances—Cash Discounts:**

When a contract of sale is made subject to cancellation at the option of one of the parties, or to revision in the event the goods sold are defective, or if the sale is made subject to discount on cash payment, the gross proceeds actually derived from the contract selling price are determined by the transaction as finally completed.

**RETURNED STOCK.** When sales are made either upon approval or upon a sale and return basis, and the purchaser returns the property purchased and, thereafter, the selling price is refunded or credited to the purchaser, the seller may deduct an amount equal to the selling price from gross proceeds of sales in computing the tax liability.

**DEFECTIVE GOODS.** When bona fide refunds, credits or allowances are given within the guarantee period by a seller to a purchaser on account of defects in goods sold, the amount of such refunds, credits or allowances may be deducted by the seller in computing tax liability, if the proportionate amount of the sales tax previously collected from the buyer has been refunded by the seller.

**CASH DISCOUNTS.** The selling price of a service, as of an article of tangible personal property, does not include the amount of bona fide cash discount actually taken by the buyer, and the amount of such discount may be deducted from the gross proceeds of sales providing such amount has been included in the "gross amount of sales" reported.

#### **Rule 7—Finance Charges, Carrying Charges, Service Charges and Interest:**

Persons who receive finance charges, carrying charges, service charges and interest are taxable with respect thereto under the classification "Service and Other Business Activities."

#### **Rule 8—Freight and Delivery Charges:**

Whether the seller may deduct freight or delivery charges from the selling price or from gross proceeds of sales depends primarily upon the terms of the contract between the seller and the buyer, rather than upon whether such charges are billed separately to the buyer.

Freight and delivery charges will be allowed as a deduction from the selling price or gross proceeds of sales only (a) when such charges are for the transportation of the property sold from the place where title passes to the purchaser, to the place of destination designated by the purchaser, and (b) where such charges are paid as an advance for the purchaser. In no case is a deduction allowed where the seller absorbs the freight or delivery charges as an expense of doing business or when the charges are incurred and paid for the transportation of the property to the place where title passes.

If the seller contracts to deliver property to some designated place, or is obligated under the contract to pay transportation charges to some designated place, the transportation services are rendered to the seller and the selling price of the property so transported must include the amount of the transportation charges. In this event, such charges are **not deductible** by the seller in computing tax liability.

Where property is sold on terms whereunder the seller agrees to deliver such property to a certain place, but the purchaser pays the amount of the delivery charges in the first instance and deducts the same from invoice price in making remittance to the seller, such freight or delivery charges are deemed to be a part of the selling price of the property and the seller must include the amount thereof in computing the tax.

In no case may the seller deduct charges for shipments to himself, whether or not he in turn itemizes such costs separately in his invoice to the purchaser. For example, where an automobile dealer sells an automobile from his stock, and title thereto passes to the purchaser for use or consumption at the place of business of such dealer, the dealer is not permitted to deduct freight charges incurred in bringing the automobile from the factory to his place of business, notwithstanding that the automobile may be sold and billed to the consumer on a basis of factory list price plus freight and other charges.

#### **Rule 9—Advances and Reimbursements:**

In computing tax, there may be excluded from the measure of tax, amounts representing money or credits received by a taxpayer as an advance or as reimbursement in accordance with the regular and usual custom of his business or profession.

The word "advance" as used herein means money or credits received by a taxpayer from a customer or client with which the taxpayer is to pay cost or fees for the customer or client.

The word "reimbursement" as used herein means money or credits received from a customer or client to repay the taxpayer for money or credits expended by the taxpayer in payment of costs as fees for the client.

The words "advance" and "reimbursement" apply only when the customer or client alone is liable for the payment of the fees or costs and where the taxpayer making the payment has no personal liability therefor, either primarily or secondarily, other than as agent for the customer or client.

The foregoing is limited to cases wherein the taxpayer, as an incident to the business, undertakes on behalf of the customer, guest or client, the payment of money, either upon an obligation owing by the customer, guest or client to a third person, or in procuring a service for the customer, guest or client which the taxpayer does not or cannot render and for which no liability attaches to the taxpayer. It does not apply to cases where the customer, guest or client makes advances to the taxpayer upon services to be rendered by the taxpayer or upon goods to be purchased by the taxpayer in carrying on the business in which the taxpayer is engaged.

For example, where a taxpayer engaging in the business of selling automobiles at retail collects from a customer, in addition to the purchase price, an amount sufficient to pay the fees for automobile license, and registration of title, the amount so collected is not properly a part of the gross sales of the taxpayer but is merely an advance and should be excluded from the gross proceeds of sales. Likewise, where an attorney pays filing fees or court costs in any litigation, such fees or costs are paid as agent for the client and should be excluded from the gross income of the attorney.

On the other hand, no charge which represents an advance payment on the purchase price, of an article, or a cost of doing or obtaining business even though such charge is made as a separate item, will be construed as an advance or reimbursement. Money so received constitutes a part of gross sales or gross income of the business. For example, no exclusion is allowed with respect to the amounts received by a doctor for the furnishing of medicine or drugs as a part of his treatment; by a dentist for furnishing gold, silver or other property in conjunction with his services; by a garage for furnishing parts in connection with repairs; by any person engaging in a service business for charges made separately for transportation or traveling expense.

#### **Rule 10—Value of Products:**

The term "value of products" except as provided herein, shall be determined by "gross proceeds of sales" whether such sales are at wholesale or at retail.

**DEFINITIONS.** The term "gross proceeds of sales" means the value proceeding or accruing from the sale of tangible personal property without any deduction on account of the cost of property sold, the cost of materials

used, labor costs, interest, discounts paid, delivery costs, taxes, or any other expense whatsoever paid or accrued and without any deduction on account of losses.

The term "commercial use" means the following use of products by the extractor or manufacturer thereof:

- (1) Manufacturing of articles, substances or commodities from extracted products;
- (2) Leasing or renting of extracted or manufactured products;
- (3) Consigning, shipping or transferring extracted or manufactured products to another, either without consideration or in performance of contract;
- (4) Any other use of products extracted or manufactured on a commercial scale under such rules and regulations as the Comptroller shall prescribe.

**IN THE CASE OF BONA FIDE SALES OF PRODUCTS.** The law provides that under the "Extracting" and "Manufacturing" classifications of the Business License Tax, the value of products extracted or manufactured shall be determined by the gross proceeds of sales in every instance in which a bona fide sale of such products is made, and whether sold at wholesale or retail.

**SALES TO POINTS OUTSIDE THE CITY.** In determining the value of products delivered to points outside the City, there may be deducted from the gross proceeds of sales so much thereof as the taxpayer can show to be actual transportation costs from the point at which the shipment originates to the point of delivery outside the City.

**ALL OTHER CASES.** The law provides that where products extracted or manufactured are not sold, or are sold under circumstances such that gross proceeds from sales are not indicative of the true value of the subject matter of the sale, the value will be determined by the City Comptroller.

Such methods will be used in the following situations:

- (1) Where such products are extracted or manufactured for commercial use;
- (2) Where such products are shipped, transported or transferred outside the City or to another person without prior sale;
- (3) Where such products are sold at nominal or excessive prices to affiliated or subsidiary corporations, or under other circumstances where the gross proceeds from sale are not indicative of the true value of the products sold.

**METHODS OF DETERMINING VALUE.** Under the above situations, the following methods are to be used in determining value of products:

- (a) Under situation (1) above—**Cost Basis**—Such cost is the actual cost of extraction or manufacturing plus transportation cost to place of use.
- (b) Under situation (2) above—**Establish Market Price**—Such market price is the average quoted figure at which products of like character, quality and quantity are sold to other taxpayers during the period for which report is made.
- (c) Under situation (3) above—**Taxpayers Usual Selling Price**—Such price is determined by the average price at which the taxpayer (extractor or manufacturer) makes bona fide sales of articles of like character, quality and quantity to persons not affiliated with the taxpayer, during the period for which the report is made.

**Rule 11—Ingredients or Components—Chemicals Used in Processing New Articles for Sale:**

The term "retail sale" means every sale of tangible personal property other than a sale to one who purchases for the purpose of consuming the property purchased in the process of producing for sale a new article or substance of which such property is an ingredient or component, or a chemical used in processing the same.

**INGREDIENTS OR COMPONENTS.** The sale of tangible personal property which physically enters into and forms a part of a new article or substance produced for sale does not constitute a retail sale

**CHEMICALS USED IN PROCESSING.** "Chemicals used in processing" carries its common restricted meaning in commercial usage. The term includes only chemical substances which are used by the purchaser to unite other chemical substances, present as ingredients or components of the articles or components of the articles or substances being processed, to produce a chemical reaction therewith, as contrasted with merely a physical change therein. A chemical reaction is one in which there takes place a permanent change of certain properties with the formation of new substances which differ in chemical composition and properties from the substances originally present, and usually differ from them in appearance as well. It is not necessary that all of the new substances which are formed be present in the final completed article or substance which is sold; one or more of such new substances resulting from the chemical reaction may be removed or drawn off in the processing.

To illustrate: Sales of sulphuric acid to a pulp mill for use in removing impurities in the pulp are not retail sales. The acid unites with impurities in the pulp to produce a chemical reaction therewith.

Sales of oxygen and acetylene to a manufacturer for use in a welding or cutting process are not retail sales.

On the other hand, sales of ammonia to an ice cream manufacturer for use in the freezing of ice cream are retail sales. The ammonia does not unite in a chemical reaction with any of the ingredients or components of the ice cream, but instead is consumed in the refrigerating plant to produce merely a physical change in such ingredients or components.

In special cases where doubt exists, a special ruling will be made by the City Comptroller upon submission of all pertinent facts relative to the nature of the chemical substances concerned and the use made thereof by the purchaser.

#### **Rule 12—Public and Lending Libraries:**

Lending libraries are taxable under the retailing classification, upon the gross proceeds of sales of all books and periodicals.

Lending libraries are taxable under the classification "Service and other business activities" upon the gross income received from books and periodicals loaned by them.

#### **Rule 13—Bona Fide Initiation Fees, Dues, Contributions, Donations, Tuition Fees and Endowment Funds—Deductions:**

In computing tax liability, amounts derived from bona fide initiation fees, dues, contributions, donations, tuition fees and endowment funds may be deducted from the measure of Business License Tax. This deduction is to be strictly construed and such amounts may only be deducted providing:

- (1) They are bona fide, and
- (2) They have been included in the "gross amount" reported under the classification with respect to which the deduction is sought, and
- (3) They have not been otherwise deducted through inclusion in the amount of an allowable deduction taken under such classification for another reason, and
- (4) They do not exceed the limitation hereinafter set forth.

Amounts which may be deducted as initiation fees include only amounts actually required to be paid by a person to a club or similar organization for the sole privilege of joining such club or similar organization.

Amounts which may be deducted as dues include only amounts which a member must pay toward the support of a club or similar organization in order to retain membership therein and do not include amounts which are for or graduated upon services rendered to a member of such club or organization.

The term "tuition fees" refers only to fees charged by an educational institution and, in addition to instruction fees, includes library, laboratory, health and other special fees and amounts charged for room and board when the property or service for which such charges are made is furnished exclusively to the students or faculty of such institution.

An "educational institution which may deduct tuition fees" includes any institution created or generally accredited as such by the State and offering to students an educational program of a general academic nature, and any institution not operated for profit, which is privately endowed to offer instructions in trade, industry and agriculture. Such institutions include the following:

(a) The common schools, the University of Washington, and such other schools which are or may be established by law and maintained at public expense as part of the "Uniform School System" provided for in Remington's Revised Statutes, Section 4518 et seq.;

(b) Parochial schools and private schools accredited to schools of the "Uniform School System" by the State Board of Education or the State Department of Education;

(c) Schools whose students and credentials are accepted without examination by the schools referred to in (a) and (b) above.

A business college, dancing school, music school or any trade or specialty school not an "educational institution" within the meaning of that term as defined above, is not permitted the deduction for "tuition fees" at the rate of 1/10 of 1%.

The right to deduct bona fide initiation fees, dues, contributions, donations, tuition fees and endowment funds does not exempt any person, association or society from tax liability upon selling tangible property or upon providing facilities or services for which a special charge is made to members or others.

#### **Rule 14—Sale of Meals:**

All persons making sales of food, drink or meals for compensation whether consumed upon the premises or not, are required to pay the Business License Tax under the retailing classification upon the gross proceeds derived from such sales as follows:

(a) Restaurants, hotels, cafeterias, clubs, boarding houses, and other eating places.

(b) Railroad, Pullman car, steamship, airplane or other transportation diners while within the City.

Where no specific charge is made for meals, separate and apart from the transportation charges, the tax must be collected on the basis of fair selling price of the meals furnished.

(c) Hospitals and institutions.

(d) Fraternities, sororities and other groups of individuals who reside in one place and jointly share the expenses of the household, including expenses of meals, are not subject to the tax.

However, when such groups do not provide their own meals, but the meals are provided by caterers or concessionaires, the caterers or concessionaires are making sales subject to the tax.

(e) Meals furnished to employees: Sales of meals by logging companies, mill companies, contractors, transportation companies and other business and industrial concerns to employees, are sales at retail and subject to the tax. This is true whether individual meals are sold, whether a flat charge is made, or whether meals are furnished as a part of the compensation for services rendered. When meals are furnished as a part of the compensation of employees, the tax shall be on the basis of not less than thirty-five cents per meal until further notice by the City Comptroller.

(f) School, college or University dining rooms or cafeterias that cater to the public are subject to the tax.

#### **Rule 15—Vending Machines, Merchandising Games, Games of Chance and Concessionaires:**

Each coin-operated vending machine, pinball or mechanical device, except where used in conducting a public utility business, shall be consid-

ered a separate place of business; and it shall be unlawful for any person to operate such a machine or permit the same to be operated on his premises unless a "Business License" has been obtained and is conspicuously displayed on such machine, or for any person on making application for a "Business License" to fail or refuse to give any information requested by the Comptroller, or to give false information with intent to conceal the true name or address of the owner or operator of such machine.

Persons operating vending machines for the sale of merchandise are engaged in a retailing business with respect to the disposition of such merchandise and must report and pay tax upon the gross proceeds derived from the sale of such merchandise.

**CONCESSIONAIRES:** Persons conducting games of chance at fairs, carnivals, expositions, bazaars, picnics and other similar places in which merchandise is delivered to players in the form of prizes and awards under certain conditions, are taxable under the classification "Service and Other Business Activities" upon the gross income received from the operation of such games.

#### **Rule 16—Automobiles for Demonstration Purposes:**

The sale of an automobile for demonstration purposes is taxable under the "Retailing" Classification of the "Business License Tax."

Likewise the sale of tires, batteries, parts and accessories by the dealer to the salesman for the repair of such automobile is taxable under the "Retailing" classification.

#### **Rule 17—Extractive Operations:**

The "Extracting" classification under the "Business License Tax" includes every person who engages in business as an "extractor." This class includes every person who, from his own land or from the land of another under a right of license granted by lease or contract, either directly or by contracting with others for the necessary labor or mechanical services, for sale or commercial use mines, quarries, takes or produces coal, oil, natural gas, ore, stone, gravel, clay, mineral or other natural resource products, or takes, cultivates or raises fish, shellfish or other sea or inland water foods or products. It does not include persons performing under contract the necessary labor or mechanical services for others.

Where the extractor is also the manufacturer, the extractive operations will be deemed to have ceased when the extracted products have been delivered to or placed at the disposal of the manufacturing plant.

The following examples are illustrative of operations which are included within the extractive activity:

**FISHING OPERATIONS,** including incidental activities, such as seining, trapping, taking, catching, cultivating or raising, in fresh or salt water, fish, shellfish or other sea or inland water foods or products for sale or commercial use. It includes the cleaning and icing of such fish or sea products by the person catching or taking them.

Fishermen are not subject to the "Extracting" classification upon fish taken from outside the waters within the corporate limits of the City of Seattle.

#### **Rule 18—Manufacturing—Processing for Hire—Fabrication:**

The term "manufacturing" embraces all activities of a commercial nature wherein labor or skill is applied by hand or machinery to materials so that as a result thereof a new, different or useful article of tangible personal property or substance of trade or commerce is produced, and shall include the production or fabrication of special-made or custom-made articles. It means the business of producing articles for sale or commercial use from raw materials or prepared materials by giving these matters new forms, qualities, properties or combinations. It includes such activities as making,

fabricating, processing, refining, mixing, slaughtering, packing, curing, aging, canning, etc.

The term "manufacturing" does not include compounding or preparing which is merely incidental to some other activity, nor mean that every person whose business involves some act of preparation is a manufacturer. Thus, the following do not constitute manufacturing: washing and screening coal by a miner; bucking and yarding logs by a logger; pasteurizing and bottling milk by a dairyman; cooking and serving food by a restaurant; repairing and reconditioning automobiles by a garage or body repair shop; repairing, reconditioning and refinishing furniture by a furniture repair shop or upholsterer. Likewise, an artist, a portrait photographer, a prescription pharmacist, is not a manufacturer.

The word "manufacturer" means every person who from his own materials or ingredients manufactures for sale or commercial use any articles, substances or commodities, either:

(1) Directly, or (2) by contracting with others for the necessary labor or mechanical services.

The term "commercial use" means the following uses of products by the manufacturer thereof:

(1) Leasing or renting of manufactured products;

(2) Consigning, shipping or transferring manufactured products to another without consideration or in the performance of contracts;

(3) Any other use of products manufactured on a commercial scale.

Articles manufactured for commercial use are deemed to be manufactured on a "commercial scale" when such articles are to be used as supplies, stock or equipment in carrying on any business and the total value of the articles manufactured during any bi-monthly period equals or exceeds \$600.00.

The term "processing for hire" means the performance of labor and mechanical services upon materials belonging to others so that as a result a new, different or useful article of tangible personal property is produced. The term includes any person who would be taxable as a manufacturer if he were performing the labor and mechanical services upon his own materials.

**MANUFACTURING.** Persons liable for tax as manufacturers are taxable under the "Manufacturing" classification of the Business License Tax.

**RETAILING.** Any person taxable as a manufacturer under this rule, with the exception of persons manufacturing food products for human consumption which are cooked, but which are not preserved by canning, bottling or freezing, is also taxable under the "Retailing" classification of the Business License Tax upon the gross proceeds derived from all retail sales.

**PROCESSING FOR HIRE—RETAILING.** Persons processing for hire for consumers are taxable under the "Retailing" classification of the Business License Tax upon the total charge therefor.

**PROCESSING FOR HIRE—WHOLESALE.** Persons processing for hire for persons, other than consumers, are taxable under the "Wholesaling" classification of the Business License Tax upon the total charge made therefor.

**MATERIALS FURNISHED IN PART BY CUSTOMER:** In some instances, the person owning or furnishing the equipment and facilities undertakes to produce a new article, substance or commodity from materials or ingredients furnished in part by the customer and in part by the person owning or furnishing the equipment and facilities. In such instances, the tax liability is as follows:

(1) The person owning the facilities and equipment will be presumed to be the manufacturer if the value of the materials or ingredients furnished by such person is equal to or exceeds 20% of the total value of all materials or ingredients which become a part of the finished product.

(2) If the person furnishing the equipment and facilities furnishes materials constituting less than 20% of the value of all of the materials

which become a part of the finished product, such person will be presumed to be "processing for hire" and is taxable under the "Retailing" classification when such processing is performed for consumers, and is taxable under the "Wholesaling" classification when such processing is performed for other than consumers. The person for whom the work is performed will be taxable as a manufacturer providing the value of the articles manufactured by such person during a bimonthly period equals or exceeds \$600.00.

In cases where the person processing for hire supplies, sells, or furnishes to the customer, or purchases for the account of the customer, before processing, 20% or more in value of the materials from which the finished product is made, the persons actually processing the materials will be deemed to be the owner of the materials and taxable as a manufacturer.

#### **Rule 19—Articles Made to Order:**

Persons engaged in a manufacturing business who make articles of tangible personal property to order are taxable under the "Manufacturing" classification of the "Business License Tax" upon the value of the products manufactured.

**RETAILING.** Persons who make articles of tangible personal property to order are taxable under the "Retailing" classification upon the gross proceeds derived from the sale of such articles at retail.

#### **Rule 20—Photo-Engravers, Wood-Engravers, Electrotypers, Etchers, Etc.:**

Photo-engravers, wood-engravers, electrotypers, etchers and the like are taxable under the "Manufacturing" classification with respect to all plates, casts, engravings and the like produced for sale or commercial use.

**RETAILING.** Photo-engravers, wood-engravers, electrotypers and etchers are taxable under the "Retailing" classification of the Business License Tax upon the gross proceeds of all sales.

#### **Rule 21—Photostaters and Blueprinters:**

Photostaters and blueprinters are subject to the Business License Tax as follows:

**RETAILING:** Taxable under the "Retailing" classification upon the gross proceeds from the sale of photostats or blueprints to persons for use or consumption.

**WHOLESALE:** Taxable under the "Wholesaling" classification upon the gross proceeds from the sale of photostats or blueprints to persons for resale in the regular course of business.

#### **Rule 22—Publishers of Newspapers, Magazines, Periodicals:**

Publishers of newspapers, magazines and periodicals are taxable under the "Printing and Publishing" classification upon the gross income derived from the business.

**DEFINITION:** The word "newspaper" means a publication of general circulation bearing a title, issued regularly at stated intervals of at least once a week, and formed of printed paper sheets without substantial binding. It must be of general interest containing information of current events. It must contain at least 40% news in relation to not more than 60% of advertisements, whether the latter are paid for or not. The word does not include shopping guides and other publications devoted primarily to advertising, nor does it include racing forms or other similar publications devoted solely to a specialized field. It may include school newspapers where such newspapers are distributed regularly to a paid subscription list.

**Rule 23—Printing Industry:**

The phrase "printing industry" which is covered in this ruling includes all planeographic, relief and intaglio printing businesses except multigraphing, mimeographing and the like, which are covered separately in Rule 24.

PRINTING AND PUBLISHING: Printers are subject to the Business License Tax under the "Printing and Publishing" classification upon the gross income of the business.

**Rule 24—Multigraphers and Mimeographers:**

Multigraphers and Mimeographers are subject to the Business License Tax under the "Printing and Publishing" classification upon the gross income of the business.

**Rule 25—Trade Composition and Typography:**

Trade compositors and typographers, persons whose business is that of setting type for the trade, either by hand or by machine, are engaged in service business insofar as income derived from composition and typography is concerned and are taxable under the classification of

(1) RETAILING upon the gross proceeds from the sale of composition and typography where the title to the metal passes to the customer; and under

(2) SERVICE AND OTHER BUSINESS ACTIVITIES upon the gross income derived from composition and typography where title to the metal does not pass to the customer.

**Rule 26—Public Stenographers:**

Public stenographers are taxable under the classification "Service and Other Business Activities" upon the gross income derived from the business of writing letters, corresponding or typing on a per hour or per page basis.

**Rule 27—Barbers and Beauty Shops:**

Subject to the Business License Tax under the following classifications:

RETAILING. Taxable under the "Retailing" classification upon the gross proceeds of sales of shoe shines and of packaged cosmetics, etc., sold apart from the rendition of personal services.

SERVICE AND OTHER BUSINESS ACTIVITIES. Taxable under the classification "Service and Other Business Activities" upon the gross income from charges for the rendition of personal services, such as hair cuts, shaves, facials, marcel, and the like.

**Rule 28—Jewelry and Repair Shops:**

Jewelry and Repair Shops are taxable under the "Retailing" classification upon the gross proceeds of sales from cleaning and repair services for customers and from the sale of watches, clocks, etc.

**Rule 29—Optometrists.**

Optometrists are subject to the Business License Tax as follows:

RETAILING. Taxable under the "Retailing" classification upon the gross proceeds of sales from repair service and from sales of eye glasses, lenses, etc. In case of eye glasses for which a lump sum or single charge is made, the tax is computed on such charge billed separately from the charge for professional service.

**SERVICE AND OTHER BUSINESS ACTIVITIES.** Taxable under the classification of "Service and Other Business Activities" upon the gross income from charges for the rendition of examination services when such charges are accounted for and billed separate and apart from the selling of the eye glasses or lenses.

**Rule 30—Dentists, Dental Laboratories and Physicians:**

Taxable under the classification "Services and Other Business Activities" upon the gross income from charges for the rendition of personal services.

**Rule 31—Shoe Repairmen and Shoe Shiners:**

Taxable under the classification of "Retailing" upon the gross proceeds of sales from the rendition of services, and from sales of tangible personal property.

**Rule 32—Funeral Directors:**

Funeral directors commonly quote a lump sum price for a standard funeral service, which includes the furnishing of a casket, professional services, care of remains, funeral coach, floral car and the securing of permits. This business is subject to the Business License Tax as follows:

**RETAILING:** The gross amount received from the sale of tangible property is reported under the classification of "Retailing."

**SERVICE AND OTHER BUSINESS ACTIVITIES.** The gross income from charges for personal services is reported under "Services and Other Business Activities."

**Rule 33—Cemeteries—Crematories—Columbaria:**

Subject to the provisions of the Business License Tax as follows:

**RETAILING.** The gross proceeds derived from the sale of tangible personal property such as boxes, urns, markers, vases, flowers and other tangible personal property are taxable under the classification "Retailing." The sale of lots, crypts and niches in cases where a deed or certificate of ownership is given is a sale of real estate and is not subject to the Business License Tax.

**SERVICES AND OTHER BUSINESS ACTIVITIES.** All income derived from rendering services, such as digging graves, caring for ground and cleaning monuments, is taxable under the classification "Service and Other Business Activities." In cases where no deed or certificate of ownership is given, charges for burial in lots, crypts, niches, etc., will be deemed to be charges made for the right of sepulcher, and the entire gross income therefrom is taxable under the classification "Services and Other Business Activities" without any deduction for amounts set aside to funds for perpetual care.

**Rule 34—Public Accountants:**

Certified public accountants, public accountants and licensed accountants are taxable upon their gross income under the classification "Service and Other Business Activities."

The gross income of the business of a certified public accountant or licensed accountant is the total of all fees received or charges made, including periodic service charges for audits or bookkeeping, without any deduction on account of expenses of any kind (including traveling expenses) or losses. Amounts paid regularly by clients to such persons are not salaries, but rather fees for service analogous to retainer fees.

**Rule 35—Title Insurance and Abstract Companies:**

The gross income of the business of a title insurance company or of an abstract company includes all amounts charged for making title searches, premiums charged for title insurance undertaken, amounts charged for miscellaneous services rendered, such as fees charged for escrows, tax service, etc.

Where a title insurance company acts as the insurer for an independent abstract company, receiving therefor a percentage of the fee or premium charged by the abstract company, the gross income of the abstract company, under such arrangement, is the total amount of the fee or premium charged against the client. The gross income to the title insurance company in such case is the amount which it receives or is entitled to receive.

**Rule 36—Florists and Nurserymen:**

Florists and Nurserymen are subject to the Business License Tax as follows:

**RETAILING.** Taxable under the "Retailing" classification upon the gross proceeds of sales of cut flowers, bulbs, corsages, bouquets, wreaths, floral designs, displays, potted plants, young trees, shrubs, bushes and other such items of tangible personal property at retail.

**WHOLESALE.** Taxable under "Wholesaling" classification upon the gross proceeds of sales of cut flowers, bulbs, shrubs, etc. sold at wholesale.

**Rule 37—Consignees, Bailees, Factors and Auctioneers:**

A consignee, bailee, factor or auctioneer as used in this ruling refers to one who has either actual or constructive possession of tangible personal property, the actual ownership of such property being in another, or one calling for bid on such property. The term "constructive possession" means possession of the power to pass title to tangible personal property.

**RETAILING AND WHOLESALE.** Every consignee, bailee, factor or auctioneer having either actual or constructive possession of tangible personal property, or having possession of the documents of title thereto, with the power to sell such tangible personal property in his own or its own name and actually so selling, shall be deemed the seller of such tangible personal property and taxable under the "Retailing" or "Wholesaling" classification of the Business License Tax, depending upon the nature of the transaction.

The consignor, bailer, principal or owner shall be deemed the seller of such property to the consignee, bailee, factor or auctioneer and taxable as a wholesaler with respect to such sales if the property sold was used by such consignor, etc., in the conduct of a taxable business and he continues in such business.

The mere fact that a consignee, bailee or factor makes a sale raises a presumption that such consignee, bailee or factor actually sold in his or its own name. This presumption is controlling unless rebutted by proof satisfactory to the City Comptroller.

**SERVICE AND OTHER ACTIVITIES.** Every consignee, bailee, factor or auctioneer who makes a sale of property in the name of the actual owner thereof shall be taxable under the classification "Service and Other Business Activities" of the Business License Tax, on gross income derived from acting as a consignee, bailee, factor or auctioneer.

**AGENTS AND BROKERS.** Any person who claims to be acting merely as agent or broker in promoting sales for the principal will have such claim recognized only when the contract or agreement between such persons clearly establishes the relationship of principal and agent and when the following conditions are complied with:

1. The books and records of the broker or agent show the name of the actual owner of the property for whom the sale was made.
2. The credit risk is assumed by the actual owner of the property.

3. The books and records show the amount of the gross sales, the amount of commissions and any other incidental income derived by the broker or agent from such sales.

4. The invoice shows that the sale was made as agent or broker for the actual owner.

**Rule 38—Agricultural Commission Agents:**

Any person whose business consists in selling agricultural products, both as dealer and upon a commission consignment basis, is presumed to be conducting business as a seller of tangible personal property, either as wholesale or retail, unless such person segregates upon his books and records between sales of products purchased and sold as a dealer, and those handled strictly upon a commission basis.

**RETAILING**—Taxable under the "Retailing" classification upon gross proceeds derived from retail sales made by dealers and persons selling upon a commission-consignment basis who do not segregate upon their books and records between sales made as a dealer and those handled upon a commission basis.

**WHOLESALE**. Taxable under the "Wholesaling" classification upon gross proceeds derived from wholesale sales made by dealers and persons selling upon a commission-consignment basis who do not segregate upon their books and records between wholesale sales made as a dealer and those handled on a commission basis.

**SERVICE AND OTHER BUSINESS ACTIVITIES**. Persons may be classified as engaging in "Service and Other Business Activities" with respect to bona fide commission-consignment sales, even though such consigned sales are credited to "Sales" account providing he has complied with the Commission Merchants' Law of the State of Washington and has prepared and kept the following records supplementary to the regular books of account:

(1) Lot sheets, cards or similar subsidiary records upon which consigned sales are regularly recorded;

(2) An analysis sheet showing the date, lot number, gross proceeds of sales of consigned goods, remittances to consignor, advances, commissions, other charges and taxable amount with respect to consigned accounts. This sheet shall contain a complete analysis of all consigned sales showing the distribution made from lot sheets, cards or similar subsidiary records. Entries in the consigned sales analysis record shall be made as of the date that final distribution is made on the lot sheet, card or similar record;

(3) A detailed record of deductions claimed with respect to sales of products purchased. Such records shall show the date of sale, the lot number and the nature of the deductions claimed.

**Rule 39—Persons Buying or Producing Wheat, Oats, Corn and Barley and Making Sales Thereof:**

Persons engaged in the business of buying or producing wheat, oats, corn and barley and selling the same are subject to the Business License Tax as follows:

**RETAILING**. Taxable under the "Retailing" classification upon the gross proceeds from all retail sales of such products.

**WHOLESALE**. Persons buying manufactured or processed products of wheat, oats, corn and barley, and selling the same at wholesale, are taxable under the "Wholesaling" classification upon their gross proceeds of sales at the rate of one-tenth of one per cent. The tax imposed under this classification does not apply to persons producing wheat, oats, corn and barley and selling the same at wholesale.

**GRAIN BROKERAGE**. Persons buying wheat, oats, corn and barley, and selling the same at wholesale as such and not as a manufactured or processed product thereof, are taxable under the classification "Grain Bro-

kerage" upon their gross proceeds of sales at the rate of one one-hundredth of one per cent.

#### Rule 40—Stockbrokers and Security Houses:

With respect to stockbrokers and security houses "gross income of the business" means the total gross income from interest, gross income from commissions, gross income from trading and gross income from all other sources; **Provided that:**

(a) Gross income from each amount is to be computed separately and on a monthly basis.

(b) Loss sustained upon any earnings account may not be deducted from nor offset against gross income upon any other account, nor may a loss sustained upon any earnings account during any month be deducted from the gross income upon any account for any other month.

(c) No deductions are allowed on account of salaries or commissions paid to employees or salesmen, rent or any other overhead or operating expenses paid or incurred, or on account of losses other than (b) above.

(d) No deductions are allowed on account of the delivery of stocks, bonds or other securities outside the City of Seattle.

**GROSS INCOME FROM INTEREST.** Gross income from interest includes all interest received upon bonds or other securities held for sale or otherwise, excepting only bonds of the Federal government and its instrumentalities and the Emergency Relief Bonds of the State of Washington. No deduction is allowed for interest paid out even though such interest may have been paid to banks, clearing houses or others upon amounts borrowed to carry debt balances of customers' margin accounts.

Interest accrued upon bonds or other securities sold shall be included in gross income where such interest is carried in an interest account and not as a part of the selling price. Conversely, interest accrued upon bonds or other securities at the time of purchase may be deducted from gross income where such interest is carried in an interest account and not as a part of the purchase price.

**GROSS INCOME FROM COMMISSIONS.** Gross income from commissions is the amount received as commissions upon transactions for the accounts of customers over and above the amount paid to other stockbrokers or security houses associated in such transactions; provided, however, that no deduction or offset is allowed on account of salaries or commissions paid to salesmen or other employees.

**GROSS INCOME FROM TRADING.** Gross income from trading is the amount received from the sale of stocks, bonds and other securities over and above the cost or purchase price of such stocks, bonds and other securities. In the case of short sales, gross earnings shall be reported in the month during which the transaction is closed, that is, when the purchase is made to cover such sales or the short sale contract is forfeited.

**GROSS INCOME FROM ALL OTHER SOURCES.** Gross income from all other sources includes all income received by the taxpayer, other than from interest, commissions, and trading, such as dividends upon stocks, fees for examinations, fees for reorganizations, etc.

**SERVICES WITHIN AND WITHOUT THE CITY—APPORTIONMENT.** Stockbrokers and security houses rendering services and maintaining places of business both within and without the City may, in computing the tax, apportion to the City that portion of the gross income which is derived from services rendered within this City. Where such apportionment cannot be made accurately by separate accounting methods, the taxpayer shall apportion to this City that portion of his total income which the cost of doing business within this City bears to the total cost of doing business both within and without the City.

#### Rule 41

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#### Rule 43

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#### **Rule 41—Insurance Agents and Solicitors—Employees:**

Any person representing an insurance company, whether as general or local agent, who represents another insurance company or engages in some other business, is taxable under the classification "Service and Other Business Activities" of the Business License Tax upon the gross income from his insurance business, as well as from other service businesses engaged in.

Any person representing an insurance company, who devotes his entire time to such company and who is considered by the company to be its employee, is exempt from the tax imposed upon persons engaging in business.

The gross income of the business of an insurance agent is the amount or percentage which such agent receives or is entitled to receive under the terms of the contract between such agent and the insurance company, whether such income is from life insurance, fire insurance, casualty or any other type of insurance without any deduction on account of expense or losses.

With respect to a general agent, gross income means the percentage which such agent receives, less the percentage which, under the terms of his contract with the insurance company, he is required to pay to the local agent but without any deduction on account of salaries or commissions paid to solicitors or employees.

With respect to a local agent or broker, gross income means the percentage which such agent or broker receives without any deduction on account of salaries or commissions paid solicitors or employees.

#### **Rule 42—Laundries—Dry Cleaners—Laundry Agents:**

The term "laundry or dry cleaning business" applies to (1) the business of operating a plant or establishment for laundering, cleaning, dyeing, pressing and incidentally repairing such articles as clothing, linens, bedding, towels, curtains, drapes, rugs, etc.; (2) one who, under his own name, operates a place of business or pick-up and delivery system for the collection and distribution of such articles, holding himself out to the public as performing such services, even though such person owns no plant and contracts with another for a part or all of the services rendered. This does not apply, however, to a person holding himself out as an agent for a particular laundry or dry cleaning plant.

The term "laundry agent" applies to any person who, under his own name, operates a place of business or pick-up and delivery system for the collection and distribution of articles to be laundered, cleaned, dyed or pressed, holding himself out as agent for some particular establishment and acting as an independent contractor rather than as an employee.

Laundries, dry cleaners and laundry agents are taxable under the Business License Tax as follows:

**RETAILING.** Taxable under the "Retailing" classification upon the gross proceeds of sales derived from laundry or dry cleaning services rendered to retail customers without any deduction on account of commissions allowed or amounts paid to another for the performance of all or a part of the laundry or dry cleaning service rendered.

**WHOLESALE.** Taxable under the "Wholesaling" classification upon the gross proceeds of sales derived from laundry or dry cleaning services rendered for other laundry or dry cleaning establishments.

**SERVICE AND OTHER BUSINESS ACTIVITIES.** Laundry agents report hereunder the total amount of commissions they receive or are entitled to receive.

#### **Rule 43—Hotels, Boarding Houses, Tourist Camps, Etc.:**

A hotel, boarding house, rooming house, apartment hotel, resort lodge, auto or tourist camp and bunk house, as used in this ruling, includes all establishments which are held out to the public as an inn, hotel, public lodging house or place where sleeping accommodations may be obtained,

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The word "business" is defined as the business of farming or agriculture, which includes the business of raising livestock, such as cattle, horses, sheep, swine, etc., and the business of raising poultry, such as chickens, turkeys, geese, ducks, etc.

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Tax liability follows:

EXTRA gravel or other materials to improve the "Extraction" provided, however, the tractors or similar equipment for contracts for municipalities, where quarries or pits for contract is provided.

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**Rule 47—Impeachment**

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**Rule 48—Gh**

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altering, repairing or improving real property of or for consumers, and who contract directly with consumers, either for the entire work to be performed or for only specific parts thereof. The word includes only those persons who hold themselves out to the public as engaged in such business and does not include persons rendering such services in the capacity of employees.

The word "subcontractor" as used herein, includes persons engaged in the business of performing contracts for the erection of buildings or otherwise altering, repairing or improving real property, entered into with contractors either for the entire work to be performed or for only specific parts thereof.

The term "contract price" as used herein means the total charges made by a contractor or subcontractor for materials, labor, supervision, overhead costs and profit. No deduction is allowed a contractor with respect to amounts paid subcontractors.

Tax liability under the Business License Tax shall be determined as follows:

**EXTRACTION.** Contractors or subcontractors who extract rock, sand, gravel or other natural resource products for use in the performance of contracts to improve or construct real property are subject to a tax under the "Extraction" classification upon the value of the products extracted: **Provided, however,** that no tax is imposed under this classification upon contractors or subcontractors engaged in the performance of public improvement contracts for the United States, State of Washington, its counties or municipalities, when such rock, sand, gravel or other products are extracted from quarries or pits owned or provided by the governmental body for whom the contract is performed and is used exclusively in the performance of such contract.

**MANUFACTURING.** Contractors or subcontractors who manufacture or fabricate units of equipment, fixtures or materials which are used or furnished under contracts to improve or construct real property are taxable under the "Manufacturing" classification upon the value of the articles manufactured.

**RETAILING.** Contractors are taxable under the "Retailing" classification with respect to the total income derived from contracts to improve or construct property of or for consumers.

**WHOLESALE.** Subcontractors are taxable under the "Wholesaling" classification upon the total income received under their subcontracts to improve or construct real property.

**Rule 47—Installing, Cleaning, Repairing or Otherwise Altering or Improving Personal Property of Consumers:**

Persons engaged in the business of installing, cleaning, decorating, beautifying, repairing or otherwise altering or improving tangible personal property of consumers are taxed as follows:

**RETAILING.** Persons installing, cleaning, decorating, beautifying, repairing or otherwise altering or improving tangible personal property of consumers or for consumers are taxable under the "Retailing" classification upon the gross proceeds received from sales of tangible personal property and the rendition of services.

**WHOLESALE.** Persons who sell tangible personal property and render any of the above services for other than consumers are taxable under the "Wholesaling" classification upon the gross proceeds of sales derived therefrom.

**Rule 48—Sheet Metal Shops—Iron Works—Cabinet Works, Etc.:**

Persons operating sheet metal shops, iron works, boiler works, cabinet works, millworking plants and other similar businesses, who manufacture, sell or fabricate articles of tangible personal property, install such articles,

and who perform contracts for the alteration, improvement, or construction of real property, are taxable under the Business License Tax as follows:

**MANUFACTURING.** Such persons are classified as engaging in the business of manufacturing with respect to producing, compounding or shaping articles, substances or commodities of trade or commerce for sale or for use in the performance of contracts.

The mere cutting of material into smaller sizes may not, in itself, constitute manufacturing, but processing, cutting or shaping materials into new articles with distinctive uses or qualities is manufacturing. Thus, the cutting of pipe into small sizes is not manufacturing, but the making of fences from pipe is manufacturing. The fact that articles produced are not finished articles does not exclude the taxpayer from the manufacturing classification. Thus, the making of castings is manufacturing, even though the finished article is not produced.

**RETAILING.** Such persons are taxable under the "Retailing" classification of the Business License Tax upon the gross proceeds of all articles sold at retail.

**WHOLESALE.** Such persons selling materials, articles, supplies, parts or other tangible personal property, except products manufactured by such persons, to one who purchases for the purpose of resale in the regular course of business or for the purpose of consuming the property purchased in producing for sale a new article or substance, are taxable with respect thereto under the "Wholesaling" classification.

**Rule 49—Pattern Makers:**

Pattern makers are subject to the Business License Tax as follows:

**MANUFACTURING.** Pattern makers are taxable under the "Manufacturing" classifications with respect to the making of patterns.

**RETAILING.** Sales by pattern makers of their products to foundries, machine shops, machinery or equipment manufacturers, inventors or any other persons who use or consume the patterns in producing, or in having produced, articles for sale or use, but who do not sell or transfer title to such patterns with the articles sold, are taxable under the "Retailing" classification.

**Rule 50—Vessels Operating in Interstate or Foreign Commerce:**

Persons engaged in this business are taxable under the "Retailing" classification for sales of meals (including meals to employees) and other tangible personal property within the corporate limits of the City of Seattle.

**Rule 51—Golf Courses:**

**RETAILING.** Persons operating or conducting golf courses are required to report and pay tax under the "Retailing" classification with respect to the gross proceeds of retail sales of tangible personal property.

**SERVICE AND OTHER BUSINESS ACTIVITIES.** Persons operating or conducting golf courses are taxable under the "Service and Other Business Activities" classification upon the gross income derived from greens fees, locker rent, caddy fees and all other charges for special services, exclusive of bona fide membership dues and initiation fees.

**Rule 52—Highway Transportation Business:**

**RETAILING.** Highway transportation businesses are taxable under the "Retailing" classification with respect to retail sales of tangible personal property made by them.

**SERVICE AND OTHER BUSINESS ACTIVITIES.** Highway transportation businesses are taxable under the "Service and Other Business Activities"

classification upon the gross revenue from hauling or transporting wholly within the limits of the City of Seattle; upon all revenue from parcel and check room service; commissions on the sale of tickets for other lines; rental of buses or other equipment to other operators; commission on sale of travelers' checks; insurance, etc.

**Rule 53—Vessels Operating Wholly Within the State of Washington, Also Tugs and Barges:**

**RETAILING.** Persons engaged in the business of operating such vessels and tugs are taxable under the "Retailing" classification on gross sales of meals (including meals to employees) and other tangible personal property taxable under the retail sales tax.

**SERVICES AND OTHER BUSINESS ACTIVITIES.** The business of operating tugs, barges and lighters is a service business taxable under the classification "Service and Other Business Activities" on gross income derived from such service.

**Rule 53a—Public Warehouse:**

The term "public warehouse" means every building, elevator or other structure wherein facilities are offered to the public for the storage of tangible property under regulation by the State or Federal government. It does not include cold-storage plants, nor does it include freight-sheds or other buildings used exclusively by a common carrier in handling freight transported by it.

The gross operating revenue of the business of a public warehouse includes all income from the storing, handling, sorting, weighing or measuring of tangible personal property. Where a warehouseman purchases or owns property stored in such warehouse there shall be included in gross operating revenue:

(a) An amount equal to the charges at the customary rate for all services rendered in connection with such property up to the time of purchase by the warehouseman; and

(b) The amount of any charges for services that are rendered during the period of the warehouseman's ownership of such property and are billed and stated, as such, separately from the price of such property on the invoice to the purchaser at the time of the sale of such property by the warehouseman.

**Rule 54—Roof Gardens, Cabarets or Similar Entertainments:**

**RETAILING.** Persons operating roof gardens, cabarets or similar entertainments are taxable under the "Retailing" classification with respect to all retail sales of food, refreshments and other merchandise. Where an admission charge is found to be included in the price paid for refreshments, service and merchandise, 80% thereof is taxable under the "Retailing" classification.

**SERVICE AND OTHER BUSINESS ACTIVITIES.** Persons operating roof gardens, cabarets or similar places of entertainment are taxable under the classification "Service and Other Business Activities" upon the gross income derived from all charges for admission and other services rendered. Where an admission is found to be included in the price paid for refreshments, service and merchandise, 20% thereof is taxable under the classification "Service and Other Business Activities."

**Rule 55—Sales to and by the State of Washington, Counties, Cities, School Districts and Other Municipal Subdivisions:**

No deduction is allowed a seller in computing tax under the provisions of the Business License Tax with respect to sales to the State of Washington, its departments and institutions or to counties, cities, school districts or other municipal subdivisions thereof.

**Rule 56—Sales to the United States, Its Departments, Institutions and Instrumentalities:**

In computing tax under the "Extracting," "Manufacturing," "Retailing" or "Wholesaling" classifications, no deduction is allowed with respect to sales to the United States, its departments, institutions and instrumentalities. No deduction is allowed with respect to income received from the rendition of services to the United States, its departments, institutions and instrumentalities in computing the tax under the "Service and Other Business Activities" classification.

**Rule 57—Federal Reservations:**

The City of Seattle has jurisdiction and authority to levy and collect taxes under the provisions of Ordinance No. 72630, as amended, upon persons residing within, or with respect to business transactions conducted upon, Federal reservations; **Provided, however,** that no tax may be levied upon or collected from the United States, its departments, institutions and instrumentalities or any authorized purchases therefrom. (See Rule 56.)

The term "Federal reservation" as used herein, means any lands or premises within the corporate limits of the City of Seattle which are held or acquired by or for the United States, its departments, institutions or instrumentalities.

Tax liability under the Business License Tax is determined as follows:

**RETAILING AND WHOLESALING.** Persons making retail or wholesale sales to persons residing within or conducting business upon Federal reservations are taxable upon gross proceeds of sales under the "Retailing" or "Wholesaling" classifications.

With respect to tax liability of sales to the United States, its departments, institutions or instrumentalities under these classifications see Rule 56.

**SERVICE AND OTHER BUSINESS ACTIVITIES.** Persons performing services within Federal reservations are taxable under the classification "Service and Other Business Activities" upon the gross income derived therefrom, irrespective of the fact that such services are rendered for the United States, its departments, institutions or instrumentalities.

**Rule 58—Tax Liability of Persons Dealing with Indians:**

The term "Indian Reservation" as used herein, means such of the lands set aside by the United States for tribal Indians by treaty, law or proclamation as remain held in trust for the tribes or the Indians, or the alienation of which by Indians remains restricted. It does not include lands, the title to which has been allotted in fee simple, or which have been sold, or the alienation of which is otherwise unrestricted, even though such lands may be within the boundaries of an Indian reservation as originally set aside.

The term "Indian" as used in this ruling, includes only persons registered on the tribal rolls at Indian agencies and who live within the boundaries of an Indian reservation.

Indians are under the guardianship of the United States and are considered to be governmental wards with respect to their activities upon Indian reservations. Tax liability of Indians under the Business License Ordinance No. 72630, as amended, and with white persons conducting business with Indians, is as follows:

Amounts derived from sales of tangible personal property to Indians are deductible from the measure of tax where the seller is required under the terms of the contract to deliver the property sold to a point within an Indian reservation. Amounts derived from persons other than Indians are not deductible, irrespective of where delivery takes place.

**Rule 59—Interstate and Foreign Commerce—Imports and Exports:**

The Business License Tax does not apply to gross proceeds of sales or gross income of the business which the City of Seattle is prohibited from

taxing under the Constitution or laws of the United States. The "import and export" and "Commerce" clauses of the Federal Constitution impose restrictions upon the power of the City to impose a tax upon persons engaging in business. With respect to the various classifications under the Business License Ordinance the restrictions imposed are generally as follows:

**EXTRACTING AND MANUFACTURING.** Under the "Extracting" and "Manufacturing" classifications the tax is imposed with respect to an act which occurs prior to the time the products are shipped or transported. The measure of the tax is the value of the products extracted or manufactured, regardless of the place of sale or the fact that deliveries are to be made outside the State. Therefore, no deduction on account of place of sale of products extracted or manufactured in the City is permitted in computing the tax under these classifications.

**WHOLESALE AND RETAILING.** In computing tax under the "Wholesaling" and "Retailing" classifications there may be deducted, from the entire gross proceeds of sales, so much thereof as is derived from sales in interstate or foreign commerce.

The Business License Tax applies to:

**FOREIGN COMMERCE—IMPORTS.** The tax under "Wholesaling" and "Retailing" classification does not apply to sales by the importer thereof of imports while the same are in the original, unbroken package or container in which the same were imported. This immunity from tax is accorded even though the goods are located in the City at the time the sale takes place and even though both the seller and the buyer are, and delivery and transfer of title takes place, within the City. The immunity from tax does not extend:

(1) To the sale of imports by the importer thereof if such imports are sold other than in the original unbroken package or container; nor

(2) To the sale of imports by any person other than the importer thereof, whether or not such person sells the original, unbroken package or container.

The term "imports" means goods brought into the United States from a foreign country. It does not include goods brought into this City from another state, or a territory or possession of the United States.

**FOREIGN COMMERCE—EXPORTS.** The tax under "Retailing" and "Wholesaling" classifications does not apply to sales by the exporter thereof, of goods exported from the United States to a foreign country. It does not apply to export sales when, as a necessary incident to the contract of sale, the exporter agrees to, and does, deliver the goods to the purchaser at a foreign destination or is bound, under the terms of the contract of sale, to place the goods in the hands of a common carrier consigned to the buyer at a foreign destination. It is immaterial whether the title to the goods passes, in such case, upon delivery to the carrier or upon arrival of the goods at their destination.

Furthermore, such tax does not apply in the case of a sale to an exporter if under the terms of the contract the seller is bound to deliver the goods on board ship or into the hands of a common carrier consigned on board ship. It is immaterial that the exporter takes out a bill-of-lading in his own name.

**INTRASTATE COMMERCE—RETAIL AND WHOLESALE SALES BY SEATTLE VENDORS TO PERSONS IN WASHINGTON.** The tax applies to every sale at retail or wholesale by a Seattle vendor to persons within the State of Washington when transfer of the ownership of or title to the subject matter of the sale is effected within the City at the time the vendor received the order therefor, and whether the vendor manufactured or procured from within or from without the City the goods with which to fulfill the contract. The fact that the express terms of the contract to sell contemplate or require the vendor to effect delivery by transporting or shipping the goods from a point outside the State to the purchaser at a point within the State is immaterial.

The term "Seattle vendor" as used herein means any vendor who maintains a stock of goods within the City and solicits orders through an established place of business within this City.

**INTERSTATE COMMERCE—RETAIL SALES BY SEATTLE VENDORS TO PERSONS IN OTHER STATES.** The tax applies to every sale at retail by a Seattle vendor to persons in other states when transfer of the ownership of or title to the subject matter of the sale is made directly to the purchaser or his agent within the State, notwithstanding the fact that the purchaser or his agent intends to, and later does, deliver the goods to a point outside the state, or delivers the goods to a common carrier or to a bona fide private carrier consigned to the purchaser at a point outside the State.

The term "Bona fide private carrier," as used herein, is defined to mean:

(a) Any carrier, other than a common carrier, regularly engaged in the business of transporting or conveying goods or property of another for hire: **Provided, That such carrier is not also the purchaser.**

(b) Any carrier by water, other than a common carrier, required by the Navigation of Customs laws or regulations of the United States to declare on its manifest as cargo the goods consigned to the purchaser under an export declaration duly executed and filed with the Collector of Customs. The export declaration must be made in triplicate by the vendor and a third copy delivered to the purchaser who shall have the same certified by the United States Customs and returned to the vendor and thereby be relieved from payment of this tax. It is immaterial in this case that the carrier may also be the purchaser.

**INTERSTATE COMMERCE—RETAIL SALES BY OUT-OF-STATE VENDORS TO PERSONS IN SEATTLE.** Where an out-of-state vendor maintains a place of business or an agent within this City and makes retail sales of tangible personal property to persons in Washington and the property sold is shipped from a point outside the state, the provisions of the Business License Tax apply to the gross proceeds derived from the sale.

Whether the Business License Tax applies to a particular sale or not depends upon where and when the sale takes place as indicated by the terms of the contract of sale, the conduct of the parties and the circumstances of the case. The following principles may be used in determining whether the Business License Tax applies:

The Business License Tax applies to all sales of tangible personal property to persons in Washington by an out-of-state vendor who maintains a place of business or a resident agent within this City when the orders therefor are taken within this City (even though confirmed at a point outside this City) and as a necessary incident to the contract of sale, the vendor agrees to and does, transfer the ownership of or title to the subject matter of the sale to the purchaser at a point within Washington. Where the vendor transfers ownership of or title to the subject matter of the sale to the purchaser at a point outside of Washington, the Business License Tax does not apply.

Where an out-of-city vendor does not maintain a place of business or a resident agent within this City, he is not required to pay the Business License Tax upon sales made to purchasers within this City.

The term "out-of-City vendor" as used herein, means any vendor who does not maintain a stock of goods within this City and who solicits orders other than through an established place of business within this City.

**SERVICE AND OTHER BUSINESS ACTIVITIES.** In computing the tax under the classification of "Service and Other Business Activities" there may be deducted from gross income of the business the amount thereof derived as compensation for the performance of services which in themselves constitute foreign or interstate commerce to an extent that a tax measured by the compensation received therefrom constitutes a direct burden upon such commerce. Included in the above are those activities which involve the actual transportation of goods or commodities in foreign commerce or commerce between the States; the solicitation of freight for foreign or interstate shipment; the selling of tickets for foreign and interstate passage accommodations; and the compensation received by a contracting stevedoring company for loading and unloading cargo from vessels where such cargo is moving in interstate or foreign commerce and where the work is actually directed and controlled by the stevedoring company; and so much of the commission received on foreign and interstate sales by a local broker or commission

merchant, as were paid to an out-of-state independent agent, or so much thereof is derived from services rendered by an out-of-state branch office or employee regularly maintained outside the State.

The compensation received by persons engaged in business within the City for the performance of services which are only incidentally related to foreign or interstate commerce is not deductible, since a tax measured by such compensation is not a direct burden upon foreign or interstate commerce.

Thus, no deduction is permitted with respect to compensation received by a merchandise broker or commission merchant for services rendered wholly within this City to principals engaged in foreign or interstate commerce, or with respect to compensation received by a stevedoring company for supplying longshoremen to a shipowner or master where the work of loading and unloading is not directed and controlled by the stevedoring company. The mere ownership or operation of facilities by means of which others engage in foreign or interstate commerce is merely incidental to such commerce and any income received therefrom is taxable.

#### **Rule 60—Doing Business Within and Without the City:**

The question of whether or not a person is doing business within the City and subject to the Business License Tax is largely one of fact. In cases of doubt, all circumstances of the particular case should be submitted to the City Comptroller for a ruling.

The principles set forth herein do not apply with respect to transactions which are subjects of interstate or foreign commerce. Transactions will be recognized as subjects of interstate or foreign commerce only when they involve directly the sale, exchange or transportation of commodities between the states or with foreign countries; the sale of imports in the original packages; or constitute an integral part of the transportation or shipment of goods in interstate or foreign commerce.

**EXTRACTING AND MANUFACTURING.** Persons doing business within the City are not taxable with respect to extracting or manufacturing activities conducted without the City.

Persons engaged in extracting or manufacturing activities within the City are taxable with respect thereto, irrespective of where the commodities produced are sold.

**RETAILING AND WHOLESALING.** Sales of tangible personal property by persons doing business within the City are taxable under the "Wholesaling" or "Retailing" classification irrespective of where the contract of sale is made, if the title to such property passes within the City.

**SERVICE AND OTHER BUSINESS ACTIVITIES.** Services rendered incidentally within the City by persons not construed to be "doing business within the City" are not taxable.

Persons engaged in business within the City are taxable upon all income received from services rendered, including services incidentally rendered without the City unless such persons are construed to be "doing business without the City." For example, persons engaged in business within the City, but not doing business without the City, are taxable upon the following types of income:

1. A marine insurance agency upon commissions received for placing insurance upon vessels operating without the City;
2. An attorney upon fees received from persons without the City, even though a portion of his services were necessarily performed without the City;
3. A collection agency upon income received from clients without the City or with respect to collections made from persons without the City;
4. An accountant upon income received from persons for services performed without the City;
5. An investment company upon income received from loans placed without the City;
6. A commodity broker upon commissions received from persons without the City;

7. A rental agency upon income from the leasing of tangible property to persons without the City;

8. An employment agency upon income received for securing employees for firms without the City;

9. A publisher upon income received from advertisers without the City;

10. A physician upon income received from the treatment of patients without the City;

11. A purchasing agency upon commissions received from clients without the City or with respect to purchases made without the City.

Conversely, persons engaged in business without the City, but not doing business within the City, are not taxable with respect to the reverse of the above situations.

#### **Rule 61—Taxes—Deductibility:**

In computing tax liability, the amount of certain taxes may be excluded or deducted from the "Gross Amount" reported as a measure of tax under the Business License Tax. Such taxes may be deducted provided they (1) have been included in the "Gross Amount" reported under the classification with respect to which the deduction is sought, and (2) have not otherwise been deducted through the inclusion in the amount of an allowable deduction taken under such classification for another reason, i. e., interstate commerce, etc.

The amount of taxes which are not allowable as a deduction must be included in the "Gross Amount" reported.

**SPECIFIC TAXES DEDUCTIBLE** provided they have been included in the "gross amount" reported as a measure of tax under the Business License Tax:

Amounts paid by taxpayers to the United States, or State of Washington as excise taxes.

**NO DEDUCTION IS ALLOWED WITH RESPECT TO THE FOLLOWING LICENSES AND TAXES, AMONG OTHERS:**

##### **Federal:**

- A.A.A. compensating taxes;
- A.A.A. floor stock taxes;
- A.A.A. processing taxes;
- Capital stock taxes;
- Dividend taxes;
- Estate taxes;
- Gift taxes;
- Income taxes;
- Manufacturers' excise or sales taxes;
- Stamp taxes;
- Tariff duties;
- Tax on firearms;
- Tobacco excise taxes.

##### **State of Washington:**

- Ad valorem property tax;
- Business and occupation tax;
- Cigarette tax;
- Compensating tax;
- Conveyance tax;
- Inheritance tax;
- Local license fees;
- Regulatory fees.

The question of the right to exclude or deduct the amount of any tax other than those authorized herein should be submitted to the City Comptroller for determination.

## **Rule 62—Credit Losses—Bad Debts—Recoveries:**

In computing the Business License Tax there may be deducted by taxpayers whose regular books of account are kept upon an accrual basis, the amount of business credit losses actually sustained, providing such deduction will be allowed only with respect to transactions upon which a tax has been previously paid under Ordinance No. 72630, as amended, and providing that the amount thereof has not been otherwise deducted and that credits have not been issued with respect thereto.

Bad debt deductions must be taken by the taxpayer during the bi-monthly period during which such bad debts were actually charged off on the taxpayer's books of account.

In cases where the amount of bad debts legitimately charged off in a particular bi-monthly period exceeds the gross income for such period, the excess of the amount of the bad debts charged off during such period may be deducted from the gross income of the subsequent bi-monthly period.

**EXTRACTING OR MANUFACTURING—SPECIAL APPLICATION.** Bad debt and cash discount deductions will be allowed under the "Extracting" or "Manufacturing" classifications only when the value of products is computed on the basis of gross proceeds of sales.

A manufacturer or extractor selling the manufactured or extracted product at retail shall be entitled to a deduction under both the "Retailing" and "Manufacturing" or "Extracting" classifications.

No credit loss or bad debt deduction is allowed under "Extracting" classification where the extractor is taxable as a manufacturer with respect to the product extracted.

**METHODS OF DETERMINING CREDIT LOSSES.** The amount of credit losses actually sustained must be determined in accordance with one of the following methods:

- (1) Specific charge-off method. The amount which is charged off within the taxable bi-monthly period with respect to debts ascertained to be worthless.
  - (a) Worthlessness of a debt is usually evidenced when all the surrounding and attending circumstances indicate that legal action to enforce payment would result in an uncollectible judgment.
  - (b) A "charge-off" of a debt, either wholly or in part, must be evidenced by entry in the taxpayer's books of account.
- (2) Reserve method. In the discretion of the Comptroller a reasonable addition to a reserve for bad debts will be authorized to taxpayers who charge off credit losses at the end of their taxable year but who desire to apportion such losses on a monthly basis.
  - (a) This will be permitted, in lieu of the specific charge-off method, only to taxpayers who have established or are allowed by the Internal Revenue Department to use for Federal Income Tax purposes, the reserve method of treating bad debts, or who, upon securing permission from the Comptroller, adopt that method.
  - (b) What constitutes a reasonable addition to a reserve for bad debts must be determined in the light of the facts and will vary as between classes of business and with conditions of business prosperity. The addition to the reserve allowed as a deduction by the Internal Revenue Department for Federal Income Tax purposes, in the absence of evidence to the contrary, will be presumed reasonable.

If the taxpayer actually determines and charges off bad debts on a bi-monthly basis, the amount so charged off each bi-monthly period shall be considered prima facie as a proper deduction for such bi-monthly period.

When bad debt losses are ascertained annually upon specific charge-off method, the deduction must be taken against the gross amount reported for the bi-monthly period in which the bad debts were actually charged off.

When the reserve method is employed in taking deductions for bad debts on bi-monthly returns and the amount of debts actually ascertained to

be wholly or partially worthless and charged against the reserve account during the taxable year and reported do not agree with the amount of reserve set up therefor, adjustment of the amount of loss deducted shall be made to make the total amount claimed for the tax year coincide with the amount of loss actually sustained.

**Rule 63—When Tax Liability Arises:**

Gross proceeds of sales and gross income shall be included in the return for the period in which the value proceeds or accrues to the taxpayer.

**ACCRUAL BASIS OF ACCOUNTING.** When returns are made upon the accrual basis, value proceeds or accrues to a taxpayer as of the time the taxpayer actually receives, becomes legally entitled to receive and/or in accord with the system of accounting regularly employed enters as a charge against the purchaser, customer or client the amount of the consideration agreed upon, whether payable immediately or at a definitely determined future time.

As to amounts actually received, however, such amounts do not constitute value proceeding to the taxpayer in the period in which received if the gross proceeds of sale or gross income of the contract or transaction by virtue of which such amounts are received pursuant to the foregoing, constitute value accruing to the taxpayer during another period. It is immaterial whether the act or service out of which the consideration proceeds or accrues is performed or rendered in whole or in part during a period other than the one for which return is made, the controlling factor in this case being the time as of which the taxpayer received, or takes credit for, the agreed consideration.

**CASH RECEIPTS BASIS.** When returns are made on a cash receipt and disbursement basis, value proceeds or accrues to the taxpayer as of the time the taxpayer receives, either actually or constructively, the consideration promised. It is immaterial that the contract is performed, in whole or in part, during a period other than the one in which the payment is received.

**SPECIAL APPLICATION—CONTRACTORS.** In the case of building or construction contractors, value proceeds or accrues to the taxpayer as follows:

(1) Where the taxpayer is reporting upon the accrual basis, as of the time the contractor becomes entitled to compensation under the contract:

(a) If, by the terms of the contract, the taxpayer becomes entitled to compensation only upon the completion of the work, value accrues thereunder as of the time of completion;

(b) If, by the terms of the contract, the taxpayer becomes entitled to compensation upon estimates as the work progresses, value, to the extent of such estimates, accrues as of the time that each estimate is made and the balance at the time of the completion of the work or of the final estimate.

The foregoing applies when the taxpayer, in accord with the system of accounting regularly employed, enters the charge against the purchaser, customer or client as above—otherwise the taxpayer's system of accounting is prima facie controlling:

(2) Where the taxpayer is reporting upon a cash basis, as of the time that the consideration or compensation is received.

**WAREHOUSEMEN.** In the case of warehousemen, value proceeds or accrues to the taxpayer as follows:

(1) When the taxpayer is reporting upon the accrual basis (whether the consideration for storage is a fixed rate per unit per month or other period or at a flat charge regardless of the length of time and whether payable periodically or at the time of withdrawal) as of the time the charge is entered against the owner of the goods stored in accordance with the terms of the agreement between the parties and the regular system of accounting employed by the taxpayer. Thus where a warehouseman, keeping books upon an accrual basis, customarily enters as a charge to the owner of the goods and a credit to storage income the full amount of a flat storage charge as of the time the goods are received, even though the time for payment is deferred

until withdrawal of the goods, value accrues as of the time the goods are received. However, if the warehouseman customarily does not enter such charge until the time of withdrawal, value accrues as of such later date;

(2) When the taxpayer is reporting upon a cash receipts basis, value proceeds or accrues as of the time the consideration or compensation for storage is received.

#### **Rule 64—Conditional and Installment Sales—Method of Reporting:**

Persons making conditional sales or other installment sales of tangible personal property must report the total selling price of such sales in the bi-monthly tax period in which the contracts of sale are entered into.

A deduction from gross proceeds of sales as a credit loss is allowed to such sellers for the amount of the contract price or any installment sale if and when the property purchased is repossessed upon default by the buyer.

#### **Rule 65—Accounting Methods:**

In computing tax liability under the Business License Tax, one of the following accounting methods must be used:

1. **CASH BASIS.** Only persons in a strictly cash business will be permitted to make returns on a cash basis. Certain small businesses which occasionally make a sale without receiving cash and which do not keep any file, record, or general ledger account of such sales may be considered as doing a cash business, providing the amount of such sales never exceeds 5% of the gross volume of business. Under this method, it is not necessary to make any adjustment at the end of the year with respect to accounts receivable, but, when such accounts are collected, they will be accounted as income as of the year payment is received.

Such businesses are not entitled to any bad debt deductions under the Business License Tax.

2. **ACCRUAL BASIS.** Persons operating their business on the accrual basis must report for each bi-monthly period the gross proceeds from all cash sales of goods or services during such period, together with the total amount of charge sales during such period.

3. **METHOD THREE.** Persons may report and pay cash on the amount received as cash sales plus all cash received on accounts during each bi-monthly period. If this method is adopted, an adjustment shall be made at the end of the tax year between the amount of tax paid on cash received on accounts and the amount of tax due on the actual charge sales, which will be determined by the difference between the respective gross amounts of accounts receivable at the beginning of the tax year and the end of such year.

Where bad debts are charged off during any taxable year the amount thereof must be added to the accounts receivable outstanding at the end of the tax year before making adjustments provided in Method Three.

#### **Rule 66—Leased Departments:**

Any person leasing departments of the business conducted may include in his tax returns the business done and sales made by the lessee where such lessor keeps the books for the lessee and makes collections on the latter's account: **Provided, however,** that each lessee must apply for and obtain from the City Comptroller a Business License, as provided in Rule 1.

Where the business of such leased department is included in the return made by the lessor, a statement shall be submitted to the City Comptroller showing the name of the lessee of each such department, a description of the department operated, and a statement that the lessor will make returns for each of the departments so included and assume liability for the tax accruing against the lessee of such departments; but the lessee shall not be relieved from his liability for taxes in case the lessor fails to make proper return or fails to pay taxes due. A statement of any change occurring in the ownership

or status of such leased departments must be submitted to the City Comptroller, showing the date of such change and all facts relative thereto.

Any taxpayer making returns for any leased department shall report the total tax liability thereof including therein all cash and charge sales. The leased department in such case is not entitled to the taxable minimum provided in Rule 2.

Where the lessor receives a flat monthly rental or a percentage of sales as rental for a leased department, it is presumed that such income is from the rental of real estate and not taxable. Where, however, the rental received by the lessor includes amounts for credit and accounting services, the lessor will be required to segregate the amount received for the rental of real estate in order to be entitled to a credit therefor.

#### **Rule 67—Interdepartmental Charges:**

In computing the tax, except when the tax is measured by the value of products, there may be excluded or deducted, whichever is applicable, the amounts constituting interdepartmental charges.

The term "Interdepartmental Charges" applies to amounts credited to the sales account or other gross income account of a taxpayer for goods, materials, or services furnished by one department or branch of a business organization conducted by a person subject to tax to another department or branch of the same business concern or firm. This does not permit the deduction or exclusion of charges against or income derived from an affiliated corporation or other affiliated association.

#### **Rule 68—Pool Purchases:**

In computing the tax there may be excluded or deducted, whichever is applicable, amounts received by a party to a so-called "pool purchase" agreement from other members of the pool.

The term "pool purchase" means agreement between two or more persons engaging in independent business activities, not otherwise associated, under which commodities are purchased in carload quantities or lots for the purpose of obtaining a lower freight rate or purchase price for each member of the pool.

The exclusion or deduction is allowed when all of the following conditions are strictly complied with:

(1) When one member of the pool pays for and distributes the commodities purchased to the other members and collects from them their proportionate share of the cost thereof.

(2) When the "pool purchase" agreement was made prior to the date of the order of the commodities.

(3) When the order was for a carload or truckload shipment.

(4) When the agreement of each purchaser was to accept a specific amount or percentage of the shipment.

(5) When a division of the shipment was made upon arrival and prior to warehousing the commodities purchased by the person to whom the same was charged.

#### **Rule 69—Affiliated Corporations:**

Each separately organized corporation is a "person" within the meaning of the law, notwithstanding its affiliation with or relation to any other corporation through stock ownership by a parent corporation or by the same group of individuals. Each corporation shall file a separate return and include therein the tax liability accruing to such corporation.

This applies to each corporation in an affiliated group, as the law makes no provision for filing of consolidated returns by affiliated corporations or for the elimination of inter-company transactions from the measure of tax.

#### **Rule 70—Court Costs—Not Excluded from Tax Base:**

Court costs paid by a taxpayer are a business expense and may not be deducted from the "gross amount" reported as the measure of tax under the Business License Tax.

Court costs paid by a taxpayer and recovered in an action at law may be excluded from the "gross amount" reported as the measure of tax. The recovery of such costs is construed to be a return of capital invested rather than income.

Court costs advanced by an attorney for the account of his client may be excluded from the attorney's income upon reimbursement by the client or recovery of such amount in an action at law.

#### **Rule 71—Accommodation Sales—Deductibility:**

Accommodation sales may be deducted from the "gross amount" reported as the measure of tax under the "Retailing" or "Wholesaling" classifications of the Business License Tax, providing the books and records of the taxpayer clearly establish:

- (1) That such sales are casual.
- (2) That such sales are without profit.
- (3) That such sales are between persons engaged in the same type of business and taxable under the same Business License Tax classification: e. g., retail automobile dealer to a retail automobile dealer; and
- (4) That such sales are in the nature of loans made for the purpose of meeting an emergency.

Accommodation sales between persons engaged in different types of business—e. g., sales by a wholesale dealer to a retail dealer or a retail hardware dealer to a grocer—will not be recognized under this ruling.

#### **Rule 72—Farming Operations Performed for Hire:**

Any person who performs for hire any services connected with farming activities is taxable under the classification "Services and Other Business Activities" upon the gross income from performance of such services.

In cases where doubt exists in determining whether or not a person is engaged in the business of performing the aforementioned services, all pertinent facts should be submitted to the City Comptroller for a specific ruling.

#### **Rule 73—Personal Property Leases with Option to Purchase—Method of Reporting:**

Persons leasing tangible personal property under agreements containing options to purchase are not required to report the total consideration which will accrue under the agreement and pay the Business License Tax thereon in the bi-monthly period in which the agreements are entered into, but may pay the tax upon the payments as the same fall due.

The foregoing will be permitted only in the case of bona fide leases with options to purchase and will not be permitted under conditional sales contracts or other installment sales of tangible personal property. If a lease with an option to purchase is discontinued or pledged with or sold to a finance company, the same will not be considered a bona fide lease with option to purchase and the Business License Tax must be reported upon the total consideration which will accrue under the agreement in the bi-monthly period in which such agreement is entered into.

#### **Rule 74—Insurance Adjusters:**

Insurance adjusters are taxable under the classification "Services and Other Business Activities" of the Business License Tax.

The gross income of the business of an insurance adjuster is the total of all fees received or accrued for services rendered and all charges recovered from insurance companies or others for expenses such as railway fares, mileage allowances, hotel services, meals, telephone and telegraph charges, office

expenses and similar expenses incurred in conjunction with the services rendered.

In computing tax liability, there may be excluded from gross income monies or credits received as reimbursement of specific advances made for and on behalf of an insurance company, such as advances for replacement, repairs, storage, towing, washing, greasing, court costs, legal fees, doctor and hospital fees, and similar expenditures with respect to injured persons or to damaged or recovered property, and supplies purchased incident thereto.

Expenditures will be construed as advances only when the insurance company alone is liable for the payment of the fees or costs and when the insurance adjuster making the payment has no personal liability therefor, either primarily or secondarily, other than as agent for the insurance company.

#### **Rule 75—Fruit and Cooperative Marketing Associations and Independent Produce Dealers:**

Persons engaged in the business of buying or selling fruit and/or produce or in the business of washing, sorting, packing, warehousing, storing or otherwise preparing for sale the fruit and produce of others are taxable under the provisions of the Business License Tax. Tax liability attaches to the business activities of such persons, irrespective of whether the business is conducted as a co-operative marketing association or as an independent produce dealer or agent, as follows:

**RETAILING.** Taxable with respect to the sale of fruit, produce, ladders, picking-bags, and similar equipment sold for consumption, whether made by associations to members or otherwise.

**WHOLESALE.** Taxable with respect to:

- (1) The sale of boxes, nails, labels, and similar supplies sold to growers for their use in packing fruit and produce for sale.
- (2) The sale of insecticide used as spray for fruits and produce.
- (3) The sale of fruit and produce at wholesale.

**SERVICE AND BUSINESS ACTIVITIES.** Taxable under the classification "Service and Other Business Activities" with respect to:

- (1) Charges made for interest, no deduction being allowed for interest paid.
- (2) Charges for hauling produce.
- (3) Charges for handling and selling.
- (4) Charges for warehousing and cold-storage.
- (5) Other miscellaneous charges, including analysis fees, but **excepting** actual charges made for advertising, foreign brokerage, inspection fees and bona fide charges made to growers as such for receiving, washing, sorting and packing fresh perishable horticultural crops and the materials and supplies used therein when performed for the grower, either as agent or independent contractor.

Where a seller performs packing services for the grower and furnishes the materials and supplies used therein, the amount of the charge therefor is deductible, even though the boxes and other packing material are loaned or charged to the grower prior to the time the fruit or produce is received for packing, provided that the boxes and packing materials are returned by the grower to the seller for use in packing fruit and produce for the grower.

**INTEREST.** Where co-operative associations borrow money through subsidiary corporations for the purpose of loaning money to growers, the interest from such loans is taxable only to the co-operative association, unless the subsidiary corporation is engaged in the business of borrowing funds to supply other associations or growers.

**Rule 76—Auditing Taxpayers' Businesses:**

It shall be the duty of every person liable for the payment of any fee or tax imposed by the Business License Tax Ordinance No. 72630, as amended, to keep and preserve for the period of five years such books and records as will accurately reflect the amount of his gross income, gross proceeds of sale or value of products, as the case may be, and from which can be determined the amount of any fee or tax for which he may be liable under the provisions of the ordinance; and all books, records, invoices, inventories and stocks of goods, wares and merchandise shall be open for examination at all reasonable times by the Comptroller or his duly authorized agent.

If complete books and records are not maintained within the City of Seattle and it is determined by the City Comptroller that an audit is necessary, the taxpayer's books and records may be brought from without the City to the City Comptroller's office where such audit shall be made.

Such taxpayer may elect to have such audit made by an agent designated by the City Comptroller at the place where such books and records are kept, the cost of such audit to be borne by such taxpayer. The cost of such audit shall include the expense of traveling, lodging, meals, and all other incidental expenses incurred in making the audit, but shall not include the salary of the person making the audit. If audits of other taxpayers located in or near the same locality are to be made at the same time, the cost of auditing shall be pro-rated fairly to each of the taxpayers in the group audited.

Before an out-of-the-city audit is made, the City Comptroller will ascertain the cost and submit to the taxpayer a contract for his signature setting forth the maximum cost of auditing to be assessed against him.

**Rule 77—Lien for Taxes:**

Any license fee or tax due and unpaid under this ordinance (No. 72630, as amended), and all penalties thereon, shall constitute a debt to the City of Seattle and may be collected by Court proceedings in the same manner as any other debt in like amount, which remedy shall be in addition to all other existing remedies.

**Rule 78—Patronage Dividends of Co-operative Associations—Not Deductible:**

Patronage dividends declared by co-operative selling associations or corporations and paid from the earnings of such associations or corporations are not deductible in computing Business Tax liability.

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# Logging Operations in the Seattle Watershed

## A REPORT BY THE Municipal League of Seattle For Governmental Research

316 Marion Building

AUGUST, 1943

Seattle 4, Washington

For many years past, there has been periodic public discussion of the advisability of permitting commercial logging operations in the watershed of the city of Seattle. Those who have opposed this view have contended that the watershed should be preserved inviolate, that the timber thereon should be regarded not as a crop, but solely as a protective covering, to safeguard the purity and permanent flow of Seattle's water supply. There appears to have been considerable public support for this point of view.

Because the question has been raised again in recent months, the Municipal League of Seattle assigned to its Utilities and Services Committee the task of conducting a thorough study into the question, to determine the facts of the case. The committee surveyed the watershed, interviewed various local citizens and officials, and corresponded with numerous communities throughout the nation. Its findings, which have been approved by the Board of Trustees, are presented herein.

To summarize those findings, which necessarily are somewhat voluminous, the following points are outlined briefly:

The League found, first of all, that the watershed, in which logging has been conducted continuously for many years, is in splendid condition, a tribute to those who have had the responsibility for supervising the area.

The League found a clear preponderance of technical opinion which held that strictly controlled logging operations, under continual supervision of the Water and Health Departments, are entirely advisable, owing to the nature of the rock and soil in this area, among other factors.

The League recommends that the city establish a policy of permitting harvesting of timber in the watershed, under conditions that will be most advantageous to the protection of its water supply. Such conditions should be established by the City Council and made part of such co-operative agreements or contracts as can be negotiated with the federal government and the owners of the remaining privately held timber, and should include strict supervision of all operations in the watershed by the City Water Department and City Health Department.

### I. THE WATERSHED AREA AND HISTORY

The Seattle Watershed consists of some 90,000 acres situated along the upper reaches of the Cedar River. This territory is divided into approximately two equal parts by a bottleneck at the point of the city's dam and powerhouse, known respectively

as the upper and lower watershed. The upper watershed is about seventeen miles in length and has an average width of five or six miles. In the lower portion of this basin is situated Cedar Lake, which is approximately five miles in length and a mile in width.

The lower watershed is irregular in shape and extends approximately eleven miles as the crow flies between the city's dam at the foot of Cedar Lake to the intake at Landsberg. The bulk of the land in the lower watershed is now owned by the city. With the exception of certain areas in the upper Taylor Creek valley, it was logged over several years ago, and is now well covered with a stand of conifer type second growth, ranging in height up to 40 feet. Logging operations are now being conducted by the Cascade Timber Company in the Taylor Creek area, on Weyerhaeuser and federal government timber.

Logging operations in the upper watershed were conducted more recently, closing in 1939, and the timber has been removed along the lower elevations adjacent to Cedar Lake and Cedar River up as far as Bear Creek, which is approximately five miles beyond the end of the lake. In this cut-over area, there is a good stand of second growth varying in size with the age of the cutting. It is generally recognized that when second growth reaches a stage where its branches interlace it is fully adequate for water protection purposes. There remains in the watershed about 1,600,000,000 board feet of virgin timber owned largely by either the federal government or the Northern Pacific Railroad, each owning substantially every other section with the exception of five or six sections owned by the Weyerhaeuser interests and one or two by the state.

Thirty years ago the Northern Pacific Railroad deeded its lands and timber in the watershed to the city for the consideration of one dollar, and took back a deed for the timber with certain terms and conditions attached, among which was one granting the Northern Pacific or its assignees an easement for a right-of-way across any lands which the city owned or might acquire and which might be necessary to remove its timber. A similar contract was made with Weyerhaeuser with respect to its holdings in the watershed except that its contract provided that it must remove the timber before 1946.

It is by these arrangements that the city has acquired title to much of the land in the watershed and the second growth thereon, which it also now owns. With the exception of the government holdings it will have clear title to the great bulk of the lands in the watershed after the original stand of timber is removed.

This report is the product of several months of research by the Utilities and Services Committee of the Municipal League of Seattle. Members of the League who participated in the study include G. M. Zucco, Stanley T. Scott, Charles F. Riddell, John E. Meals, W. I. Downie, Carl G. Dakan, and E. B. Arnett. Mr. Zucco directed the study, since having entered the armed services as a Major in the Army Engineers.

Supplementary material pertinent to this study is available in mimeographed form. Requests should be addressed to the Municipal League of Seattle, 316 Marion Building, Seattle, 4, Washington.

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## II. WATER SUPPLY REQUIREMENTS

The requirements of a good water supply are that it must be free from contamination, ample in amount, clear, and free from objectionable tastes and odors. Freedom from excessive mineral content (hardness) also is an advantage. Its temperature when it comes out of the tap depends primarily upon the temperature of the ground through which the water is piped.

The removal of timber from a watershed may raise valid questions as to the effect upon precipitation, run-off, erosion, and changes in the type of growth and life along the water courses, the amount of vegetation and animal life in the water. Apart from the removal of the timber is the problem of sanitation, as affected by the presence of loggers in the watershed area.

It is recognized that the complete and permanent denudation of the watershed would be harmful, hence the rate of logging, the rapidity with which second growth will establish itself, and the consequent area which will be denuded at any one time must be carefully and scientifically controlled.

### Contamination

Freedom from contamination never can be depended upon in any untreated surface water, treatment by chlorine being the only guarantee. Such treatment would be necessary even though there were no human beings in the watershed. As a matter of fact, the greatest danger of contaminating the water at the intake, arises from undetected trespassers along the right-of-way of the Milwaukee railroad.

Dr. Ragnar T. Westman, Acting Commissioner of Health for the City of Seattle, declared in a report to the City Council that it was the "considered conclusion of the Department of Health and Sanitation that logging in the watershed does increase the danger of bacteriological pollution of the water supply, at least theoretically, but that it is altogether practical to permit logging without causing any illness, singly or in epidemics among the consumers, by constant vigilance, supervision and enforcement of sanitary regulations and by final chlorination of the water. If any contract is drawn with a logging company, it should be provided that all logging operations may be stopped instantly at any time by the Department of Health and Sanitation, to protect the water supply.

"Except for only one typhoid fever death, which was not water-borne," Dr. Westman continued, "there have been no typhoid fever deaths in Seattle since 1936, despite the fact that logging was continued on the watershed all this time."

M. S. Campbell, of the Division of Public Health Engineering of the Washington State Department of Health, said:

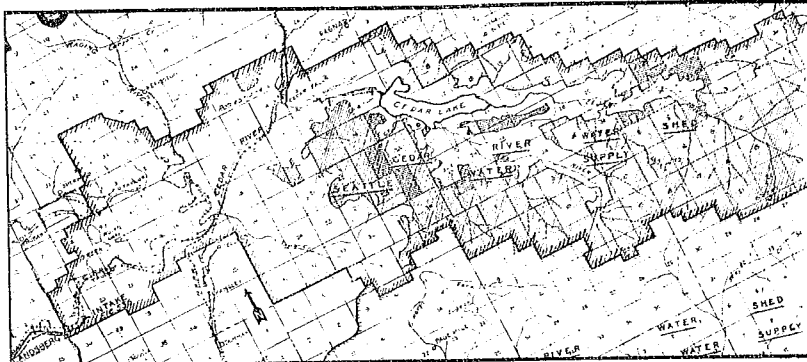
"In regard to the specific case of the Seattle watershed, it is the opinion of this department that if, on the advice of recognized forestry officials, logging is kept to a level which will assure no diminution in run-off, and the city is willing to establish and maintain suitable safeguards to prevent contamination and excess erosion, there is no reason why logging on the Seattle watershed cannot be conducted satisfactorily without impairment of the water supply."

### Precipitation

In areas of secondary precipitation within the continental interiors, large areas of forested territory may have some effect on precipitation. In an area of primary precipitation such as the western slope of the Cascades, the small amount of territory that would remain denuded at any one time as a result of logging operations in the Cedar River watershed cannot be expected to have any appreciable effect on precipitation.

As a result of the logging which thus far has taken

## MAP OF SEATTLE WATERSHED



—Map courtesy of Seattle Water.

The watershed area within the heavy hatched line, comprising the drainage basin of Cedar River, above the intake, is approximately 25 miles southeast of Seattle. The shaded portion indicates area still covered with original forest. Of this timber, the city owns only the heavily shaded portions. The unshaded area is covered with second growth varying in size from seedlings, upstream beyond Cedar Lake, to a stand of 40 feet in height, downstream where the first cutting took place. The waters of Walsh Lake and Rock Creek are by-passed by a canal and embankment into the river below the intake and are not now part of the water supply.

place, there has been no measurable change in precipitation. The average annual precipitation at Cedar Lake over a 38-year period is 103.97 inches, as reported by the United States Weather Bureau. The average for the decade closing 1940 is 103.78 inches.

### Run-off and Erosion

City Water Superintendent W. C. Morse says: "The areas cut over and remaining bare (as the result of logging operations) are too small in proportion to change the run-off. Measurement records show that aside from loss through the Boxley slide area, the run-off remains the same proportionately to the rainfall."

In this regard the following factors must be taken into consideration: There is no statistical measurement of the rapidity with which run-off reaches Cedar Lake from the watershed, either before or after logging operations. There is no exact knowledge of the amount of water which is lost by underground seepage through the Boxley slide area during the varying water levels in the pond between Cedar Lake and the masonry dam. Cedar Lake, since the construction of the crib and later the masonry dam, acts as a retaining basin which regulates the flow in the river at points farther down the stream. It is known that there is considerable seepage through and around the city's dam at high water levels, but the exact measurement of such seepage is not possible.

Originally, there were several valid questions relating to precipitation, run-off, sanitation, erosion and reforestation, all of which have been answered by the actual experience with logging in this watershed.

The lowest point at the intake has an elevation of 540 feet; the in the vicinity of Yakima Pass at the summit of the Cascade Mountains has an elevation of 5,300 feet. The watershed below Cedar Falls is bounded by mountain ridges, is what may be characterized as bench land. Between Cedar Lake and the city's power plant at Falls, the river flows through a narrow canyon and drops 500 feet. This is the basin of Cedar Lake, the upper watershed, portions of which are very rugged, with usual elevations running from 700 to 3,000 feet. Immediately to the south of this area is the Green River, the source of Tacoma's water supply, and to the north is the valley of the Snoqualmie River.

"No longer are they valid objections to the continued use of the forests in the watershed for producing an annual crop of timber," Superintendent Morse declared.

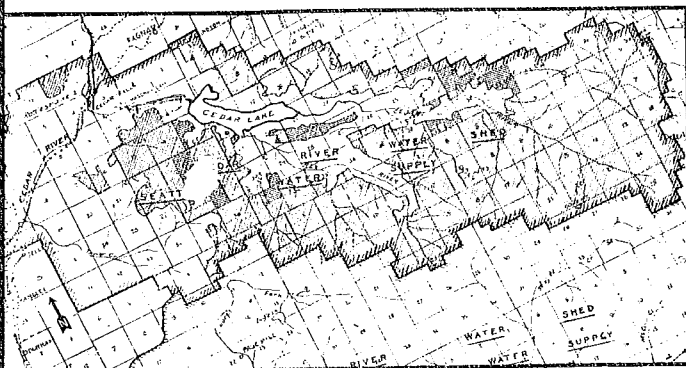
Dean Hugo Winkenwerder, of the University of Washington Forestry Department:

"The purposes of maintaining a forest cover on the watershed are first to prevent erosion and second to conserve the water. By the latter I mean to prevent water to sink into the ground gradually and to maintain a regular flow. It is my recollection that the soil on the upper watershed is very porous and that the underlying rock broken up in such a manner that even out forest cover a large percentage of the water seeps in. However, forest cover will improve the soil and also result in producing a continuous valuable crop of timber. If the harvesting of the forest is carried out according to the proper methods and forestry practices, there is no danger of harm to the watershed whatever."

Dr. Stephen N. Wyckoff, Director of the Northwest Forest and Range Experiment Station, located at Portland, Oregon:

"A very gradual removal of the timber from the area, such as one per cent a year, whether by cutting or by partial (or selection) cutting, would have but an insignificant effect upon either the quantity or regimen of Cedar River. This is due to the porous soil of much of the watershed, which does not predispose the ground to erosion or rapid runoff, and partly to the luxuriance of the ground cover."

## MAP OF SEATTLE WATERSHED



Map courtesy of Seattle Water Department

The heavy hatched line, comprising the intake, is approximately 25 miles long. The area still covered by the city owns only the heavily shaded portion. The area covered with second growth varying in age from Cedar Lake, to a stand of 40 years old, to the first cutting took place. The waters of the intake are not now part of the

The lowest point at the intake has an elevation of 540 feet; the highest, in the vicinity of Yakima Pass at the summit of the Cascade Mountains, has an elevation of 3,200 feet. The watershed below Cedar Falls, although bounded by mountain ridges, is what may be characterized as rolling bench land. Between Cedar Lake and the city's power plant at Cedar Falls, the river flows through a narrow canyon and drops 500 feet. Above this is the basin of Cedar Lake, the upper watershed, portions of which are very rugged, with usual elevations running from 700 to 3,500 feet.

Immediately to the south of this area is the Green River watershed, source of Tacoma's water supply, and to the north is the valley of the Snoqualmie River.

measurable change in precipitation at Cedar Lake 0.97 inches, as reported by the Bureau. The average for 1937.78 inches.

### Soil Erosion

Gen. W. C. Morse says: "The remaining bare (as the result of logging) is too small in proportion to the records show that the Boxley slide area, the proportionately to the rain."

Factors must be taken into account no statistical measurement of run-off reaches Cedar Lake before or after logging. Lack of knowledge of the amount of underground seepage through the varying water levels near Lake and the masonry construction of the crib dam, acts as a retaining basin for the river at points farther down that there is considerable around the city's dam at exact measurement of such

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"The purposes of maintaining a forest cover on any watershed are first to prevent erosion and secondly to conserve the water. By the latter I mean to cause the water to sink into the ground gradually and thus maintain a regular flow. It is my recollection that the soil on the upper watershed is very porous and the underlying rock broken up in such a manner that even without forest cover a large percentage of the water will seep in. However, forest cover will improve it and will also result in producing a continuous valuable money crop of timber. If the harvesting of the forest crop is carried out according to the proper methods of forestry practices, there is no danger of harming the watershed whatever."

Dr. Stephen N. Wyckoff, Director of the Pacific Northwest Forest and Range Experiment Station located at Portland, Oregon:

"A very gradual removal of the timber from this area, such as one per cent a year, whether by clear cutting or by partial (or selection) cutting could have but an insignificant effect upon either the quantity, clarity or regimen of Cedar River. This is partly due to the porous soil of much of the watershed which does not predispose the ground to erosion or rapid run-off, and partly to the luxuriance of the ground cover and

the quick reforestation of logged areas when proper methods of forest management and fire protection are applied. Thus, if properly protected from fire, logged areas in the Douglas-fir region become so quickly reclothed with a vegetative cover, comparable in effect upon run-off to that of the original forest, that the proportion of the watershed exposed by the scars of logging to action of quick run-off or erosion would be very small at any one time."

Raphael Zon, director of the Lake Forest Experiment Station, who was relied upon by the city in its case against the Pacific States Logging Co. in 1930, declared in a statement to the Municipal League:

"I never feared that there would be a decrease in the total annual amount of water coming from the watershed. On the contrary, I anticipated that with the cutting away of the large timber and the loss of water through transpiration by the trees would increase the total annual run-off. What I did fear was that clear cuttings over large areas might cause serious seasonal fluctuations in the run-off. . . . Since the water from the watershed, however, was impounded in the lake for the city water supply, these fluctuations apparently were not serious."

### Volume of Water

There has been no appreciable change in the volume or in the fluctuation of water available at the intake at Landsberg since the installation of the city's dam. The volume at the most critical seasons has always been more than twice the city's demand. The storage available in Cedar Lake has never had to be drawn upon for water supply purposes. During this period, the most essential timber insofar as run-off is concerned—that immediately adjacent to the lake and water courses—has been removed and has been replaced in large measure by second growth adequate for water protection purposes. Logging operations now proposed are above Cedar Lake, which in turn is twelve miles above the intake at Landsberg.

### Changes in Type of Growth

There has been no change in the type of growth, the second growth being of the same species as the original stand. While in a few places there are deciduous trees along the water courses, the quality of the water which is being produced indicates that this is not of any significance. Manifestly the cutting of the remaining virgin timber which is situated farther back in the hills cannot cause any difficulty by the dropping into the water of leaves or various types of insect life which such trees harbor.

### III. ECONOMIC IMPORTANCE

Paul H. Appleby, Under Secretary of Agriculture, in a communication to the City Council, said in part:

"The Department believes that it is feasible and desirable to grow and harvest timber from most municipal watersheds. In the Cedar River area, the Forest Service feels such a program is particularly advisable because of the extensive depletion of timber to support, e.g., blished mills in Seattle and elsewhere on Puget Sound, because of physiographic and biological conditions which minimize the effects of cutting on erosion and streamflow in this watershed, and because no major additional hazard to public health is introduced through logging activities, since it is impossible to exclude all persons from the watershed."

"Since 1924 the Water Department has conducted an admirable forest management program in the watershed and it would be unfortunate for this excellent program to be brought to a halt in some respects by efforts to stop further cutting."

Herbert L. Plumb, supervisor of the Snoqualmie National Forest, told the Municipal League that the Forest Service always has been cooperative in the pro-

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tection of water supplies. He commented upon the splendid stand of second growth timber which has taken hold in the logged-over areas of the watershed. Estimating the remaining stand of virgin timber to be approximately 1,600,000,000 board feet, he pointed out that its value to the territory is not only in its stumpage value, approximating \$2.00 per thousand, but also in the economic activity produced by its cutting and processing.

**H. Hill Jones**, formerly with the State Department of Conservation, speaking as a private citizen, with a knowledge of forests and forest conditions, pointed out to the League committee that there are two possible solutions to maintain for the city a continued supply of pure water:

1. By locking up the watershed, which requires the purchase of additional timber lands now under other ownership, or,

2. By proper restrictions and cooperation with the owners of private timber, by carefully supervised operations on city-owned land, and by the use of present roads for transportation of forest products, the same objective would be reached, without the expenditure of any funds. Logging on a continuous basis of approximately 60 million feet per year would be a substantial logging and milling operation and would provide employment for about 300 men on an annual basis.

**U. M. Dickey**, of the Sound View Pulp Company, told the League committee that his company's contract with Northern Pacific for its timber is part of a large back-log which has been acquired to insure a steady flow of raw materials over a long period of years. He said his company is not interested in a rapid cutting of timber in the watershed, but had suggested that the operations be limited to the basis of an average cut of 25 or 30 million feet per year, which would remove timber from approximately 1,000 acres annually. With 90,000 acres in the watershed, such an operation would remove timber on approximately a 90 year cycle.

In considering the economic costs, it must be remembered that the city owns but an insignificant portion of the remaining virgin timber in the watershed. The timber which the city did own has in a large measure been sold and harvested, resulting in a return to the city of \$1,060,000 which approximates the city's original investment in the watershed for water supply purposes. If it is to make effective a policy of preventing any future logging operations, it will probably be necessary for the city to purchase the remaining original timber estimated at 1,600,000,000 board feet. It is apparent that the federal government does not feel that it is necessary and is not inclined to dedicate its timber exclusively for water protection purposes and that which is held by private parties represents an investment which is not likely to be abandoned. If the cost of securing such timber does not exceed \$3.00 per thousand, the necessary cash outlay would involve \$4,800,000.

#### IV. OPPOSITION TO LOGGING

**City Councilman James Scavotto and Corporation Counsel A. C. Van Soelen** told the League committee that in their opinion the city should make every effort to prevent any resumption of extensive logging operations in the watershed. Indicating they were guided in some degree by public apprehension on the matter, they declared:

"Rightly or wrongly, the public is apprehensive about the effect of extensive logging operations in the watershed. It feels that Cedar Lake particularly is a natural reservoir for the city's water supply and that this reservoir will be harmed by extensive logging operations in the area tributary to said reservoir.

"Whether this apprehension is well founded or not

is largely immaterial. There is good scientific authority in support of the apprehension . . . and also . . . that the harm, if any, will be temporary, and possibly there will be no harm. The City Council cannot accept a hazard which the public believes to exist. . . ."

Mr. Van Soelen indicated he and Mr. Scavotto relied for scientific authority largely on the testimony of Mr. Raphael Zon, who advised the League as follows:

"As to your inquiry whether, under proper regulations, it would be feasible to permit further cutting on the watershed at the annual rate of not more than one per cent of the total watershed area, I feel that such cuttings, even above the 3,000 foot level, can be permitted if carried out with caution and proper consideration for the residual stand."

#### V. EXPERIENCE OF OTHER COMMUNITIES

Other communities which secure their water supply from a watershed where merchantable timber might be involved replied to the League as follows:

**Vancouver, B. C.** "It has been the policy of the Water Board to preserve its watersheds from logging operations. A portion of the city's watershed, however, was cut over prior to the administration of the area, but due to the generally coarse gravelly loam and rocky soil of the cut-over land and the early and extensive growth of berry bushes and small alders, ground erosion has not been of significance."

**Tacoma's Water Superintendent** stated: "I have come to the conclusion many years ago that a unified administration of a sustained yield logging operation will be the best policy to follow, not only from the water supply standpoint but also from the standpoint of the economic loss or returns from this vital resource, the timber in the watershed area." He also commented upon the unfortunate condition in their watershed where ownership is widely scattered. No artificial reforestation has been resorted to in the Green River watershed and practically all of those areas that have been logged show a good stand of young growth.

**Portland, Oregon.** Practically all of the land and timber is owned by the federal government, and the Water Bureau stated that it would be opposed to the government undertaking to remove any timber from the reserve.

**Portland, Me.** When the timber in their watershed becomes marketable, the Water District indicated it was their intention to carry on their own logging operations.

**Denver.** "Judging from results so far, it seems that conservative timber cutting in the Rocky Mountains may not harm the watershed and may actually benefit water supplies at least as cutting is accompanied by adequate fire protection, proper design of logging roads and similar measures to minimize erosion."

**Hartford, Conn.** The Water Bureau stated that they had little merchantable timber in their watersheds, but "to your second question as to whether natural or planted second growth can be depended upon for the protection of the watershed for water supply purposes, my answer would be 'yes' so far as experience on our areas has been observed."

**Jersey City.** "Specific conditions govern the degree of cutting permissible. Under usual watershed conditions, with no exceptional topography or precipitation, marketing operations under proper regulation and replacement are not only permissible but desirable, but, heavy cutting over, without supervision or replacement is always undesirable." The city's privately owned forested lands were rather heavily cut during the depression with a resultant increase in the flashiness of the run-off.

**New York City's** present policy is not to dispose of mature trees, but this policy might be reconsidered if a definite shortage in lumber for shipbuilding develops.