

SENATE BILL REPORT

ESHB 1949

AS REPORTED BY COMMITTEE ON LAW & JUSTICE, APRIL 2, 1993

Brief Description: Prohibiting tax exempt nonprofit organizations from political activity.

SPONSORS: House Committee on Revenue (originally sponsored by Representatives Morris, Wang, Appelwick, Brough, Rust, Foreman, Springer, Peery, Ogden, Dunshee, Sommers, G. Cole, G. Fisher, R. Meyers, Riley, Mastin, Quall, Kessler, Romero, Karahalios, Shin, Basich, Heavey, Zellinsky, Ludwig, Roland, L. Johnson, Orr, Valle, Flemming, Bray, Holm, Hansen, Rayburn, Wolfe, Anderson, Finkbeiner, H. Myers, R. Fisher, Locke, Brown, Sheldon, Johanson, Voloria, Cothorn, Scott, Leonard, Jacobsen, R. Johnson, King, Linville, Pruitt, Eide, Campbell, Grant, J. Kohl and Patterson)

HOUSE COMMITTEE ON REVENUE

SENATE COMMITTEE ON LAW & JUSTICE

Majority Report: Do pass as amended.

Signed by Senators A. Smith, Chairman; McCaslin, Nelson, Niemi, and Rinehart.

Staff: Alan Caplan (786-7465)

Hearing Dates: April 2, 1993

BACKGROUND:

The property of certain nonprofit organizations is exempt from state and local property taxation. These nonprofit organizations include, among others, churches, youth character building organizations, war veterans organizations, humane societies, schools and colleges, day-care centers, free public libraries, orphanages, nursing homes, hospitals, homes for the aging and homeless shelters.

Certain nonprofit organizations are exempt from federal income taxation under section 501(c)(3) of the Internal Revenue Code. That section provides that "no substantial part of the activities" of an exempt organization may consist of "carrying on propaganda, or otherwise attempting, to influence legislation." Furthermore, an exempt organization may not "participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office."

It has been suggested that organizations that enjoy property tax exemptions should not actively support or oppose political candidates and that Washington law, like the Internal Revenue Code, should contain a prohibition against political activity.

SUMMARY:

Nonprofit organizations, except schools and colleges, that directly engage in certain prohibited political activities are not eligible for a property tax exemption. The nonprofit organization's tax exemption is not jeopardized if they rent to another organization for a candidate event or rally.

A nonprofit organization's property tax exemption will be revoked if the organization commits two violations of this bill. The Department of Revenue is required to provide written notification of violations to the exempt organization. A finding by the department of a violation may be appealed through the administrative appeals process. A revocation of exemption may be appealed through the administrative appeals process and to the State Board of Tax Appeals. Inadvertent violation of these conditions will not cause loss of a property tax exemption unless the violation is repeated in the same or successive assessment years.

The provisions of this bill are not to be interpreted to be more restrictive than the federal rules limiting political activity of federally exempt 501(c)(3) organizations.

SUMMARY OF PROPOSED SENATE AMENDMENT:

A reference to the state Constitution is added; an exempt organization may not pay dues or membership fees to an entity that uses the dues or fees to engage in political activity; an exempt organization may not engage in political activity with respect to ballot propositions.

Appropriation: none

Revenue: none

Fiscal Note: available

TESTIMONY FOR:

This bill would put all nonprofit organizations on a "level playing field." Tax exempt organizations effectively receive a subsidy, and their activities should be subject to scrutiny.

TESTIMONY AGAINST:

The political activities of churches should not be restricted.

TESTIFIED: Representative Morris, prime sponsor; Art Landy, Christian Political Association; Mary Clogston, Washington Citizen Action