

HB 1255

Bill Analysis

January 28, 1997

Brief Description: Creating a leasehold excise tax exemption for 501 (c) (3) nonprofits that provide student housing

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Background: The leasehold excise tax is imposed on property used for private purposes that is exempt from property taxation because the property is publicly-owned. The tax is collected by public entities that lease property to private parties. The tax rate of 12.84 percent is imposed on the amount paid in rent for the public property.

If the rent for public property is not established through competitive bidding or where the lease has been in effect for more than 10 years without renegotiation, the Department of Revenue may establish a market value– rent. When establishing a market value rent the Department of Revenue often bases the rent on an appraisal of the property by the county assessor.

While any private use of publicly-owned property is generally subject to leasehold excise taxes, there are some exemptions. Some examples of leasehold excise tax exemptions include:

- „ A private organization that uses publicly-owned property to provide subsidized housing, if tenants of the subsidized housing must meet income qualification criteria.
- „ A home on publicly-owned property used as a residence for an employee, if the employee’s work requires him or her to live on the property. An example would be housing for state park employees located within a park.
- „ A college that uses publicly-owned property to provide student housing.

Summary of Bill: A new leasehold excise tax exemption is created for nonprofit organizations that rent buildings from public colleges or universities for the purposes of

providing student housing if:

- (1) The purpose of the rental agreement is to permit the nonprofit organization to construct or renovate student housing;
- (2) The nonprofit organization pays the university or college a nominal rent, determined without reference to market value, for the buildings; and
- (3) The nonprofit is qualified for exemption under section 501(c)(3) of the federal internal revenue code.

This new exemption differs from the leasehold excise tax exemption that already exists for a college or university that uses publicly-owned property to provide student housing. The new exemption applies to a nonprofit organization that directly operates and provides the student housing, instead of a college or university.

Fiscal Note: Requested.

Effective Date: Takes effect on January 1, 1998.