

HB 1274

Bill Analysis

February 13, 1997

Brief Description: Eliminating the requirement for study of the property tax exemption and valuation rules for computer software.

Bill Sponsors: Representatives Val Luven and Wensman

Staff: Linda Brooks (786-7153)

Background: All real and personal property in this state is subject to property tax each year based on its value unless a specific exemption is provided by law. The tax bill is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located.

Personal property includes both tangible and intangible property. Tangible property has a physical existence; for example, desks, file cabinets, and equipment. Intangible property does not have a physical presence. For example, money, mortgages, certificates of deposit, or court judgments are examples of intangible property. Computer software is generally considered to be intangible.

In 1991 the Legislature exempted rights retained in computer software and the following types of computer software from property tax:

- custom computer software;
- modifications to canned software; and
- master or golden copies of computer software.

Other types of software remain subject to property tax, but the Legislature determined that such software should be valued for property tax purposes as follows.

- at 100 percent of its acquisition cost in the first year;
- at 50 percent of its acquisition cost in the second year; and
- at 0 percent of its acquisition cost in the third year and thereafter.

However, embedded software is taxed as part of the computer system or machinery or equipment containing the embedded software.

Concurrent with the enactment of the new exemptions and valuation rules, the Legislature

also directed the Department of Revenue to conduct a study. The purpose of the study is to determine if the new exemptions and valuation rules are, reasonably necessary and appropriate to achieve fairness, equity, and uniformity in the property tax treatment of computer software.— In conducting the study, the Department is to form an advisory committee that includes both business persons and county assessors. The study is to be completed by November 30, 1998.

Summary of Bill: The requirement to conduct a study of computer software tax exemptions and valuation rules is eliminated.

Fiscal Note: Available.

Effective Date: If enacted, this bill takes effect 90 days after adjournment.