HOUSE BILL REPORT
HB 1274

As Passed House
March 12, 1997

Title: An act relating to the elimination of the requirement for a study of the property tax exemptions and valuation rules for computer software.

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

Sponsors: By House Committee on Finance (originally sponsored by Representatives Van Luven and Wensman; by request of Department of Revenue).

Brief History:
  Committee Activity:
      Finance: 2/13/97, 2/26/97 [DP].
  Floor Activity:
      Passed House: 3/12/97, 97-0.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 13 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Kastama; Morris; Pennington; Schoesler; Thompson and Van Luven.

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.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The Legislature has not appropriated money for the study.   Also, the Department of Revenue has informally surveyed stakeholders in the industry. The informal survey indicates no need for a study.

Testimony Against: None

Testified: Jim Hedrick, Department of Revenue