

HB 2486

Bill Analysis

February 3, 1998

Brief Description: Concerning the ad valorem taxation of vessels or ferries.

Bill Sponsors: Representatives Morris, B. Thomas, Dunshee and Kastama; by request of Department of Revenue.

Staff: Linda Brooks, 786-7153.

Background: All real and personal property in this state is subject to the property tax each year based on its value, unless a specific exemption is provided by law. The chief characteristic distinguishing real and personal property is mobility. Land and improvements to land are considered real property. All other property, including boats and vessels, are personal property.

Owners of recreational boats pay a watercraft excise tax in lieu of property taxes. The Department of Licensing administers the watercraft excise tax.

For commercial vessels, the Department of Revenue administers property taxes. Commercial vessels are exempt from local property tax levies, but commercial vessels are subject to the state property tax levy. For tax purposes, most commercial vessels are divided into the following two classes:

Steamboat Class: Vessels transporting passengers or freight on a regular basis between fixed destinations; and

Other Commercial Vessels Class: Vessels primarily engaged in commerce which have, or are required to have, a valid marine document as a vessel of the United States and that do not fit the definition of the steamboat class.

Companies whose commercial vessels transport passengers or freight on a regular basis between fixed destinations are classified as "steamboat" companies. The Property Tax Division of the Department of Revenue centrally assesses all real and personal property owned by these steamboat companies, and determines how much valuation should be allocated to each county. Steamboat companies pay state and local property taxes on its real property such as buildings and docks but pays only the state levy on its vessels.

Although steamboat companies only pay state property taxes on their vessels, these state taxes are collected by the counties.

Other commercial vessels are not subject to central assessment, but owners must list these vessels with the Miscellaneous Tax Division of the Department of Revenue. The Department of Revenue assesses these vessels at current market value. Vessel owners pay the state property tax levy on the assessed valuations of their vessels. The owners pay any taxes due directly to the department.

In the event that a commercial vessel is engaged in interstate or foreign commerce or is exclusively engaged in fishing on the high seas or waters of another state, the vessel is either tax-exempt or taxable on only a portion of the vessel's assessed value. If a vessel spends less than 120 days or fractions of days in the state's waters during the preceding calendar year, then the vessel is completely exempt from property taxes. If a vessel spends more than 120 days or fractions of days in the state's waters, then property tax is owed on an apportioned basis. Each day or fraction of a day that a vessel spends in Washington's waters counts for tax apportionment purposes with some exceptions. As long as the time spent in the state's waters is reasonable, days spent by a vessel in the state's waters for the following exclusive purposes *do not count* for tax apportionment purposes:

- To undergo repairs or alteration;
- To take on or discharge cargo, passengers, or supplies; or
- To serve as a tug for a vessel that is either undergoing repairs or taking on or discharging cargo, passengers, or supplies.

Summary of Bill: The Department of Revenue no longer centrally assesses all real and personal property owned by steamboat companies. Instead of central assessment, each county is responsible for assessing real property owned by a steamboat company.

Vessels owned by a steamboat company are treated the same as other commercial vessels for property tax purposes. The steamboat company must list its vessels with the department, and the department assesses these vessels at current market value.

Vessels formerly included in the steamboat class that engage in interstate or foreign commerce are exempt from property tax if they spend less than 120 days or fractions of days in the state's waters. If a vessel spends more than 120 days or fractions of days in the state's waters, then property tax is owed on an apportioned basis. If a vessel spends only reasonable amounts of time in the state's waters for the purposes of undergoing repairs or discharging or taking on cargo, passengers, or supplies, then there may be no property tax owed.

For tax apportionment purposes, a fraction of a day means more than sixteen hours in a calendar day.

Appropriation: None.

Fiscal Note: Available.

Effective Date: January 1, 1999.