

HB 2696

Bill Analysis

February 4, 1998

Brief Description: Extending exemptions from timber compensating taxes.

Bill Sponsors: Representatives Morris, DeBolt, Linville, Mielke, Doumit, Koster, Kessler, Gardner, Thompson and Dunn.

Staff: Rick Peterson, 786-7150.

Background: Property meeting certain conditions may have property taxes determined on current use values rather than market values. There are five categories of lands that may be classified and assessed on current use. Three categories are covered in the open space law: open space lands; farm and agriculture lands; and timber lands. The two remaining categories are in the timber tax law: classified and designated forest land.

Land that has no higher and better use than growing and harvesting timber may be classified as forest land by the assessor. The owners of other forest land may apply with the assessor for designation as forest land. There is a one year delay between the time the application is made and the time the tax bill reflects the lower current use valuation.

The land remains in current use classification as long as it continues to be used for the purpose it was placed in the current use program. Land is removed from the program at the request of the owner; by sale or transfer to an ownership making the land exempt from property tax; or by sale or transfer of the land to a new owner, unless the new owner signs a notice of classification continuance. The assessor may also remove land from the program if the land is no longer devoted to its open space purpose.

When property is removed from current use classification, back taxes, plus interest, must be paid. For classified and designated forest land, back taxes are equal to the tax benefit in the most recent year multiplied by the number of years in the program (but not more than 10). There are some exceptions to the requirement for payment of back taxes. For example, back taxes are not required on the transfer of the land to an entity using the power of eminent domain or in anticipation of the exercise of that power. The back taxes are not due when the land is transferred to a government entity in exchange for other forest land in Washington.

Another exception to paying back taxes is a sale or transfer to a governmental entity or

nonprofit nature conservancy corporation for conservation purposes of land recommended for state natural area preserve purposes by the Natural Heritage Council. In 1997, this exception was expanded to the transfer of classified or designated forest land to a governmental agency or to a nature conservancy corporation for the conservation of the land transferred. The 1997 change only applied in counties with populations over one million.

The real estate excise tax is paid when real property is sold. Real property consists of land and improvements permanently affixed to the land. The state tax rate is 1.28 percent of the selling price. Most local governments impose an added rate of 0.25 percent. Additional local options are available. The combined state and local tax rate is 1.53 or 1.78 percent in most areas. Before 1993, sales to governments were exempt from real estate excise tax.

Summary of Bill: The assessor is directed to classify as forest land (current use valuation) land acquired in an exchange with a government entity for other forest land in Washington.

The back tax exception for transfers to a governmental agency or to a nature conservancy corporation for the conservation of the land is extended to all areas of the state.

Land transferred to a government entity in an exchange for other forest land in Washington is exempt from the real estate excise tax.

Appropriation: None.

Fiscal Note: Requested.

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