

SENATE BILL REPORT

SB 5153

As of February 21, 1997

Title: An act relating to prohibiting separate reporting and valuation of intangible personal property.

Brief Description: Prohibiting separate reporting and valuation of intangible personal property.

Sponsors: Senators Sellar and Loveland.

Brief History:

Committee Activity: Ways & Means: 2/20/97.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7433)

Background: All property in this state is subject to the property tax each year based on the property's value unless a specific exemption is provided by law. The state Constitution defines property— for tax purposes as everything, whether tangible or intangible, subject to ownership.—

Real property lying wholly within individual county boundaries is valued by the county assessor. Inter-county, interstate, and foreign utility companies are valued by the Department of Revenue. The value of personal property is reported each year by taxpayers to the county assessors.

There are three common approaches used in valuing real property: the sales approach; the cost approach; and the income approach. One, two, or all three methods may be applied to a given parcel. The sales approach is mainly used for residences, the cost approach is used for manufacturing and similar facilities, and the income approach is used principally for commercial property including apartment houses.

A major exemption from the property tax exists for some intangible property. Intangible property is property that has no physical substance and is not susceptible to being perceived by the senses. Exempt intangibles include: money, mortgages, notes, accounts, certificates of deposit, tax certificates, judgments, government bonds and warrants, stocks and shares of private corporations, private nongovernmental personal service contracts, and private nongovernmental athletic or sports franchises. Other types of intangible property are taxable, such as trademarks, trade names, brand names, patents, copyrights, trade secrets, franchise agreements, licenses, permits, non-compete agreements, customer lists, and business goodwill.

For property assessed by the Department of Revenue, standard appraisal practices tend to capture intangible value. For locally assessed property, intangible value, when it exists, may be included in the real property value when the income approach or the comparable sales

approach is used. Intangible value will also be included when businesses expressly report intangible personal property on their personal property affidavits. Because of this, intangible values may be taxed twice: as part of the real property value and separately when reported as personal property.

In January 1996, the Department of Revenue advised county assessors not to ask for a separate reporting of intangibles on the personal property affidavit as these values would often already be included in the market value of real property.

Summary of Bill: In valuing property, intangible personal property is not valued separately, and the assessor must not require a taxpayer to report intangible personal property.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This eliminates the potential of double taxation and the taxation of that which cannot be valued. Prohibiting the separate listing solves the problem. This returns assessment practices to the status quo.

Testimony Against: Intangibles should be taxed fully or exempted. SB 5153 is unconstitutional.

Testified: PRO: Dave Wood, People for Fair Taxes; Scott Noble, King County Assessor; Gail Rauch, Snohomish County Assessor; Jerry Crossler, Adams County Assessor; Paul Easter, Grays Harbor County Assessor; Rachael Myers, WA Citizen Action; Jim Tesso, Jim Irish, Appraisers Coalition (with changes); CON: Mike Bernard, Madison Cooke.