

HOUSE BILL REPORT

ESSB 5661

As Reported By House Committee On:

Finance

Title: An act relating to leasehold excise tax clarification and administrative simplification.

Brief Description: Providing clarification and administrative simplification for the leasehold excise tax.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Rasmussen and Honeyford; by request of Department of Revenue).

Brief History:

Committee Activity:

Finance: 4/1/99, 4/5/99 [DPA].

Brief Summary of Engrossed Substitute Bill (As Amended by House Committee)

- Clarifies that the term "products" includes forage, cut evergreen foliage, ore and minerals, and other natural resource products.
- Exempts use of public lands for natural resource energy exploration from leasehold excise tax.
- Treats agricultural product leases the same as other types of product leases. The value of the agricultural products is determined on the date that the products are sold.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 12 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Carrell, Republican Vice Chair; Reardon, Democratic Vice Chair; Cairnes; Conway; Cox; Dickerson; Pennington; Santos; Van Luven and Veloria.

Staff: Linda Brooks (786-7153).

Background:

The Washington Constitution exempts property owned by the United States, the state, cities, counties, school districts, and other municipal corporations from property tax. However, when a publicly owned property is leased for a private purpose, the private user must pay leasehold excise tax. Leasehold excise tax is imposed in lieu of property tax.

The government leasing the publicly owned property is responsible for collecting the leasehold excise tax from the private user. The state leasehold excise tax rate is 12.84 percent of the amount paid in rent for use of the publicly owned property. Cities and counties may impose a local tax which is credited against the state tax.

Rents are sometimes paid in a variety of ways. A person who leases a parcel of publicly owned property to produce agricultural products may be allowed to pay rent as a percentage of the value of the agricultural products. The value of these agricultural products is determined on the 15th day of the month in which the agricultural products are delivered to a storage facility.

Not every private use of a publicly owned property is subject to leasehold excise tax. Some examples of private uses of public property that are exempt from leasehold excise tax are:

- road and utility easements;
- student housing at public schools and colleges;
- leases of property for agricultural fairs; and
- leases with annual rents of less than \$250.

Rights of access, occupancy or use of publicly owned property for the purpose of removing materials or products are also exempt from leasehold excise tax, if a person has purchased those materials or products from the governmental owner or lessee of the property.

Summary of Amended Bill:

When leasehold excise tax is paid as a percentage of the value of agricultural products produced on public lands, value is determined on the date that the agricultural products are sold.

The term "products" is clarified as including, but not limited to, the following types of natural resource products:

- forage removed through the grazing of livestock;
- cut or picked evergreen foliage;
- Cascara bark;
- wild edible mushrooms;
- native ornamental trees and shrubs;
- ore and minerals; and
- geothermal water and steam.

Rights of access, occupancy or use of publicly owned property for the purpose of natural resource energy exploration are also exempt from leasehold excise tax.

Amended Bill Compared to Engrossed Substitute Bill: Some persons lease public lands for the purpose of growing agricultural products. Rent is paid as a percentage of the value of the agricultural products grown. In lieu of determining value on the date that the agricultural products are delivered to a storage facility, value is instead computed on the date that the agricultural products are actually sold. By making this change, agricultural product leases are treated the same as other types of product leases.

Clarification is made that the term "products" includes, but is not limited to, natural resource products.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The purpose of this bill is to ensure that grazing permits are not subject to leasehold excise tax. By supporting this bill, persons who graze cattle on lands owned by the Department of Natural Resources will be exempt from paying leasehold tax on their grazing permits. (Testimony on companion HB 1782 was that persons who graze cattle on federal lands owned by the Bureau of Land Management do not pay leasehold excise tax. The bill clarifies that all types of grazing permits are exempt. The clarifications being made to the leasehold excise tax should allow for greater parity for similarly situated taxpayers.)

Testimony Against: None.

Testified: Senator Rasmussen, prime sponsor; and Tim Sekerak, Department of Revenue.