HB 2783
Bill Analysis

February 1, 2000

Brief Description: Simplifying the property tax code.

Bill Sponsors: Representatives Cox, Poulsen, Haigh, Thomas, Benson, Schoesler, McDonald, Carlson and Woods; by request of Department of Revenue.

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Brief Summary of Bill

- Allows the Department of Natural Resources to release a performance bond by a purchaser of timber with proof of payment of property taxes rather than all taxes.
- Repeals the value-averaging provisions of Referendum 47.
- Allows timber stumpage values to go into effect 30 days rather than 60 days after the Legislature is notified.
- Extends the requirement for private timber sale information reporting to the Department of Revenue from to July 1, 2000 to July 1, 2004.
- Integrates two 1999 session laws that amended the homes for the aging property tax exemption statute.
- Consolidates property tax provisions related to business inventory exemptions.
- Increases the amount of personal property tax data used to determine the ratio of assessed value to market value from one to three years.
- Requires county assessor to correct errors in the determination of the property taxes.
- Requires county treasurer to correct errors in the distribution of property taxes to taxing districts.
- Repeals the property tax exemption for real property beneath air space dedicated to a public body for a stadium or related parking facility.
- Repeals the property tax exemption for alcohol fuel manufacturing facilities.
- Repeals a redundant statute related to lending of property tax exempt property by nonprofit organizations.

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Background:

Section 1: When timber is purchased at public auction from the Department of Natural Resources, the purchaser must deliver a performance bond or sureties acceptable to the Department of Natural Resources. After the timber is cut, the state releases the sureties or the bond. In order to secure release of the bond, the purchaser of timber must pay all taxes including the excise and personal property taxes that are due or that become due as a result of a timber contract.

Sections 2-13, 18 - 21, 23-28, and 30: Referendum 47, approved by the voters in November 1997, placed a limitation on adding to the tax rolls large valuation increases in real property, beginning with taxes payable in 1999. Each year, the current appraised (market) value was to be compared to the assessed (taxable) value of the property for the previous year. The new assessed value was limited to the greater of (1) the previous assessed value plus an increase of 15 percent or (2) the previous assessed value plus 25 percent of the difference between the previous assessed value and the appraised value. This limitation was known as value averaging.

On July 30, 1998, the state Supreme Court in Belas v. Kiga, 135 Wn.2d 913 (1998), held that the value-averaging provisions of Referendum 47 violated the constitutional requirement that taxes on real property be uniform.

Sections 14 and 15: Timber owners pay a 5 percent timber excise tax on the value of their timber when they cut it. The tax is based on timber stumpage values. Stumpage is the value of timber as it stands uncut in the woods. The Department of Revenue is required by law to establish timber stumpage values semi-annually. The new stumpage values may go into effect not less than 60 days after the Department of Revenue notifies the Legislature.

Until the early 1990s, the department used publicly-owned timber sales as comparable sales for computing stumpage values. Since that time, the number of public sales has declined significantly. Purchasers of more than 200,000 board feet of privately owned timber are required to report transaction details to the Department of Revenue. Purchasers of privately-owned timber who fail to report may be liable for a penalty of $250 for each failure to report. The requirement to report timber purchase details expires July 1, 2000.

Section 16: In 1999, the Legislature twice amended a section of law relating to the property tax exemption for homes for the aging.

Sections 17 and 32: In 1973, the Legislature provided for the exemption of business inventories from property taxation. The exemption was phased in by allowing a business and occupation (B&O) tax credit equal to 10 percent of the property taxes paid on business inventories in 1974 increasing to 100 percent in 1983. In 1984, the credit expired and business inventories were exempt from the property tax. However, there exists several other property tax exemptions for items that could also be considered business inventories. This results in multiple exemptions for the same property.

Section 22: The state property tax is allocated across the state according to the market value of each county. The Department of Revenue estimates the market value of each county by determining the ratio of assessed value to market value. Generally, the ratio of assessed value to market value for real property is determined by comparing sales prices with assessed values. For personal property, a county's ratio of assessed value to market value is determined from Department of Revenue audits of personal property accounts maintained by the county assessor.

Sections 29 and 31: Property taxes are imposed by the state and local governments. The county assessor determines assessed value for each property. The county assessor also calculates the tax rate necessary to raise the correct amount of property taxes for each taxing district. The assessor calculates the rate so that the individual district rate limit, the district revenue limit, and the aggregate rate limits are all satisfied. The assessor delivers the county tax roll to the treasurer. The county treasurer collects property tax based on the tax roll starting February 15 each year. The county treasurer makes monthly distributions of the property taxes to the taxing districts.

Section 32: All property is subject to property tax unless specifically exempted by statute. Several property tax exemptions exist for nonprofit organizations, including church camps; character building, benevolent, protective or rehabilitative social service organizations; youth character building organizations; war veterans' organizations; national and international relief organizations; and federal guaranteed student loan organizations. These organizations may lend their property to similar organizations without losing the tax exemption. Two statutes govern the rules regarding lending of tax exempt property. One statute applies specifically to the nonprofit organizations listed here. The other statute applies to these nonprofits and to other nonprofit organizations eligible for property tax exemptions.

In 1967, the Legislature enacted an exemption for real property where the owner dedicates the perpetual use of the air space above the property to a political subdivision for a stadium or parking facility used in connection with the stadium. This exemption was enacted at the time the King County stadium was being planned but has never been used.

In 1980, the Legislature enacted a 6 year property tax exemption for manufacturers of alcohol for use as motor vehicle fuel. The original 1986 sunset date was extended to 1992 during the 1985 legislative session. Only one firm used the exemption. No exemptions have been taken since 1990.

Summary of Bill:

Section 1: In order to secure release of a performance bond a purchaser of Department of

Natural Resources timber need only present proof of payment of property taxes rather than all taxes.

Sections 2-13, 18 - 21, 23-28, and 30: The value-averaging provisions of Referendum 47 that were invalidated by the court are removed from the statutes.

Sections 14 and 15: The expiration date on private timber sale reporting is extended to July 1, 2004. The timber stumpage values may go into effect 30 days after the Legislature is notified.

Section 16: The two 1999 session laws that amended the homes for the aging property tax exemption statute without reference to each other are integrated.

Section 17: Property tax provisions related to the business inventory exemption are consolidated.

Section 27: The amount of data used to determined the ratio of assessed value to market value for personal property is increased from one to three years.

Sections 29 and 31: Assessors are required to correct errors that resulted in all taxpayers within a district paying an incorrect amount of property tax. The correction is made in the property tax for the taxing district in the following year. For large adjustments, the governing body of the district may choose to phase in the adjustment over three years. Corrections are limited to taxes no more than three years old.

Treasurers are required to correct errors in the distribution of property tax receipts to taxing districts. Adjustments are made in the following year. If the adjustment is large it may be taken over a three-year period. Corrections are limited to distributions made within the prior three years.

Sections 32 and 33: The statutes related to business inventories that are consolidated under section 17 are repealed. The property tax exemption for real property beneath air space dedicated to a public body for a stadium or related parking facility is repealed. The property tax exemption for alcohol fuel manufacturers is repealed. A redundant statute related to lending of property tax exempt property by nonprofit organization is repealed.

All sections apply for property taxes due in 2001, except that corrections for errors in the property tax amount can be made for errors made after January 1, 2001.

Appropriation: None.

Fiscal Note: Available.

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