SENATE BILL REPORT

SB 5529

As Passed Senate, March 13, 1999

Title: An act relating to clarifying the property tax exemption statutes.

Brief Description: Clarifying the property tax exemption statutes.

Sponsors: Senators Loveland and Winsley; by request of Department of Revenue.

Brief History:
Committee Activity: Ways & Means: 2/16/99, 2/17/99 [DP].
Passed Senate, 3/13/99, 45-0.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators Loveland, Chair; Bauer, Vice Chair; Brown, Vice Chair; Fairley, Fraser, Honeyford, Kline, Kohl-Welles, Long, McDonald, Rasmussen, Roach, Rossi, B. Sheldon, Snyder, Spanel, West and Wojahn.

Staff: Terry Wilson (786-7433)

Background: All property is subject to the property tax unless specifically exempted. Exemptions exist for personal property, public property, private property, and property of nonprofit organizations that is used for specific purposes. Property tax exemptions for nonprofit organizations always apply to property that is owned by the organization, but some statutes extend the exemption to property that is leased or rented to the organization.

Nonprofit organizations receiving a property tax exemption must follow the conditions contained in the enacting statute. In addition, property tax exemptions of most organizations are subject to the following conditions:

(1) The property must be used exclusively for the purpose for which the exemption was granted. However, the property may be loaned or rented if the property would be exempt if it were owned by the organization to which it is loaned or rented (except for veterans associations and public assembly halls) and the rents or donations received are reasonable and do not exceed the maintenance and operation expenses incurred.

(2) The property may be used for fund-raising activities without jeopardizing the exemption if the fund-raising activities are consistent with the purposes for which the exemption was granted.

(3) The property must be irrevocably dedicated to the purpose for which the exemption was granted. In other words, upon liquidation, dissolution, or abandonment by a nonprofit organization, the property may not benefit any

shareholder or individual except a nonprofit organization that would be entitled to a property tax exemption if it applied for one. Leased property is not required to be irrevocably dedicated if the nonprofit organization receives the benefit of the property tax exemption under the terms of the loan or rental agreement. This exception to the dedication requirement applies to all leased property which may qualify for tax exemption, except public radio and TV transmission stations, and private schools and colleges.

The property cannot be used for pecuniary gain or to promote business activities except for public assembly halls and meeting places and property of veterans associations. For public assembly halls and meeting places, the exempt property may be used for pecuniary gain or to promote business activities for up to seven days each year and also can be used for dance lessons, art classes, or music lessons in counties under 10,000 in population. The property of veterans associations may be used for pecuniary gain or to promote business activities for three days or less each year.

These conditions apply to all property that may qualify for exemption, except churches, cemeteries, administrative offices of religious organizations, caretakers residences, water distribution cooperatives, and real property interests used for conservation by nonprofit nature conservancy organizations.

Upon loss of exemption, back taxes for up to three years may be due. This back tax requirement applies to all organizations subject to the conditions listed above, except blood, bone, and tissue banks; medical research or training facilities; public radio and TV transmission stations; sheltered workshops; and fair associations. This back tax requirement does not apply to the cancellation of a lease on property subject to the back tax requirement except private schools and colleges.

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 exist several other property tax exemptions for items that could also be considered business inventories. This results in multiple exemptions for the same property.

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.

Summary of Bill: Property tax exemptions are clarified.

The administrative statutes pertaining to nonprofit organizations are simplified. The statute imposing conditions on nonprofit organizations is changed to apply to all new property tax exemptions for nonprofit organizations unless the new exemption is specifically exempted. The exception to payment of back taxes on the loss of exemption on leased property if the lease is canceled is extended to all leased property that qualifies for exemption.

All exemptions for business inventories and their related definitions are consolidated into one statute.

The property tax 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 is repealed.

References to repealed statutes are deleted.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This reorganizes the property tax exemptions in a clear fashion. It consolidates 11 exemptions into one. The intent is not to change the law.

Testimony Against: None.

Testified: PRO: Tim Sekerak, DOR.