HOUSE BILL REPORT
HB 1055

As Reported by House Committee On:
Finance

Title: An act relating to ad valorem taxation of certain property that would otherwise be subject to leasehold excise tax.

Brief Description: Exempting certain leasehold interests from leasehold excise tax.

Sponsors: Representatives Haigh and Eickmeyer.

Brief History:
Committee Activity:
Finance: 1/24/01, 1/30/01 [DP].

Brief Summary of Bill

- Taxes private leases of publicly owned land consisting of 3,000 or more residential and recreational lots under the property tax rather than the leasehold excise tax.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 8 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Conway, Pennington, Santos and Veloria.

Minority Report: Without recommendation. Signed by 1 member: Representative Carrell.

Staff: Rick Peterson (786-7150).

Background:

Property owned by federal, state, or local governments is exempt from the property tax. However, private lessees of government property are subject to the leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly-owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The tax is collected by public entities that lease property to private parties.

The tax rate is 12.84 percent of the amount paid in rent for the public property. Cities and counties may impose a local tax which is credited against the state tax. Counties may impose a tax of up to 6 percent, and cities may impose a tax of up to 4 percent. The city tax is credited against any county tax. The state tax is deposited into the state general fund, and county taxes are distributed to taxing districts within the county in the same manner as property taxes.

All real and personal property in this state is subject to the property tax each year based on its value, unless a specific exemption is provided by law. The property tax bill is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located. County assessors establish new assessed values on a regular revaluation cycle. State law requires the county assessor to value all taxable property at 100 percent of its true and fair market value. The values are set as of January 1. These values are used for calculating property bills to be collected in the following year.

Property taxes are due on April 30 each year. If one-half the tax is paid by April 30, then the other half is due on October 31. If property taxes are delinquent for three years, the county forecloses and sells the property to recover the unpaid taxes.

Taxing district property tax amounts that are imposed within the constitutional 1 percent rate limit are constrained by a limit on annual increases. Taxing districts with population over 10,000 may increase the property tax amount by inflation. Taxing districts with population under 10,000 may increase the property tax amount by 6 percent. In either case, the district may also increase the property tax amount by the value of new construction in the district multiplied by the preceding year's property tax rate.

Summary of Bill:

Private leases of publicly owned land consisting of 3,000 or more residential and recreational lots that are or may be subleased are exempt from leasehold excise tax and are subject to property taxation. Property values are determined in the same manner as privately owned property.

The sublessee of each lot pays the property tax on the lot and any buildings on the lot. Property taxes unpaid for more than three years are delinquent. The collection of delinquent property taxes proceeds in the same manner as for ordinary delinquent property taxes except that foreclosure proceedings take place only against the improvements on the lot.

For taxes collected in 2002, the increased property tax revenue attributable to taxing these leaseholds is treated as though it were produced by new construction. Thus, this one-time increase in revenue is exempt from the inflation or 6 percent limits.

The leasehold excise tax exemption starts January 1, 2002, and the property tax first applies for taxes due in 2002.

Appropriation: None.

Fiscal Note: Requested on January 18, 2001.

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

Testimony For: The residents of the community now pay two taxes, at two different times, to two different places. They would like to pay property taxes like everyone. Switching to the property tax will make taxes more predicable and stable. The leasehold excise tax doesn’t have the same protections as the property tax system. Under the leasehold excise tax an increase in value results in a proportional increase in taxes. Less tax comes back to the community under the leasehold excise tax than under the property tax.

Testimony Against: None.

Testified: Representative Haigh, prime sponsor; Sandy Swarthout, Lake Cushman; and Dan Reed, property owner.