

# SENATE BILL REPORT

## ESHB 2750

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As of March 8, 2002

**Title:** An act relating to the property taxation of organizations operated exclusively for art, scientific, or historical purposes or engaged in the production and performance of musical, dance, artistic, dramatic, or literary works.

**Brief Description:** Providing a limited property and leasehold tax exemption for the incidental use of artistic or scientific facilities.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Gombosky, Nixon, Wood, Ballasiotes, Conway, Veloria, Ogden, Chase, Berkey, Skinner and Edwards).

**Brief History:**

**Committee Activity:** Ways & Means:

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### 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.

Several property tax exemptions exist for nonprofit organizations. Examples of nonprofit property tax exemptions are: character building, benevolent, protective or rehabilitative social service organizations; churches and church camps; youth character building organizations; war veterans organizations; national and international relief organizations; federal guaranteed student loan organizations; blood, bone and tissue banks; public assembly halls; medical research or training facilities; art, scientific, and historical collections; sheltered workshops; fair associations; humane societies; water distribution property; schools and colleges; radio/television rebroadcast facilities; fire companies; day-care centers; free public libraries; orphanages; nursing homes; hospitals; outpatient dialysis facilities; homes for the aging; performing arts facilities; and homeless shelters.

Property tax exempt property must be used exclusively for the actual operation of the activity for which exemption was granted. The property may be loaned or rented if (a) the rent received for the use of the property is reasonable and does not exceed maintenance and operation expenses, and (b) except for public assembly halls and war veterans organizations, the organization renting the property would be exempt from tax if they owned the property.

Public assembly halls and war veterans organizations may rent their exempt facilities to businesses for a limited period. In the case of war veterans organizations, their facilities may be rented to a profit making business for three days a year. Public assembly halls may be rented to a profit making business for up to seven days a year and, if located in a county with less than 10,000 population, may rent the property for the following business activities: dance lessons; art classes; and music lessons.

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. Nonprofit organizations that are exempt from property tax are also exempt from leasehold excise tax.

**Summary of Bill:** Nonprofit associations that maintain and exhibit historical, scientific, or artistic collections and performing arts associations that rent their facilities to nonexempt persons may determine their property tax exemption under one of the following three methods. If the income from rentals to nonexempt persons is less than 10 percent of gross income, the property is fully exempt. If the income from rentals to nonexempt persons is greater than 10 percent of gross income, then the property is taxable in proportion to the share of gross income from these rentals. Alternatively, the property rented to the nonexempt person may be segregated from the exempt property and fully taxed.

An equivalent leasehold excise tax exemption is provided. This applies retroactively to any tax liability accrued, but unpaid, during the four years immediately preceding the effective date of this act.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.