

HOUSE BILL REPORT

HB 1677

As Reported by House Committee On:
Agriculture & Natural Resources
Finance

Title: An act relating to authorizing a county to exempt certain property used in agriculture from taxation.

Brief Description: Authorizing a county to exempt certain property used in agriculture from taxation.

Sponsors: Representatives Shabro, Newhouse, Bailey, Roach, Bush, Boldt, Chandler, Linville, Quall and McDermott.

Brief History:

Committee Activity:

Agriculture & Natural Resources: 2/19/03, 2/25/03 [DP];

Finance: 3/7/03, 3/10/03 [DP].

Brief Summary of Bill

- Provides counties with the discretionary authority to exempt a farmer's machinery and equipment from the county's property tax.

HOUSE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

Majority Report: Do pass. Signed by 10 members: Representatives Linville, Chair; Schoesler, Ranking Minority Member; Holmquist, Assistant Ranking Minority Member; Kristiansen, Assistant Ranking Minority Member; Chandler, Eickmeyer, Grant, Orcutt, Quall and Sump.

Minority Report: Do not pass. Signed by 2 members: Representatives Rockefeller, Vice Chair; and Hunt.

Staff: Jason Callahan (786-7117).

Background:

All property in Washington is subject to an assessment and taxation for state, county, and

other taxing district purposes. Machinery and equipment that is owned by farmers as personal property is exempt from state property taxes if the machinery and equipment is used exclusively for growing and producing agricultural products.

A farmer's personal property is not exempt from the tax levied by a county or other special taxing district. County tax assessments may not exceed \$2.475 per thousand dollars of assessed value.

Summary of Bill:

Counties have the discretionary authority to exempt a farmer's machinery and equipment from the county's property tax. Once personal property is exempted, the county cannot begin taxing the property at a later date.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The state should foster a business-friendly atmosphere for all businesses, including farms. Many farmers have not been able to stay in business, and their land has been converted into urban development. Farm revenues are dropping, as is Washington's rank nationally in agricultural production.

This bill provides a tool to local governments that they can use to enhance agriculture. In the past, counties have been granted the right not to expand their tax base, so they should have the opportunity to reduce their tax base as well. Granting counties the ability not to tax is not unprecedented in the state's statutes.

In 2001 the Legislature passed tax reforms to help agriculture, but it did not allow counties to add to the tax relief received by farmers. The debate over whether to tax machinery and equipment belongs in the county councils, and not in the state Legislature.

Testimony Against: This bill has constitutional problems. The state constitution declares that only the state Legislature may declare tax relief, not county councils. This bill would change the current statewide taxing system that is uniform and predictable and set a precedent for a taxing system where not every tax base in the state is the same.

This bill could have unintended consequences in terms of tax shifts, and increasing taxes

to other non-agricultural taxpayers. The counties may not feel the tax cut, but other junior taxing districts may suffer the consequences.

This bill has some unanswered questions: (a) What tax would a farm pay if it straddled a county line? and (b) How would the state deal with counties competing against one another?

Testified: (In support) Representative Shabo, prime sponsor; and Dan Fazio, Washington Farm Bureau.

(Opposed) Julie Sexton, Washington Department of Revenue; and Scott Noble, Washington State Association of County Assessors.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives Gombosky, Chair; McIntire, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Agriculture & Natural Resources:

No new changes are recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The purpose of this bill is to keep the farm industry viable in Washington. We have watched farms disappear from rural Pierce County. The bill provides an incentive for farmers to remain in agriculture. The decision to exempt should be made locally. In order for labor intensive agriculture to survive it needs assistance.

Testimony Against: The constitution allows the Legislature to provide exemptions from property tax. Delegating this decision to the county may violate this constitutional provision. Under this bill the tax treatment of the same property could be different the 39 counties. Farm machinery and equipment is mobile and could be mover across county lines to where it might be exempt. The proposal will create a tax shift.

Testified: (In support) Representative Shabro, prime sponsor; and Dan Fazio, Washington Farm Bureau.

(Opposed) Julie Sexton, Department of Revenue.