
Finance Committee

HB 1510

Brief Description: Modifying the property taxation of nonprofit entities.

Sponsors: Representatives Morris, Quall, B. Sullivan and Chase.

Brief Summary of Bill

- Removes the requirement that nonprofit organizations must provide services for persons of all ages in order to have a property tax exemption as a character building, benevolent, protective or rehabilitative social service organization.
- Increases the number of days that nonprofit exempt property may be used for non exempt purposes without losing exemption.
- Broadens the allowable non-exempt activities that may be conducted on nonprofit exempt property without losing exemption.
- Increases the maximum allowable size of nonprofit assembly halls and meeting places that are eligible for exemption.
- Reduces the amount of back taxes that may be due if property is no longer used for an exempt nonprofit use.

Hearing Date: 2/16/05

Staff: Bob Longman (786-7139).

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 providing services for all ages; 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 and meeting places; 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 company property; day-care centers; free public libraries; orphanages; nursing homes; hospitals; outpatient dialysis facilities; homes for the aging; performing arts properties; and homeless shelters.

Property that is exempt from tax must be used exclusively for the actual operation of the activity for which exemption was granted, with a few exceptions. Most nonprofit property may be used for fund-raising activities without jeopardizing its exempt status if the fund-raising activities are consistent with the purposes for which the exemption was granted. Public assembly halls, meeting places, and war veterans organization property may be used for fund-raising activities by any nonprofit organization. Except for public assembly halls, public meeting places, and war veterans organizations, the property may be loaned or rented only if (a) the rent received for the use of the property is reasonable and does not exceed maintenance and operation expenses, and (b) the organization renting the property would be exempt from tax if they owned the property. For public assembly halls, 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. If property is used in a manner inconsistent with these requirements, the property loses its exempt status for the year.

The public assembly hall and meeting place exemption is limited to the buildings, the land under the buildings, and up to one acre of parking area. The Department of Revenue must narrowly construe the public assembly hall and meeting place exemption.

If nonprofit exempt property is no longer used for the purposes for which the exemption is granted, back taxes are due. For an institution of higher education, taxes which would have been paid during the previous seven years must be repaid. For all other nonprofit organizations, taxes which would have paid during the previous three years must be repaid. Interest is due on repayments of back taxes.

Summary of Bill:

For the property tax exemption for nonprofit organizations that provide character building, benevolent, protective or rehabilitative social services, the requirement that services be directed at persons of all ages is removed.

Nonprofit exempt property may be rented or used for businesses, individuals, or organizations for private or public for up to 15 days per year without losing exempt status, as long as all income received from renting the property is used for capital improvements to the property, for maintenance and operation of the property, or for exempt purposes.

In a county with less than thirty thousand population, the rental or use of nonprofit exempt property by nonprofit community groups or other nonprofit organizations does not invalidate the exemption, as long as the use of the property does not result in pecuniary gain, does not involve business activities, and the uses are for the general public good and all income received from rental or use of the exempt property is used for capital improvements to the exempt property, maintenance and operation of the exempt property, or for exempt purposes.

Use of the property for programs by independent contractors does not invalidate the exemption if the programs are compatible and consistent with the purposes of the exempt organization and

program fees are used to offset program expenses, for maintenance and operation of the exempt property, or for exempt purposes.

If property is used in a manner inconsistent with these requirements, the property loses its exempt status for the calendar month, rather than the entire year.

The size limitation for the assembly hall and meeting place exemption (equal to the buildings, the land under the buildings, and up to one acre of parking area) is eliminated. The requirement that the Department of Revenue narrowly construe the public assembly hall and meeting place exemption is eliminated.

If nonprofit exempt property is no longer used for the purposes for which the exemption is granted, taxes are due for the current year only. Taxes for previous years need not be repaid. If nonprofit exempt property is transferred to a state or local government agency, no taxes are due.

Appropriation: None.

Fiscal Note: Requested on January 29, 2005.

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