
Finance Committee

HB 2804

Brief Description: Modifying the property tax exemption for nonprofit schools and colleges.

Sponsors: Representatives Conway, Holmquist, Serben, McIntire, Ahern, McDermott, Rodne, Buri, McDonald, McCune and Dunn; by request of Office of the Lieutenant Governor.

Brief Summary of Bill

- Expands the allowable uses of property eligible for tax exemption as a nonprofit school or college.

Hearing Date: 1/30/06

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: schools and colleges; 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; 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 owned by or used for a nonprofit school or college is exempt from property tax. The exempt property must not exceed four hundred acres in extent and must be limited to buildings and grounds designed for the educational, athletic, or social programs of the institution, the housing of students, the housing of religious faculty, the housing of the chief administrator, athletic buildings. Other school or college facilities are exempt if the facilities are principally designed to further the educational functions of the institution and if the need for the facilities would be nonexistent but for the presence of the school or college.

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, including

schools and colleges, 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. Except for public assembly halls, public meeting places, and war veterans' organizations, nonprofit exempt 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. Public assembly halls, meeting places, and war veterans' organization property may be used for fund-raising activities by any nonprofit organization.

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:

The property tax exemption for nonprofit schools and colleges applies to all property used in a manner consistent with school or college purposes, including but not limited to educational, athletic, recreational, social, employee and other similar programs; programs for reputation enhancing, alumni relations, relations with community members and community organizations, student services, and employee compensation and benefits; residential facilities for students, religious faculty, or the president or chief administrator.

The exemption is not impaired by any use of the property by any person, if there is no charge for using the exempt property and the use is consistent with the educational, athletic, or social programs of the school or college.

Use of the exempt property for pecuniary gain or business activities is permitted for not more than a total of seven days, for each specific venue or location located on the property, in each calendar year. Uses of the property that are consistent with school or college programs will generally not count against the seven day limit, even if used for pecuniary gain or business promotion.

An inadvertent use of the property in a manner inconsistent with school or college purposes will not nullify the exemption, if the inadvertent use is not part of a pattern of use.

These changes apply to taxes levied for collection in 2007 and thereafter.

Appropriation: None.

Fiscal Note: Not requested.

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