

# SENATE BILL REPORT

## SHB 1510

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As Reported By Senate Committee On:  
Ways & Means, February 27, 2006

**Title:** An act relating to the property taxation of nonprofit entities.

**Brief Description:** Modifying the property taxation of nonprofit entities.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Morris, Quall, B. Sullivan and Chase).

**Brief History:** Passed House: 3/16/05, 96-0.

**Committee Activity:** Ways & Means: 3/30/05, 2/24/06, 2/27/06 [DPA, w/oRec].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Fairley, Parlette, Pflug, Pridemore, Rasmussen, Roach, Rockefeller and Schoesler.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Regala.

**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 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; museums; performing arts centers; 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; and homeless shelters.

Property of a nonprofit organization that is exempt from tax must be used exclusively for the activity for which the exemption is granted, except the property may be loaned or rented if (1) the rent is reasonable and does not exceed maintenance and operation expenses, and (2) except for war veterans associations, public assembly halls and meeting places, museums, and facilities used to produce or perform musical, dance, artistic, dramatic, or literary works, the organization renting the property would be exempt from tax if it owned the property. In

addition, the property may be used for fund-raising activities without jeopardizing the exemption if the fund-raising activities are consistent with the purposes for which the exemption was granted.

Museums and performing arts centers may be rented to entities not eligible for property tax exemption for up to 25 days each year.

Exempt property that is used, loaned, or rented with the intent to produce income, promote business, or for pecuniary gain will lose its exempt status except:

- for public assembly halls and meeting places, the exempt property may be used by the lessee for pecuniary gain or to promote business activities for seven days or less each year and also can be used for dance lessons, art classes, or music lessons for any number of days in counties under 10,000 in population;
- the property of war veterans associations may be used by the lessee for pecuniary gain or to promote business activities for three days or less each year; and
- the property of museums and performing arts centers may be used by the lessee for pecuniary gain or to promote business activities for seven days or less each year.

If nonprofit exempt property is no longer used for the purposes for which the exemption is granted, back taxes are due. For a nonprofit 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 Amended Bill:** The number of days a public assembly hall or meeting place may loan or rent its property for pecuniary gain or to promote business activities is increased from seven to fifteen days per year. Counties in which a public assembly hall or meeting place may be used for dance lessons, art classes, or music lessons for any number of days is increased from 10,000 to 20,000 in population. Any rents received must be used for capital improvements to the exempt property, maintenance and operation of the exempt property, or for exempt purposes.

Nonprofit nonsectarian character-building, benevolent, protective, and rehabilitative social service organizations in counties with less than 20,000 population may loan or rent their property for pecuniary gain or to promote business activities for up to fifteen days per year if there is no private for-profit facility that could be used within 10 miles. These organizations may also loan or rent their property to a nonprofit community group or other nonprofit organization that might not qualify for exemption, for up to fifteen days per year, if members of the community derive a benefit from the rental or use. Any rents received must be used for capital improvements to the exempt property, maintenance and operation of the exempt property, or for exempt purposes.

The number of days a war veterans organization may loan or rent its property for pecuniary gain or to promote business activities is increased from three to fifteen days per year.

If nonprofit exempt property is transferred to a state or local government agency, no back taxes are due.

**Amended Bill Compared to Original Bill:** The amendment allows use of nonprofit social service organization property for gain only if there is no comparable private for-profit facility within 10 miles.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

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

**Testimony For:** Seven days is not enough time to use the property for these purposes. It should be expanded to provide an exemption for small business incubators.

**Testimony Against:** None.

**Who Testified:** PRO: Ann Koglin, The Washington Center; Lincoln Ferris, Wash. Assoc. of Small Business Incubators.