

SENATE BILL REPORT

SHB 1802

As Reported By Senate Committee On:
International Trade & Economic Development, March 29, 2005

Title: An act relating to property tax exemptions for nonprofit organizations for small business incubators which assist in the creation and expansion of innovative small commercial enterprises.

Brief Description: Authorizing a property tax exemption for certain nonprofit organizations located in economically disadvantaged areas.

Sponsors: House Committee on Economic Development, Agriculture & Trade (originally sponsored by Representatives Kilmer, Walsh, Pettigrew, Strow, Wallace, Kenney, Clibborn, Hankins, McCoy, Haler, Blake, McCune, Linville, P. Sullivan, Grant, Kessler, Simpson, Morrell, Williams, O'Brien, Lantz, Eickmeyer, Chase, Haigh, Hasegawa, Hudgins and Moeller).

Brief History: Passed House: 3/11/05, 79-14.

Committee Activity: International Trade & Economic Development: 3/24/05, 3/29/05
[DPA-WM, DNP, w/oRec].
Ways & Means: 4/23/05.

SENATE COMMITTEE ON INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Shin, Chair; Sheldon, Vice Chair; Doumit and Eide.

Minority Report: Do not pass.
Signed by Senator Zarelli.

Minority Report: That it be referred without recommendation.
Signed by Senator Pflug, Ranking Minority Member and Roach.

Staff: Joyce Ahlering (360-786-7486)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7433)

Background: All real and personal property in this state is subject to the property tax each year based on its value, unless a specific exemption is provided by law.

Property tax exemptions are authorized for many nonprofit organizations, like nonprofit hospitals and homes for the aging. To be exempt, property must be used exclusively for the purpose for which it is exempt. The property may be loaned or rented if: (1) the rent does not

exceed maintenance and operation expenses; and (2) the organization renting the property would be exempt if it owned the property. With a couple very limited exceptions, exempt property that is used, loaned, or rented for commercial purposes will lose its exempt status.

Summary of Amended Bill: Real and personal property owned by a nonprofit organization is exempt from the state property tax if the property is used to provide shared use of equipment and work areas and daily technical resources and management support services that enable small start-up and emerging businesses to become successful.

An emerging business is defined as a business engaged in the development of initial products or service offerings, that is less than five years old with gross revenues under \$2.0 million, and that is in growth mode. A startup business is defined as a business engaged in the development of initial products or service offerings, that is less than three years old with gross revenues under \$2.0 million, and that has fewer than 20 employees.

Only property located in a rural county, a county with a community empowerment zone (CEZ), or in a CEZ qualifies.

The nonprofit organization must be qualified for exemption under section 501(c)(3) of the federal internal revenue code. The nonprofit organization must also be governed by a board of directors consisting of at least five volunteer members.

The state levy must be reduced to prevent the remaining taxpayers from experiencing a higher tax rate as a result of this exemption.

In 2010, any nonprofit organization claiming this exemption must report to the Department of Revenue (DOR) the number of businesses served by the nonprofit organization and the types of services provided. Failure to submit the report will render a nonprofit organization ineligible for the exemption. The DOR must compile this information and share it with the appropriate committees of the legislature.

The bill applies to taxes levied for collection starting in 2006, and the exemption expires in 2015.

Ways & Means Amended Bill Compared to Original Bill: Leased property does not qualify for the exemption under the amendment. The amendment clarifies that the nonprofit organization be exempt from federal income tax under section 501(c)(3). The requirement that organizations be organized for nonsectarian purposes to receive property tax exemptions is not removed. An emerging business must meet all the requirements listed rather than only one. The no-tax-shift language is added to chapter 84.52 RCW rather than 84.36 RCW.

Amended Bill Compared to Original Bill: The requirement that organizations be organized for nonsectarian purposes to receive property tax exemptions is removed.

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 (International Trade & Economic Development): Small business incubators help small businesses succeed. This bill will help both incubators and small businesses by lowering their costs. The saved money can be used to provide more services.

Testimony Against (International Trade & Economic Development): None.

Who Testified (International Trade & Economic Development): PRO: Representative Kilmer, prime sponsor; Representative Skinner; Tom Strege, William Factory Small Business Incubator; Doug Sessions, Friends of the Arts; Lincoln Ferris, Coalition for Investing in Washington Jobs.

Testimony For (Ways & Means): Small business incubators help small business become successful. The purpose of the bill is to lower the cost on the nonprofit organization. This would reduce the cost to tenants. Incubators are designed to create jobs.

Testimony Against (Ways & Means): None.

Other: County Assessors want exemptions reviewed periodically. A state only exemption sets a precedent for more exemptions. The Legislature is increasing taxes at twice the rate of local government because of exemptions.

Who Testified (Ways & Means): PRO: Representative Kilmer, prime sponsor; Lincoln Ferris, WA Association of Small Business Incubators; Jim Hedrick, Sirti; OTHER: Suzanne Mager; Department of Revenue; Debbie Wilke, WA Assn. of County Officials.