

SENATE BILL REPORT

SB 5708

As Reported by Senate Committee On:
Agriculture, Water & Rural Economic Development, February 17, 2015

Title: An act relating to the taxation of certain rented property owned by nonprofit fair associations.

Brief Description: Concerning the taxation of certain rented property owned by nonprofit fair associations.

Sponsors: Senators Ericksen, Bailey, Sheldon, Becker, Baumgartner, Brown, Pearson, Warnick and Padden.

Brief History:

Committee Activity: Agriculture, Water & Rural Economic Development: 2/12/15, 2/17/15 [DPS-WM].

SENATE COMMITTEE ON AGRICULTURE, WATER & RURAL ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5708 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Warnick, Chair; Dansel, Vice Chair; Hatfield, Ranking Minority Member; Hobbs and Honeyford.

Staff: Bonnie Kim (786-7316)

Background: Property Tax. 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. The tax bill is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located. The county treasurer mails a notice of tax due to taxpayers and collects the tax.

Property Tax Exemption For Nonprofit Fair Associations. Generally, the real and personal property of a nonprofit fair association that sponsors or conducts a fair or fairs eligible to receive support from the fair fund and allocated by the director of the Department of Agriculture is exempt from property taxation. The property must be used exclusively for fair purposes.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Property Tax Exception. Property that would not otherwise qualify may be exempt from taxation if the nonprofit fair association had purchased or acquired the majority of such property between 1995 and 1998. This exception cannot be claimed after 2018.

Leasehold Interest. Leasehold interest means an interest in publicly owned real or personal property which exists by virtue of any lease, permit, license, or any other agreement, written or verbal, between the public owner of the property and a person who would not be exempt from property taxes if that person owned the property in fee, granting possession and use, to a degree less than fee-simple ownership.

Leasehold Excise Tax. A leasehold excise tax is levied on the act or privilege of occupying or using publicly owned real or personal property or real or personal property of a community center through a leasehold interest on and after January 1, 1976, at a rate of 12 percent of taxable rent. A tax credit is available against the county tax for the full amount of any city tax imposed on the same taxable event.

Summary of Bill (Recommended Substitute): Property Tax Exception. The exception for property purchased or acquired by the nonprofit fair association from a county or a city between 1995 and 1998 does not expire after 2018. However, any rents or donations received for the use of a portion of the property must be reasonable and not exceed the maintenance and operation expenses of the property. If any portion of the property is knowingly rented for more than 50 days, the exemption still applies but the rental income is subject to leasehold excise tax.

Leasehold Interest. Leasehold interest also includes portions of property owned by a nonprofit fair association exempt from property tax but rented for periods of 50 days or more.

Leasehold Excise Tax. The leasehold excise tax applies to the rental income of nonprofit fair association-owned land rented for 50 or more days. Taxable rental income or rent means contract rent. The rents or donations received for the use of the rented property must be reasonable and may not exceed the maintenance and operation expenses of the property.

Effective Dates. The statutory amendments take effect August 1, 2015. However, the definition of leasehold interest is set to expire on January 1, 2022. The definition statute is reenacted as amended – with a few technical changes – effective January 1, 2022.

EFFECT OF CHANGES MADE BY AGRICULTURE, WATER & RURAL ECONOMIC DEVELOPMENT COMMITTEE (Recommended Substitute): Makes technical changes to clarify that nonprofit fair association-owned land rented for less than 50 days is exempt from state property taxation. If rented for 50 days or more, the rental income is subject to leasehold excise taxation.

Adds specified privately owned real or personal property to the definition of leasehold interest. Publicly owned, or specified privately owned, real or personal property includes real or personal property that is exempt from property tax and:

- owned in fee or held in trust by a public entity;
- owned by a federally recognized Indian tribe in the state;
- owned by a nonprofit fair association and subject to tax; or

- owned by a community center.

Appropriation: None.

Fiscal Note: Available.

[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony on Original Bill: PRO: A few years ago the Legislature enacted a fix to treat nonprofit fair associations the same as other fair associations. The intention of this bill is to remove expiration date of and the 50-day rental cap to qualify for the exemption. Many county-owned fairs have converted to nonprofit fair associations. This bill allows nonprofit fair associations to continue to operate under the same taxation rules as county-owned fairs.

Persons Testifying: PRO: Senator Ericksen, prime sponsor; Jim Baron, NW WA Fair.