

SENATE BILL REPORT

SB 5768

As of March 31, 2017

Title: An act relating to a leasehold excise tax credit for properties of market value in excess of ten million dollars and for certain major international airport leases.

Brief Description: Concerning a leasehold excise tax credit for properties of market value in excess of ten million dollars and for certain major international airport leases.

Sponsors: Senators Rossi and Frockt.

Brief History:

Committee Activity: Ways & Means: 2/15/17.

Brief Summary of Bill

- Creates a leasehold excise tax credit for the amount of leasehold excise tax exceeding the property tax that would apply if the taxpayer owned the real property.
- Applies only to leasehold interests on parcels with a market value of more than \$10 million owned by a state university or a major international airport.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dean Carlson (786-7305)

Background: State leasehold excise taxes are levied and collected on the act or privilege of occupying or using publicly owned real or personal property through a leasehold interest. A leasehold interest is an interest in publicly owned real or personal property which exists by virtue of any lease, permit, license, or other written or verbal agreement between a public owner and a person who would not be exempt from property taxes if that person owned the property. The leasehold excise tax is levied at a rate of 12.84 percent of taxable rent, i.e., the contract rent.

The legislative body of any county or town may also levy and collect a leasehold excise tax on leasehold interests in publicly owned property within the territorial limits of the county or city. The tax levied by a county may not exceed 6 percent of taxable rent and, by a city, may

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.

not exceed 4 percent of taxable rent. If imposed, the local leasehold taxes are credited against the state tax so the maximum total rate is 12.84 percent.

In 2013, the Legislature passed SSB 5444 which removed the requirement of county assessors to determine the value of publicly owned property not subject to property tax. In that same legislation, a leasehold excise tax credit for certain lessees or sub-lessees for whom the excise tax exceeds the amount of the property tax that would otherwise be due was eliminated.

Summary of Bill: A leasehold excise tax credit for the amount of leasehold excise tax exceeding the property tax would apply if the taxpayer owned the property. The credit only applies to leasehold interests on parcels with a market value of more than \$10 million owned by a state university or a major international airport. If the leasehold interest attaches to two or more parcels, the credit is available if at least one of the parcels has a market value of more than \$10 million.

If the tax parcel does not have a current assessed value, a Washington State-certified general real estate appraiser must perform a market value appraisal. If the leasehold interest applies to less than the entire parcel, the appraisal must include the market value of the portion of the parcel to which the leasehold interest applies.

To calculate the property tax that would apply, the existing consolidated levy rate for the property's tax code area is used.

The amount of the credit is not confidential tax information and can be disclosed.

This bill expires July 1, 2022.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: We are not looking for a tax break but for equity. The point is to allow public entities who own high value properties to pay no more than what the property tax would be. This will help us put more back into the buildings. The metropolitan tract in downtown Seattle has been hurt by what we believe was unintended. We try to create a competitive environment in the airport. In the airport, we paid \$3.62 a square foot and since the legislation we pay \$11.16 a square foot. This is to find a balance between what the property tax would be and what the leasehold excise tax is.

Persons Testifying: PRO: Senator Dino Rossi, Prime Sponsor; Joe Dacca, Director of State Relations, University of Washington; Tom Schappacher, UW Real Estate Office; Bill Stauffacher, HMSHost.

Persons Signed In To Testify But Not Testifying: No one.