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**Finance Committee**

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**SB 5607**

**Brief Description:** Modifying provisions regarding the leasehold excise taxation of historical property owned by the United States government.

**Sponsors:** Senator Pridemore.

**Brief Summary of Bill**

- Exempts from the leasehold excise tax interests in certain historic property that is owned by the federal government and contained within a national historic reserve.

**Hearing Date:** 3/21/07

**Staff:** Mark Matteson (786-7145).

**Background:**

*Leasehold Excise Tax.* Property owned by federal, state, or local governments is exempt from property tax. Public lands can be leased to private individuals. These leases are subject to leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly-owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The state imposes a leasehold excise tax equal to 12 percent of the contract rent. Contract rent is the amount the lessee pays for use of the public property. The tax is collected by the public entity from the lessee, and paid to the Department of Revenue.

Cities and counties may levy a local leasehold excise tax on leasehold interests in public property within their jurisdictions at a rate up to a maximum of 6 percent. The city or county tax is credited against the state tax, thus reducing the state rate on such property when the local tax is fully imposed to 6.84 percent. The maximum city rate is 4 percent and is credited against the county tax. Thus, the maximum county rate is 6 percent in unincorporated areas and 2 percent in cities which levy the maximum city rate.

Common examples of property subject to the leasehold excise tax include port property upon which lessees construct warehouses and manufacturing plants; airline facilities at public airports; state grazing lands; and national forest land leased for recreational cabins.

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A number of types of leasehold interests have been exempted from the leasehold excise tax. These exemptions concern interests such as leases of student housing at public schools and colleges, leases of property for agricultural fairs, and rights of access for removing products from public lands. A credit is also allowed against the tax to the extent that the amount of tax exceeds the amount of property tax that would otherwise be due, were the property to be privately held. The credit ensures that the leasehold excise tax is essentially equivalent to the property tax in its application. No leasehold excise tax is therefore due with respect to leases of property for which a property tax exemption would otherwise apply, were the property to be privately held.

In 2005, the Legislature enacted an exemption from the leasehold excise tax for interests in property if the property meets three conditions: the property is owned by a municipal corporation, the property is listed on a federal or state register of historical sites, and the property is wholly contained within a national historic reserve. These conditions are met with respect to a portion of the Vancouver National Historic Reserve on land owned by the City of Vancouver, including Officer's Row, the West Barracks, and a portion of the airport operated by the City of Vancouver.

*Property Tax Exemptions – Museums - Exceptions.* 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 non-profit organizations, including art, scientific, and historical collections. Non-profit associations that maintain and exhibit historical, scientific, or artistic collections and performing arts associations may retain their property tax exemption when they allow another organization that does not qualify for the property tax exemption to use or rent their exempt property. The property may be used or rented for artistic, scientific, or historic purposes, for the production and performance of musical, dance, artistic, dramatic, or literary works, or for community gatherings or assembly, or meetings. The property may be used for these purposes for up to 25 days per year. For seven of these days the property may be used for profit making business activities.

*Pearson Air Museum.* The Pearson Air Museum, which is on land owned by the National Park Service within the Vancouver National Historic Reserve, does not qualify for the leasehold excise tax exemption enacted in 2005. This museum is operated by the Vancouver National Historic Reserve (Trust), a nonprofit organization devoted to the education about and preservation of the Vancouver National Historic Reserve. To supplement financial assistance received from governments for the museum operations, the Trust subleases the museum during non-operations hours to private entities.

**Summary of Bill:**

The exemption from leasehold excise tax regarding interests in historic property contained within a national historic reserve is broadened to cover historic property within such a reserve owned by the United States.

**Appropriation:** None.

**Fiscal Note:** Available.

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