Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Local Government Committee

HB 1575

Brief Description: Creating greater efficiency in the offices of county assessor by eliminating the requirement to annually appraise tax-exempt government properties.

Sponsors: Representatives Springer, Kochmar, McCoy, Upthegrove, Fitzgibbon, Ryu, Maxwell, Appleton and Moscoso.

Brief Summary of Bill

- Removes the requirement that county assessors annually assess and send out real property valuation notices for publicly owned property that is exempt from taxation.
- Requires county assessors to value and list public, certain public-private, and tribal property that is no longer exempt from taxation as the result of a sale or change in use as of January 1 of the year in which the exempt status changes.
- Eliminates a leasehold excise tax credit for certain leasehold interests in publicly owned real or personal property.

Hearing Date: 2/12/13

Staff: Michaela Murdock (786-7289).

Background:

Notice of Valuation Changes in Real Property.

All real property in Washington is subject to property tax and must be listed and assessed every year based on its value, unless a specific exemption is provided by law. Assessed values of property are set as of January 1 and are used in determining the property's tax bill for the upcoming year. County assessors establish new assessed values on regular revaluation cycles, which vary by county.

Property subject to property tax is assessed at 100 percent of its true and fair value in money, according to its highest and best use. "True and fair value" means market value and is the

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amount of money a buyer of property willing but not obligated to buy would pay a seller of property willing but not obligated to sell.

County assessors must give notice of any change in the true and fair value of real property. Notice of the valuation change generally must be given no later than 30 days after the appraisal. Notice is not required for valuation changes in forest land.

The notice must state both the prior and the new true and fair value of the property, and it must state the land and improvement values separately. It must also set out the procedure for appealing the assessed value to the board of equalization and the time, date, and place of board meetings.

If any taxpayer holds only a security interest in real property pursuant to a mortgage, contract of sale, or deed of trust, the taxpayer must supply the name and address of the person making payments under the mortgage, contract, or deed to the assessor. The taxpayer must supply such information within 30 days of the assessor's written request.

Property Exempt from Taxation.

At the time of assessing real property, the county assessor must enter the description of all property that is exempt by applicable statute from taxation, and must value and list the property in the same manner as all other non-exempt property.

Property that is is exempt from taxation includes the following:
- all property belonging exclusively to the federal government, the State, or any county or municipal corporation;
- all property that is used exclusively for essential government services and belongs exclusively to any federally recognized Indian tribe located in the state;
- all property under certain public financing contracts or recorded agreements; and
- for 40 years from the date of acquisition, all property of a community center.

For publicly owned property exempt from taxation, the assessor is required to value such property only if it is leased to or occupied by a private person for a private purpose and the assessor receives a request for valuation from the Department of Revenue or the lessee of the property.

Leasehold Excise Taxes and Credits.

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 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 not exceed 4 percent of taxable rent.

After a state leasehold excise tax has been computed a credit is allowed for any county or city leasehold excise tax. Additionally, in determining the amount of tax payable, other credits governed by applicable statute are allowed for the following:

- for certain leasehold interests where the tax exceeds the amount of property tax that would apply to the property if it were privately owned by the lessee or sub-lessee;
- for persons who have limited income, are 61 years or older or a disabled veteran of the armed forces, and would otherwise qualify for a residential property tax exemption if the property were privately owned; and
- for product leases, which are certain leases of property for use in the production of agricultural or marine products.

Summary of Bill:

Similar to the notice exemption for changes of valuation in forest land, county assessors are not required to send notice of changes in valuation of publicly owned property that is exempt from taxation.

At the time of making assessments, county assessors are not required to value public, certain public-private, and tribal property that are exempt from taxation. However, if the exempt status of property changes as a result of a sale or change in use, the assessor must value and list the property as of January 1 of the year in which the status changes. The assessor is no longer required by statute to value publicly owned property that is leased to or occupied by a private person when the assessor receives a request for valuation from the Department of Revenue or the lessee of the property.

In determining the amount of leasehold excise tax payable, certain lessees or sub-lessees, for whom the excise tax exceeds the amount of property tax that would apply to the property if it were privately owned by the lessee or sub-lessee, no longer receive a tax credit. Persons who would qualify for a residential property tax exemption if the leased property were privately owned and product leases continue to receive tax credits.

Appropriation: None.

Fiscal Note: Requested on February 4, 2013.

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