
HOUSE BILL 2745

State of Washington

54th Legislature

1996 Regular Session

By Representatives Horn, Lisk, Ballasiotes, L. Thomas, Backlund, Mastin, Reams, D. Schmidt, Delvin, Hankins, Foreman, Cooke, Mulliken, Blanton, Hymes, Thompson and Elliot

Read first time 01/17/96. Referred to Committee on Finance.

1 AN ACT Relating to intangible personal property; amending RCW
2 84.36.070, 84.40.030, and 84.48.080; and creating new sections.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 NEW SECTION. **Sec. 1.** (1) The legislature finds that:

5 (a) The inclusion of intangible personal property in the property
6 tax base in many instances would be inequitable because it may
7 effectively double-tax the same property;

8 (b) Some forms of intangible personal property may not be readily
9 identifiable in a uniform manner and, due to the voluntary compliance
10 nature of the personal property tax system, may escape detection
11 resulting in an inconsistent application among taxpayers who possess
12 the property;

13 (c) It can be difficult to determine a situs of or value for
14 intangible personal property. These difficulties can create
15 significant costs in both financial and human resources to assessing
16 authorities and taxpayers; and

17 (d) It is in the best interest of all property taxpayers and taxing
18 authorities to clarify the proper treatment of intangible personal

1 property in the property tax system and to ease the administrative
2 burdens and costs related to intangible personal property.

3 (2) It is the intent of the legislature that:

4 (a) Intangible personal property be exempt from property taxation;

5 (b) Assessing officials continue their practice of reflecting
6 intangible characteristics and attributes of taxable real and tangible
7 personal property in the value of the property;

8 (c) Existing intangible assets may be considered when determining
9 the highest and best use of taxable property under Title 84 RCW.
10 However, the specific intangible assets used to determine highest and
11 best use shall not be imputed to the value of the property being
12 valued; and

13 (d) Reaffirm that the true and fair value of taxable property be
14 based on the application of generally accepted appraisal procedures and
15 methodologies.

16 **Sec. 2.** RCW 84.36.070 and 1974 ex.s. c 118 s 1 are each amended to
17 read as follows:

18 ~~((The following))~~ (1) Intangible personal property shall be exempt
19 from ((ad valorem)) property taxation((+)). However, the existence of
20 intangible assets may be considered in determining the highest and best
21 use of taxable property for the purposes of this title, but the
22 specific intangible assets considered in determining the highest and
23 best use of taxable property shall not be imputed to the value of the
24 property being valued.

25 (2) "Intangible personal property" means:

26 (a) All moneys and credits including mortgages, notes, accounts,
27 certificates of deposit, tax certificates, judgments, state, county and
28 municipal bonds and warrants and bonds and warrants of other taxing
29 districts, bonds of the United States and of foreign countries or
30 political subdivisions thereof, and the bonds, stocks, or shares of
31 private corporations((-));

32 (b) Private nongovernmental personal service contracts ((or)),
33 private nongovernmental athletic or sports franchises, or private
34 nongovernmental athletic or sports agreements provided that ((such))
35 the contracts, franchises, or agreements do not pertain to the use or
36 possession of tangible personal or real property or to any interest in
37 tangible personal or real property; and

1 (c) Other intangible assets including, but not limited to,
2 trademarks, trade names, brand names, patents, copyrights, trade
3 secrets, franchise agreements, licenses, permits, noncompete
4 agreements, clientele, customer lists, patient lists, favorable
5 contracts, favorable financing agreements, reputation, exceptional
6 management, prestige, good name, or integrity of a business.

7 **Sec. 3.** RCW 84.40.030 and 1994 c 124 s 20 are each amended to read
8 as follows:

9 (1) All property shall be valued at one hundred percent of its true
10 and fair value in money and assessed on the same basis unless
11 specifically provided otherwise by law.

12 (2) Taxable leasehold estates shall be valued at such price as they
13 would bring at a fair, voluntary sale for cash without any deductions
14 for any indebtedness owed including rentals to be paid.

15 (3) The existence of intangible assets may be considered in
16 determining the highest and best use of taxable property for the
17 purposes of this title, but the specific intangible assets considered
18 in determining the highest and best use of taxable property shall not
19 be imputed to the value of the property being valued.

20 (4) Characteristics or attributes of property such as zoning,
21 location, view, geographic features, easements, covenants, proximity to
22 raw materials, condition of surrounding property, proximity to markets,
23 and the availability of a skilled work force shall be reflected in the
24 value of taxable property. Characteristics and attributes do not
25 include intangible assets.

26 (5) The true and fair value of real property for taxation purposes
27 (including property upon which there is a coal or other mine, or stone
28 or other quarry) shall be based upon the following criteria:

29 ~~((1))~~ (a) Any sales of the property being appraised or similar
30 properties with respect to sales made within the past five years. The
31 appraisal shall be consistent with the comprehensive land use plan,
32 development regulations under chapter 36.70A RCW, zoning, and any other
33 governmental policies or practices in effect at the time of appraisal
34 that affect the use of property, as well as physical and environmental
35 influences. The appraisal shall also take into account: ~~((a))~~ (i)
36 In the use of sales by real estate contract as similar sales, the
37 extent, if any, to which the stated selling price has been increased by
38 reason of the down payment, interest rate, or other financing terms;

1 and ~~((b))~~ (ii) the extent to which the sale of a similar property
2 actually represents the general effective market demand for property of
3 such type, in the geographical area in which such property is located.
4 Sales involving deed releases or similar seller-developer financing
5 arrangements shall not be used as sales of similar property.

6 ~~((2))~~ (b) In addition to sales as defined in (a) of this
7 subsection ~~((1))~~, consideration may be given to cost, cost less
8 depreciation, reconstruction cost less depreciation, or capitalization
9 of income that would be derived from prudent use of the property. In
10 the case of property of a complex nature, or being used under terms of
11 a franchise from a public agency, or operating as a public utility, or
12 property not having a record of sale within five years and not having
13 a significant number of sales of similar property in the general area,
14 the provisions of this subsection ~~((2))~~ (5)(b) shall be the dominant
15 factors in valuation. When provisions of this subsection ~~((2))~~
16 (5)(b) are relied upon for establishing values the property owner shall
17 be advised upon request of the factors used in arriving at such value.

18 ~~((3))~~ (c) In valuing any tract or parcel of real property, the
19 value of the land, exclusive of structures thereon shall be determined;
20 also the value of structures thereon, but the valuation shall not
21 exceed the value of the total property as it exists. In valuing
22 agricultural land, growing crops shall be excluded.

23 **Sec. 4.** RCW 84.48.080 and 1995 2nd sp.s. c 13 s 3 are each amended
24 to read as follows:

25 (1) Annually during the months of September and October, the
26 department of revenue shall examine and compare the returns of the
27 assessment of the property in the several counties of the state, and
28 the assessment of the property of railroad and other companies assessed
29 by the department, and proceed to equalize the same, so that each
30 county in the state shall pay its due and just proportion of the taxes
31 for state purposes for such assessment year, according to the ratio the
32 valuation of the property in each county bears to the total valuation
33 of all property in the state.

34 First. The department shall classify all property, real and
35 personal, and shall raise and lower the valuation of any class of
36 property in any county to a value that shall be equal, so far as
37 possible, to the true and fair value of such class as of January 1st of
38 the current year for the purpose of ascertaining the just amount of tax

1 due from each county for state purposes. In equalizing personal
2 property as of January 1st of the current year, the department shall
3 use the assessment level of the preceding year. Such classification
4 may be on the basis of types of property, geographical areas, or both.
5 For purposes of this section, for each county that has not provided the
6 department with an assessment return by December 1st, the department
7 shall proceed, using facts and information and in a manner it deems
8 appropriate, to estimate the value of each class of property in the
9 county.

10 Second. The department shall keep a full record of its proceedings
11 and the same shall be published annually by the department.

12 (2) The department shall levy the state taxes authorized by law.
13 The amount levied in any one year for general state purposes shall not
14 exceed the lawful dollar rate on the dollar of the assessed value of
15 the property of the entire state, which assessed value shall be one
16 hundred percent of the true and fair value of such property in money.
17 The department shall apportion the amount of tax for state purposes
18 levied by the department, among the several counties, in proportion to
19 the valuation of the taxable property of the county for the year as
20 equalized by the department: PROVIDED, That for purposes of this
21 apportionment, the department shall recompute the previous year's levy
22 and the apportionment thereof to correct for changes and errors in
23 taxable values reported to the department after October 1 of the
24 preceding year and shall adjust the apportioned amount of the current
25 year's state levy for each county by the difference between the
26 apportioned amounts established by the original and revised levy
27 computations for the previous year. For purposes of this section,
28 changes in taxable values mean a final adjustment made by a county
29 board of equalization, the state board of tax appeals, or a court of
30 competent jurisdiction and shall include additions of omitted property,
31 other additions or deletions from the assessment or tax rolls, any
32 assessment return provided by a county to the department subsequent to
33 December 1st, or a change in the indicated ratio of a county. Errors
34 in taxable values mean errors corrected by a final reviewing body.

35 In addition to computing a levy under this subsection that is
36 reduced under RCW 84.55.012, the department shall compute a
37 hypothetical levy without regard to the reduction under RCW 84.55.012.
38 This hypothetical levy shall also be apportioned among the several
39 counties in proportion to the valuation of the taxable property of the

1 county for the year, as equalized by the department, in the same manner
2 as the actual levy and shall be used by the county assessors for the
3 purpose of recomputing and establishing a consolidated levy under RCW
4 84.52.010.

5 (3) The department shall have authority to adopt rules and
6 regulations to enforce obedience to its orders in all matters in
7 relation to the returns of county assessments, the equalization of
8 values, and the apportionment of the state levy by the department.

9 (4) After the completion of the duties prescribed in this section,
10 the director of the department shall certify the record of the
11 proceedings of the department under this section, the tax levies made
12 for state purposes and the apportionment thereof among the counties,
13 and the certification shall be available for public inspection.

14 (5) In equalizing personal property as of January 1, 1996, the
15 department shall treat intangible personal property in the same manner
16 as intangible personal property is to be treated after the effective
17 date of this act.

18 NEW SECTION. Sec. 5. This act shall be effective for taxes levied
19 in 1996 for collection in 1997 and thereafter.

20 NEW SECTION. Sec. 6. If any provision of this act or its
21 application to any person or circumstance is held invalid, the
22 remainder of the act or the application of the provision to other
23 persons or circumstances is not affected.

24 NEW SECTION. Sec. 7. This act shall not be construed to amend or
25 modify any existing statute or rule relating to the treatment of
26 computer software for property tax purposes.

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