

HOUSE BILL REPORT

HB 2486

As Passed House:
February 10, 1998

Title: An act relating to the ad valorem taxation of vessels or ferries used for the conveyance for compensation of either persons or property, or both, between fixed termini or over a regular route.

Brief Description: Concerning the ad valorem taxation of vessels or ferries.

Sponsors: Representatives Morris, B. Thomas, Dunshee and Kastama; by request of Department of Revenue.

Brief History:

Committee Activity:

Finance: 2/3/98, 2/4/98 [DP].

Floor Activity:

Passed House: 2/10/98, 96-0.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 14 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Pennington; Schoesler; Thompson and Van Luven.

Staff: Linda Brooks (786-7153).

Background: 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 chief characteristic distinguishing real and personal property is mobility. Land and improvements to land are considered real property. All other property, including boats and vessels, are personal property.

Owners of recreational boats pay a watercraft excise tax in lieu of property taxes. The Department of Licensing administers the watercraft excise tax.

For commercial vessels, the Department of Revenue administers property taxes. Commercial vessels are exempt from local property tax levies, but commercial vessels are subject to the state property tax levy. For tax purposes, most commercial vessels are divided into the following two classes:

Steamboat Class: Vessels transporting passengers or freight on a regular basis between fixed destinations; and

Other Commercial Vessels Class: Vessels primarily engaged in commerce which have, or are required to have, a valid marine document as a vessel of the United States and that do not fit the definition of the steamboat class.

Companies whose commercial vessels transport passengers or freight on a regular basis between fixed destinations are classified as "steamboat" companies. The Property Tax Division of the Department of Revenue centrally assesses all real and personal property owned by these steamboat companies, and determines how much valuation should be allocated to each county. Steamboat companies pay state and local property taxes on their real property such as buildings and docks but pay only the state levy on their vessels. Although steamboat companies only pay state property taxes on their vessels, these state taxes are collected by the counties.

Other commercial vessels are not subject to central assessment, but owners must list these vessels with the Miscellaneous Tax Division of the Department of Revenue. The Department of Revenue assesses these vessels at current market value. Vessel owners pay the state property tax levy on the assessed valuations of their vessels directly to the department.

In the event that a commercial vessel is engaged in interstate or foreign commerce or is exclusively engaged in fishing on the high seas or waters of another state, the vessel is either tax-exempt or taxable on only a portion of the vessel's assessed value. If a vessel spends less than 120 days or fractions of days in the state's waters during the preceding calendar year, then the vessel is completely exempt from property taxes. If a vessel spends more than 120 days or fractions of days in the state's waters, then property tax is owed on an apportioned basis. Each day or fraction of a day that a vessel spends in Washington's waters counts for tax apportionment purposes with some exceptions. As long as the time spent in the state's waters is reasonable, days spent by a vessel in the state's waters for the following exclusive purposes *do not count* for tax apportionment purposes:

- To undergo repairs or alteration;
- To take on or discharge cargo, passengers, or supplies; or
- To serve as a tug for a vessel that is either undergoing repairs or taking on or discharging cargo, passengers, or supplies.

Summary of Bill: The Department of Revenue no longer centrally assesses all real and personal property owned by steamboat companies. Instead of central assessment, each county is responsible for assessing real property owned by a steamboat company.

Vessels owned by a steamboat company are treated the same as other commercial vessels for property tax purposes. The steamboat company must list its vessels with the department, and the department assesses these vessels at current market value.

Vessels formerly included in the steamboat class that engage in interstate or foreign commerce are exempt from property tax if they spend less than 120 days or fractions of days in the state's waters. If a vessel spends more than 120 days or fractions of days in the state's waters, then property tax is owed on an apportioned basis. If a vessel spends only reasonable amounts of time in the state's waters for the purposes of undergoing repairs or discharging or taking on cargo, passengers, or supplies, then there may be no property tax owed.

For tax apportionment purposes, a fraction of a day means more than 16 hours in a calendar day.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 1999.

Testimony For: This bill simplifies the taxation of commercial vessels, consolidating two separate classes of commercial vessels into just one class. Owners of vessels classified as steamboats have to complete a 39 page report each year. In contrast owners of vessels that fall under the more general commercial vessels category only need to complete a one page form. The steamboat classification dates back to an older era. In 1986 the Legislature gave the Department of Revenue the authority to value commercial vessels operating in interstate and international commerce. Due to the 1986 change, there is no rational reason for having a separate steamboat class of vessels. All commercial vessels should be taxed and treated the same.

Testimony Against: None.

Testified: Steve Yergeau, Department of Revenue (pro); Rick Wickman, Columbia River Steamship Operators (pro); Jim Boldt, Clipper Navigation (pro); Randy Ray, Puget Sound Steamship Operators (pro); and Cliff Webster, American Waterways Operators (pro).