

# HOUSE BILL REPORT

## HB 1782

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**As Reported By House Committee On:**  
Finance

**Title:** An act relating to leasehold excise tax clarification and administrative simplification.

**Brief Description:** Providing clarification and administrative simplification for the leasehold excise tax.

**Sponsors:** Representatives Cox, Schoesler, Haigh, Thomas and Cairnes; by request of Department of Revenue.

**Brief History:**

**Committee Activity:**

Finance: 2/16/99, 3/8/99 [DPS].

**Brief Summary of Substitute Bill**

- Exempts use of public land to remove purchased natural resource products from leasehold excise tax.
- Exempts use of public lands for natural resource energy exploration from leasehold excise tax.
- Eliminates need to determine value of agricultural products on the 15th day of a month. Value may be determined on whatever date agricultural products are delivered to a storage facility.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Thomas, Republican Co-Chair; Carrell, Republican Vice Chair; Reardon, Democratic Vice Chair; Cairnes; Conway; Cox; Dickerson; Pennington; Santos; Van Luven and Veloria.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Dunshee, Democratic Co-Chair.

**Staff:** Linda Brooks (786-7153).

**Background:**

The Washington Constitution exempts property owned by the United States, the state, cities, counties, school districts, and other municipal corporations from property tax. However, when a publicly-owned property is leased for a private purpose, the private user must pay leasehold excise tax. Leasehold excise tax is imposed in lieu of property tax.

The government leasing the publicly-owned property is responsible for collecting the leasehold excise tax from the private user. The state leasehold excise tax rate is 12.84 percent of the amount paid in rent for use of the publicly-owned property. Cities and counties may impose a local tax which is credited against the state tax.

Rents are sometimes paid in a variety of ways. A person who leases a parcel of publicly-owned property to produce agricultural products may be allowed to pay rent as a percentage of the value of the agricultural products. The value of these agricultural products is determined on the 15th day of the month in which the agricultural products are delivered.

Not every private use of a publicly-owned property is subject to leasehold excise tax. Some examples of private uses of public property that are exempt from leasehold excise tax are:

- road and utility easements;
- student housing at public schools and colleges;
- leases of property for agricultural fairs; and
- leases with annual rents of less than \$250.

Rights of access, occupancy or use of publicly-owned property for the purpose of removing materials or products are also exempt from leasehold excise tax, if a person has purchased those materials or products from the governmental owner or lessee of the property.

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**Summary of Substitute Bill:**

When leasehold excise tax is paid as a percentage of the value of agricultural products produced on public lands, value is determined on the date that the agricultural products are delivered to a storage facility.

Rights of access, occupancy or use of publicly-owned property for the purpose of removing materials, products, or natural resource products are exempt from leasehold excise tax, if a person has purchased those materials, products, or natural resource products from the governmental owner or lessee of the property. Natural resource products are defined as including:

- cut or picked evergreen foliage;
- Cascara bark;
- wild edible mushrooms;
- native ornamental trees and shrubs;
- ore and minerals;
- geothermal water and steam; and
- forage removed through the grazing of livestock.

Rights of access, occupancy or use of publicly-owned property for the purpose of natural resource energy exploration are also exempt from leasehold excise tax.

**Substitute Bill Compared to Original Bill:** The leasehold excise tax exemption threshold remains at \$250. The provision that would have increased the threshold to \$1,000 from \$250 is deleted.

Also, technical changes are made to further clarify the leasehold tax exemptions for the removal of natural resources products and natural energy resource exploration.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** (Original bill) The leasehold excise tax was originally enacted 25 years ago, and it's time to do a major housecleaning. The Department of Revenue has convened a leasehold excise tax study group, and this study group has involved a number of stakeholders. This bill is a department request bill, and it does very little beyond codifying and clarifying. The major fiscal impact comes from raising the tax threshold to \$1,000 from \$250. The fiscal impact from exempting the grazing permits is less. The clarifications being made to the leasehold excise tax should allow for greater parity for similarly situated taxpayers. Presently, about one-third of all grazing permits have been interpreted as being exempt from the leasehold excise tax, but the other two-thirds are taxed. This bill would clarify that all types of grazing

permits are exempt. The department has never collected taxes on oil, gas or mining leases, so why should grazing permits be treated differently? (Note: An amendment deleted the threshold change to \$1,000 from \$250.)

(Concerns) (Original bill) I do not have concerns in the context of the bill itself, but I do have concerns about funding for rural counties. Counties share in leasehold excise tax revenues. I represent rural counties where a lot of these rangelands are located. Please remember the times that you've reduced our revenues when I am in front of you asking for new revenues.

**Testimony Against:** None.

**Testified:** (In support) Margaret Partlow and Tim Sekerak, Department of Revenue.

(With concerns) Jim Potts, Rural Counties.