

HOUSE BILL REPORT

SHB 1510

As Passed Legislature

Title: An act relating to the property taxation of nonprofit entities.

Brief Description: Modifying the property taxation of nonprofit entities.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Morris, Quall, B. Sullivan and Chase).

Brief History:

Committee Activity:

Finance: 2/16/05, 3/7/05 [DPS].

Floor Activity:

Passed House: 3/16/05, 96-0.

Floor Activity:

Passed House: 1/18/06, 96-0.

Senate Amended.

Passed Senate: 3/2/06, 47-0.

House Concurred.

Passed House: 3/4/06, 95-0.

Passed Legislature.

Brief Summary of Substitute Bill

- Increases the number of days that some nonprofit exempt property may be used for non-exempt purposes without losing a property tax exemption.
- Broadens the allowable non-exempt activities that may be conducted on some nonprofit exempt properties without losing exemption.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Conway, Ericksen, Hasegawa and Santos.

Staff: Bob Longman (786-7139).

Background:

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 nonprofit organizations. Examples of nonprofit property tax exemptions are: character building, benevolent, protective or rehabilitative social service organizations providing services for all ages; churches and church camps; youth character-building organizations; war veterans organizations; national and international relief organizations; federal guaranteed student loan organizations; blood, bone, and tissue banks; public assembly halls and meeting places; medical research or training facilities; museums; performing arts centers; sheltered workshops; fair associations; humane societies; water distribution property; schools and colleges; radio/television rebroadcast facilities; fire company property; day-care centers; free public libraries; orphanages; nursing homes; hospitals; outpatient dialysis facilities; homes for the aging; and homeless shelters.

Nonprofit property that is used for nonexempt activities will lose its tax exempt status, unless one of the following exceptions applies.

- The property may be used for fund-raising activities without jeopardizing the exemption if the fund-raising activities are consistent with the purposes for which the exemption is granted.
- The property may be loaned or rented to an organization that would be exempt from tax if it owned the property.
- Museums and performing arts centers may be rented to entities not eligible for property tax exemption for up to 25 days each year.
- Museums and performing arts centers may be used for pecuniary gain or to promote business activities for seven days or less each year.
- Property owned by war veterans associations may be used for pecuniary gain or to promote business activities for three days or less each year.
- Public assembly halls and meeting places may be used for pecuniary gain or to promote business activities for seven days or less each year and also can be used for dance lessons, art classes, or music lessons for any number of days in counties under 10,000 in population.

If rent is charged for the use of nonprofit exempt property, the rent must be reasonable and not exceed maintenance and operation expenses.

If nonprofit property is used in a manner inconsistent with the requirements above, the property will lose its tax-exempt status, and back taxes will be due. For a nonprofit foundation that supports an institution of higher education, taxes which would have been paid during the previous seven years must be repaid. For all other nonprofit organizations, taxes which would have been paid during the previous three years must be repaid. Interest is due on repayments of back taxes.

Summary of Substitute Bill:

The number of days a public assembly hall or meeting place may loan or rent its property for pecuniary gain or to promote business activities is increased from seven to fifteen days per year. Counties in which a public assembly hall or meeting place may be used for dance lessons, art classes, or music lessons for any number of days is increased from 10,000 to 20,000 in population. Any rents received must be used for capital improvements to the exempt property, maintenance and operation of the exempt property, or for exempt purposes.

Nonprofit nonsectarian character-building, benevolent, protective, and rehabilitative social service organizations in counties with less than 20,000 population may loan or rent their property for pecuniary gain or to promote business activities for up to 15 days per year if there is no private for-profit facility that could be used within 10 miles. These organizations may also loan or rent their property to a nonprofit community group or other nonprofit organization that might not qualify for exemption, for up to 15 days per year, if members of the community derive a benefit from the rental or use. Any rents received must be used for capital improvements to the exempt property, maintenance and operation of the exempt property, or for exempt purposes. The number of days a war veterans organization may loan or rent its property for pecuniary gain or to promote business activities is increased from three to 15 days per year. If nonprofit exempt property is transferred to a state or local government agency, no back taxes are due.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This bill is the result of working with several organizations that expressed problems with administration of their property tax exemptions. In small communities, nonprofit organizations often provide the only available public meeting space. If they rent out the property, the exemption is lost. These organizations are mainly staffed with volunteers. The volunteers often don't know the risk of losing the exemption until the Department of Revenue audits the organization. The existing penalties for occasional non-exempt use of these properties are too severe.

Testimony Against: None.

Persons Testifying: Representative Morris, prime sponsor.

Persons Signed In To Testify But Not Testifying: None.