

HOUSE BILL REPORT

HB 2584

As Reported by House Committee On:
Agriculture & Natural Resources

Title: An act relating to allowing prepayment of the penalty for removal of land from the farm and agricultural land current use property tax classification.

Brief Description: Allowing prepayment of the penalty for removal of land from the farm and agricultural land current use property tax classification.

Sponsors: Representative Blake.

Brief History:

Committee Activity:

Agriculture & Natural Resources: 1/31/14, 2/5/14 [DPS].

Brief Summary of Substitute Bill

- Allows, at the discretion of counties, the prepayment of additional taxes owed as a result of the conversion of land from agricultural use, without the assessment of additional interest or penalties otherwise levied on agricultural land conversions.

HOUSE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Blake, Chair; Lytton, Vice Chair; Buys, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Chandler, Haigh, Hurst, Kretz, Orcutt, Pettigrew, Schmick and Warnick.

Minority Report: Do not pass. Signed by 3 members: Representatives Dunshee, Stanford and Van De Wege.

Staff: Jacob Lipson (786-7196).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

All property is subject to a property tax each year based on the property's highest and best use unless a specific exemption is provided by law. The Washington Constitution authorizes agricultural, timber, and open space lands to be valued on the basis of their current use rather than fair market value. The Open Space Taxation Act (Act) allows for current use valuations of qualifying agricultural land, which includes:

- parcels 20 acres and larger devoted primarily to agricultural production;
- parcels five to 20 acres that generate gross income from the sale of farm products \$200 or more per acre in three of each five-year period; or
- parcels that are less than five acres that generate a gross income of at least \$1,500 per year in three of each five-year period.

Land classified for agricultural use generally must remain in that classification for at least 10 years from the date of original classification.

Landowners must provide county assessors notice within 60 days of the conversion of land from open space, timberland, or farm and agricultural uses to other use types. When agricultural lands are converted from their current use designations, back taxes, an interest payment, and penalties are assessed on the land. Upon the conversion and reclassification of the agricultural land, a landowner normally owes:

- back taxes of an amount equal to the difference, tallied over the previous seven years, between the amount paid under the agricultural use classification tax rate, and the amount that would have been paid had the land not been classified for agricultural use;
- interest on the back taxes owed, which is assessed at the same rate as on delinquent property tax; and
- a penalty equal to 20 percent of the value of the back taxes and interest owed.

These payments are due to the county within 30 days of the county tax assessor's written notice to the landowner of the change in use classification. However, state law also provides for an alternative land use withdrawal process. This process allows a landowner, at any time after eight years under agricultural land classification, to provide notice of a request to withdraw from the classification, effective two years later. Landowners following this withdrawal process are subject only to the additional taxes and interest owed for the land conversion, but not the 20 percent penalty.

Summary of Substitute Bill:

Farm and agricultural landowners may make prepayments on additional future tax payments anticipated in the event that the land is converted from farm and agricultural use. If the landowner has prepaid the full value of additional taxes owed, the landowner is exempt from the additional interest payments and penalties that the owner would otherwise have been charged upon the conversion of the land. This prepayment process is only an option for landowners if the county where they are located elects to allow such prepayments.

The amount of a landowner's annual prepayment may not exceed the difference between the taxes that the owner would have owed had the land not been classified as farm and agricultural land, and the actual taxes paid that year under the agricultural use classification.

If, after making prepayments toward future tax penalties, a landowner elects not to move the land out of farm and agricultural use classification, the prepayments can be applied as a credit against taxes owed in future years in that county. Prepayments may not be refunded to the landowner.

Substitute Bill Compared to Original Bill:

The substitute bill allows counties to elect to receive prepayments on future taxes owed from land conversions, rather than requiring counties to accept prepayments. The substitute bill also specifies that interest on prepayments does not accrue towards future taxes owed. In addition, the substitute bill specifies that any credits for prepayments towards uncompleted land conversions may only be applied against other taxes owed in the same county as the prepayments were made.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available. New fiscal note requested on February 26, 2014.

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

Staff Summary of Public Testimony:

(In support) Farm owners are put in a difficult position when they start to get older, realize that their children don't want to take over their land, and have to sell it or let it be converted for development. Landowners must pay an interest rate of 12 percent on their back taxes, plus an additional 20 percent penalty, which can be a significant burden. This bill offers a creative tool to avoid the massive penalties these landowners face when they are doing their estate planning; rather than being hit with a big charge at the time of sale, why not allow them to pre-pay on the taxes that they will owe and avoid the penalties? This bill should not cost the state any money, or cause any downside for local governments. The pre-payments of taxes are not intended to accrue interest against additional taxes owed, but are instead to act like a pre-payment on a credit card bill, which does not earn interest.

(Opposed) None.

Persons Testifying: Representative Blake, prime sponsor; Brad Tower, Washington Christmas Tree Growers; and Jack Field, Washington Cattlemen's Association.

Persons Signed In To Testify But Not Testifying: None.