

# HOUSE BILL REPORT

## ESHB 2693

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### As Passed Legislature

**Title:** An act relating to the taxation of timber on publicly owned land.

**Brief Description:** Modifying the taxation of timber on publicly owned land.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives Hinkle, McIntire, Cairnes, Fromhold and Holmquist).

#### Brief History:

##### Committee Activity:

Finance: 1/27/04, 2/5/04 [DPS].

##### Floor Activity:

Passed House: 2/16/04, 93-0.

Passed Senate: 3/10/04, 49-0.

Passed Legislature.

#### Brief Summary of Engrossed Substitute Bill

- Allows counties to impose a 4 percent excise tax on timber harvested from public lands.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

**Staff:** Rick Peterson (786-7150).

#### Background:

The timber excise tax is paid when timber is harvested. The state tax rate equals 5 percent of the stumpage value. The tax applies to timber harvested on public and private lands. A county tax equal to 4 percent applies to harvests on private lands and is credited against the state tax. Therefore the effective rate on timber harvested from private land is 1 percent for the state and 4 percent for counties. The effective rate for timber harvested from public lands is 5 percent for the state. There is no county timber excise tax on timber from public lands. The state tax is deposited in the general fund. The local tax is distributed to property taxing districts within the county based on the value of commercial forest land.

Standing timber located on private lands is exempt from property tax. Standing timber located on public land is exempt from property tax until it is sold to a private person. The assessment date for property tax is January 1. Timber located on public land purchased by a timber harvester that is still standing on January 1 is subject to property tax. The property tax is distributed to the taxing districts in which the timber is located. The timber harvester's state timber excise tax liability is reduced by the amount of property taxes paid.

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**Summary of Engrossed Substitute Bill:**

Counties are authorized to impose a 4 percent timber excise tax on timber harvested from public lands. The tax rate is phased-in over ten years starting at 1.2 percent. The county tax is credited against the state tax so that the timber harvester pays a total rate of 5 percent. The county timber excise tax is distributed to local taxing districts within the county.

Standing timber located on public land that is purchased by a private person is exempt from property tax. Purchasers of timber from the Department of Natural Resources are no longer required to provide proof of payment of property taxes before release of their performance bond.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2005.

**Testimony For:** This is a modest proposal phased-in over 5 biennia. It provides a fair taxing structure on timber and provides funds to timber counties that have been most impacted by cuts in funding since the MVET reduction. It simplifies the process of taxing timber. It makes the process for taxing public and private timber the same. This bill neither raises nor cuts taxes but shifts revenue. The state currently takes 100 percent of the tax from public lands. Since stumpage taxes are in lieu of property tax, some revenue should reward the few counties that have a concentration of public lands. When private lands are purchased to replace public lands that move to preservation status, the counties lose revenue from the harvest from these lands. Allowing counties to tax harvests from the public lands will make up some of the lost revenue from private lands. Collecting the personal property tax on timber doesn't always work. It is a cumbersome process. Excise tax can be easily collected by DOR through the current collection system. This small tax shift is a step in the right direction to help resource dependent counties match revenue to the cost of providing essential government services.

**Testimony Against:** None.

**Persons Testifying:** (In support) Mike Ryherd, Northwest Eco System Alliance; Ron Strabbing, Grays Harbor County; Paul Parker, Washington Association of Counties; and Jon Kaino, Pacific County.

**Persons Signed In To Testify But Not Testifying:** None.