
Finance Committee

HB 1502

Brief Description: Concerning the classification of heavy equipment rental property as inventory.

Sponsors: Representatives Tarleton, Stokesbary, Sullivan and Vick.

Brief Summary of Bill

- Exempts heavy equipment rental property owned by a heavy equipment rental property dealer from property tax.

Hearing Date: 2/7/19

Staff: Rachelle Harris (786-7137).

Background:

Property Tax – General.

All real and personal property in the state is subject to property tax each year based on its value, unless specific exemption is provided by law. The Washington Constitution (Constitution) limits regular property tax levies to a maximum of 1 percent of the property's value (\$10 per \$1,000 of assessed value [AV]). Excess levies are not subject to this constitutional limit and require voter approval. There are statutory rate maximums for individual taxing districts and aggregate rate maximums to keep the total tax rate of regular property taxes within the constitutional limit. All regular levies, except the state levies, are subject to a statutory revenue growth limit. If the taxing authority has a population of 10,000 or more, the revenue growth limit is the lesser of inflation or 1 percent plus the valuation of new construction. If the taxing authority has a population of less than 10,000, the revenue growth limit is 1 percent plus the value of new construction.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. Over time the Legislature adopted limitations on the levy, including on the growth of revenue. In 1971 the Legislature adopted the first statutory revenue growth limit for regular levies. In 2007 the Legislature limited

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.

the revenue growth rate to the lesser of 1 percent or inflation, plus the value of new construction (revenue growth limit). In 2017 the Legislature adopted Engrossed House Bill 2242, which created the additional state levy.

For taxes levied for collection in calendar years 2020-2021, the combined rate for both state levies is \$2.70 per \$1,000 AV. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both levies, and the combined rate will be budget-based.

Personal property.

Most personal property owned by individuals, such as household goods, is exempt from taxation. However, if these items are used in a business, property tax applies. Other personal property used in business that is subject to property tax includes machinery, equipment, and furniture. Business property that is held to be leased or rented is subject to property tax.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including some property tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Heavy equipment rental property that is owned by a heavy equipment rental property dealer is exempt from property tax. Heavy equipment rental property means any equipment that is rented, mobile, used for construction or industrial applications, and is rented without an operator. Heavy equipment rental property dealer means a person principally engaged in the business of renting heavy equipment.

The bill applies to taxes levied for collection in 2022 and thereafter.

The bill is exempted from TPPS requirements, the 10 year expiration of tax preferences, and JLARC review.

Appropriation: None.

Fiscal Note: Available.

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