

HOUSE BILL REPORT

HB 1502

As Reported by House Committee On: Finance

Title: An act relating to the classification of heavy equipment rental property as inventory.

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

Sponsors: Representatives Tarleton, Stokesbary, Sullivan and Vick.

Brief History:

Committee Activity:

Finance: 2/7/19, 2/25/19 [DPS].

Brief Summary of Substitute Bill

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

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Tarleton, Chair; Walen, Vice Chair; Chapman, Frame, Macri, Springer, Stokesbary, Vick and Wylie.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Morris and Orwall.

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

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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 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 Substitute 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 the TPPS requirements, the 10-year expiration of tax preferences, and the JLARC review.

The exemption does not apply in a given year to heavy equipment rental property that the dealer rented or leased during the prior tax year to a person with whom the dealer is affiliated.

The exemption is applied for via the county assessor, using any forms prescribed and approved by the Department of Revenue. If a dealer received an exemption based on erroneous information, taxes must be collected for a period of up to five years with penalties of:

- 25 percent of total tax due;
- 50 percent of total tax due if the dealer has previously been assessed a penalty; or
- 100 percent of total tax due if the dealer, with intent to defraud, submitted false or materially misleading claim for the exemption.

Substitute Bill Compared to Original Bill:

The substitute bill narrows the definition of "heavy equipment rental property", provides an application and appeals process for the exemption, and prescribes penalties in case of an erroneously granted exemption.

Appropriation: None.

Fiscal Note: Available.

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) There is high demand for heavy equipment across the state. It is important to make sure that there is plenty of this equipment available for construction projects across the state. The equipment rental industry is the first manifestation of the "shared economy." Dealers buy equipment and rent it to users who need it. At the end of the equipment's useful life, it is sold. It is frequently complex and specialized equipment, and it is important that it be well cared for so that it works well when it goes to a construction site. Currently, equipment held for sale or lease is not subject to personal property tax. If it is held for rent, it is subject to property tax, which is a meaningless distinction. The current system works well for equipment that is permanent, but for rental equipment that is mobile and moves around regularly, it does not make sense. Oftentimes, rental equipment has all the characteristics of inventory and should be taxed as such. Many other states have acknowledged the uniqueness of rental heavy equipment, including California and Oregon.

(Opposed) None.

Persons Testifying: Representative Tarleton, prime sponsor; John McClelland, American Rental Association; and Ed Noonan, United Rentals.

Persons Signed In To Testify But Not Testifying: None.