
Finance Committee

HB 1966

Brief Description: Exempting manufacturing machinery and equipment from real estate excise tax.

Sponsors: Representatives Walen, Christian, Leavitt, Chapman, Jacobsen, Sandlin and Shavers.

Brief Summary of Bill

- Exempts the value of machinery and equipment transferred with real property from the selling price for the purposes of calculating the real estate excise tax owed by the seller.

Hearing Date: 2/1/24

Staff: Tracey Taylor (786-7152).

Background:

Washington Real Estate Excise Tax.

Washington imposes a graduated real estate excise tax on the sale of property. The portion of the selling price up to \$525,000 is taxed at 1.1 percent; the portion that is more than \$525,000 but less than or equal to \$1,525,000 is taxed at 1.28 percent; the portion that is more than \$1,525,000 but less than \$3,025,000 is taxed at 2.75 percent; and any portion of the selling price over \$3,025,000 is taxed at 3 percent. The tax is paid by the seller of the real estate.

Real Estate Excise Tax Exemptions.

Some transfers of property are exempt from the real estate excise tax. These exemptions include, among other things, property transfers made by gift or through inheritance, transfers made pursuant to a dissolution of marriage, or the transfer of a mortgage interest in property.

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

Personal Property.

Most personal property owned by an individual is exempt from property taxes. For example, household goods and effects are not subject to property tax; however, if these items are used in a business, the items are subject to property tax. Personal property tax does not apply to business inventories or intangible property, including copyright and trademarks. However, personal property that is subject to property tax includes machinery, equipment, furniture, and supplies of businesses and farmers.

Personal property is subject to the same levy rate as real property. The county assessor is responsible for the assessment of real and personal property, including the calculation of taxes. The county treasurer is responsible for the billing and collection of the real and personal property taxes.

Machinery and Equipment.

Machinery and equipment are sometimes eligible for tax exemptions. For example, there is a sales and use tax exemption for:

- machinery and equipment used directly in a manufacturing operation or research and development operation by a manufacturer or processor for hire;
- sales to a person engaged in testing for a manufacturer or processor for hire of machinery and equipment used directly in a testing operation; or
- sales of or charges made for labor and services rendered in respect to installing, repairing, cleaning, altering, or improving the machinery and equipment.

In this case, "machinery and equipment" is defined as industrial fixtures, devices, support facilities, and tangible personal property that becomes an ingredient or component thereof, including repair parts and replacement parts

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 a variety of sales and use 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:

For the purposes of calculating the real estate excise tax, the selling price of the real estate does not include the value of machinery and equipment conveyed with the property.

The bill does not include a TPPS.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2025.