

SENATE BILL REPORT

SB 5385

As Reported by Senate Committee On:
Agriculture & Natural Resources, February 20, 2025

Title: An act relating to the definition of timberland for the purposes of determining the real property excise tax for a governmental entity.

Brief Description: Amending the definition of timberland for purposes of determining the real property excise tax for a governmental entity. [**Revised for 1st Substitute:** Amending the definition of timberland for purposes of determining the real estate excise tax for a governmental entity.]

Sponsors: Senators Chapman, Nobles and Saldaña; by request of Department of Natural Resources.

Brief History:

Committee Activity: Agriculture & Natural Resources: 2/06/25, 2/20/25 [DPS-WM].

Brief Summary of First Substitute Bill

- Modifies the definition of timberland for purposes of the real estate excise tax to include certain forestlands transferred or sold to a governmental entity.

SENATE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

Majority Report: That Substitute Senate Bill No. 5385 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Chapman, Chair; Krishnadasan, Vice Chair; Short, Ranking Member; Liias, Muzzall, Saldaña, Schoesler, Shewmake and Wagoner.

Staff: Jeff Olsen (786-7428)

Background: Real Estate Excise Tax. The sale of real estate is subject to the real estate

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.

excise tax (REET). The tax base is the selling price of the real estate, without any deduction for mortgages, liens, or other debts. The tax is typically paid by the seller.

The real estate excise tax is imposed at the following rates:

- 1.1 percent if the selling price is equal to or less than \$525,000;
- 1.28 percent on the portion of the selling price that is greater than \$525,000 but equal to or less than \$1.525 million;
- 2.75 percent on the portion of the selling price that is greater than \$1,525,000 but equal to or less than \$3.025 million; and
- 3 percent on the portion of the selling price that is greater than \$3.025 million.

A rate of 1.28 percent is imposed on the sale of undeveloped land, timberland, agricultural land, and water or mineral rights, regardless of selling price.

Designated Forestland and Timberland. Most property is valued or assessed at its true and fair value for purposes of imposing property taxes. The state constitution allows the Legislature to enact legislation assessing certain types of real property at its present or current use for purposes of imposing property taxes. Two programs of current use valuation have been established: one program for forestlands and a second program that includes open space lands, farm and agricultural lands, and timberlands. When property is removed from current use classification, back taxes, plus interest, must be paid by the landowner. In 2024, an exception to additional and compensating tax was created for certain sales or transfers of designated forestland or timberland to a governmental entity. To qualify for the exception, the governmental entity must continue to manage the land as forestland or timberland.

Summary of Bill (First Substitute): The definition of timberland for purposes of calculating the rate of the real estate excise tax is modified to include certain forest lands transferred or sold to a governmental entity. To qualify for the exception, the governmental entity must manage the land consistent with the designated forestland or timberland program it was previously classified in, and the governmental entity must provide the county assessor with a timber management plan or a notice of intent to manage the land as forestland or timberland. This encourages the protection of legacy forest, and makes it possible to purchase more land to continue harvesting timber while preserving old growth forests.

EFFECT OF CHANGES MADE BY AGRICULTURE & NATURAL RESOURCES COMMITTEE (First Substitute):

- Specifies that for purposes of the REET tax, "timberland" means land that a governmental entity manages in the same manner as designated forestland or timberland under the Open Space program at the time of transfer or sale. Corrects the title by referencing the real estate excise tax.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: The DNR reached out to work with stakeholders, including private forest landowners on this issue. Providing additional clarity to the REET tax is important. Fiscal impacts are a concern and need to be reviewed. This is similar to an issue with compensating tax that was addressed by the Legislature last year. When a public entity purchases working forestlands from a private seller, that seller may be surprised to have to pay the higher graduated REET tax rate. The state will have to pay more for the land to cover the compensating tax, even though the lands will remain a working forest.

Persons Testifying: PRO: Senator Mike Chapman, Prime Sponsor; Tom Davis, WA Forest Protection Association; Michael Siptroth, na; Duane Emmons, Department of Natural Resources.

Persons Signed In To Testify But Not Testifying: No one.