

WSR 21-23-056

EXPEDITED RULES

DEPARTMENT OF REVENUE

[Filed November 10, 2021, 2:41 p.m.]

Title of Rule and Other Identifying Information: WAC 458-29A-600 Leasehold excise tax—Collection and administration.

Purpose of the Proposal and Its Anticipated Effects, Including Any Changes in Existing Rules: The department is amending WAC 458-29A-600 to incorporate 2021 legislation, EHB [ESSB] 5251, section 17, and 2017 legislation, SSB 5977, section 1302, which is effective January 1, 2022.

Reasons Supporting Proposal: Updating this rule will provide current guidance on the administration and credits available for leasehold excise tax.

Statutory Authority for Adoption: RCW 82.29A.140.

Statute Being Implemented: RCW 82.29A.090 and 82.29A.120.

Rule is not necessitated by federal law, federal or state court decision.

Name of Proponent: Department of revenue, governmental.

Name of Agency Personnel Responsible for Drafting: Leslie Mullin, 6400 Linderson Way S.W., Tumwater, WA, 360-534-1589; Implementation and Enforcement: John Ryser, 6400 Linderson Way S.W., Tumwater, WA, 360-534-1605.

This notice meets the following criteria to use the expedited adoption process for these rules:

Adopts or incorporates by reference without material change federal statutes or regulations, Washington state statutes, rules of other Washington state agencies, shoreline master programs other than those programs governing shorelines of statewide significance, or, as referenced by Washington state law, national consensus codes that generally establish industry standards, if the material adopted or incorporated regulates the same subject matter and conduct as the adopting or incorporating rule.

Explanation of the Reason the Agency Believes the Expedited Rule-Making Process is Appropriate: The expedited rule-making process is applicable to this rule update because the department is incorporating changes resulting from 2017 and 2021 legislation.

NOTICE

THIS RULE IS BEING PROPOSED UNDER AN EXPEDITED RULE-MAKING PROCESS THAT WILL ELIMINATE THE NEED FOR THE AGENCY TO HOLD PUBLIC HEARINGS, PREPARE A SMALL BUSINESS ECONOMIC IMPACT STATEMENT, OR PROVIDE RESPONSES TO THE CRITERIA FOR A SIGNIFICANT LEGISLATIVE RULE. IF YOU OBJECT TO THIS USE OF THE EXPEDITED RULE-MAKING PROCESS, YOU MUST EXPRESS YOUR OBJECTIONS IN WRITING AND THEY MUST BE SENT TO Leslie Mullin, Department of Revenue, P.O. Box 47467, Olympia, WA 98504-7467, phone 360-534-1589, fax 360-534-1606, email LeslieMu@dor.wa.gov, AND RECEIVED BY January 17, 2022.

November 10, 2021
Atif Aziz
Rules Coordinator

OTS-3427.1

AMENDATORY SECTION (Amending WSR 14-14-034, filed 6/24/14, effective 7/25/14)

WAC 458-29A-600 Leasehold excise tax—Collection and administration. (1) **Introduction.** Leasehold excise tax is levied by the state under RCW 82.29A.030 and by counties and/or cities under RCW 82.29A.040. The administrative procedures contained in chapters 82.02 and 82.32 RCW apply to the administration and collection of the leasehold excise tax.

(2) **Tax imposed.** The rates at which leasehold excise tax is levied are contained in RCW 82.29A.030 and 82.29A.040. The department publishes documents containing the applicable rates, credits, and formulas. These documents are updated as necessary and are available upon request.

(3) **Separate listing requirement.** The amount of leasehold excise tax due must be listed separately from the amount of contract rent on any statement or other document provided to the lessee by the lessor. If the leasehold excise tax is not stated separately from the contract rent, it is assumed that the leasehold excise tax is not included in the amount stated as due.

(4) **Credits allowed against leasehold excise tax.** Because the leasehold excise tax is intended only to equalize treatment between private property owners and lessees of public entities, the amount of leasehold excise tax should not exceed the amount of property tax that would be due if the leased property was privately owned. Therefore, in calculating the taxes imposed under RCW 82.29A.030 and 82.29A.040, RCW 82.29A.120 authorizes the following credits:

(a) ~~((Leasehold interests created after April 1, 1986, or situations where the department has established taxable rent. Where a leasehold interest other than a product lease was created after April 1, 1986, or where the department has established taxable rent in accordance with RCW 82.29A.020 (2) (b), and the amount of leasehold excise tax due is greater than the amount of property tax that would be due if the property was privately owned by the lessee, without regard to any property tax exemption under RCW 84.36.381, a credit equal to the difference between the leasehold excise tax and the comparable property tax will be allowed. This credit expires at midnight, July 27, 2013.~~

~~If the property is subleased, any allowable credit must be passed on to the sublessee.)~~ **Property tax exemption under RCW 84.36.381.** Lessees and sublessees of residential property who would qualify for either a partial or total exemption from property tax under RCW 84.36.381 if they owned the property in fee are eligible for a corresponding reduction in the amount of leasehold excise tax due. The leasehold excise tax for the qualifying lessees or sublessees is reduced by the same percentage as the percentage reduction in property tax that would result from the property tax exemption under RCW 84.36.381.

(b) **Product leases.** A credit of ~~((thirty-three))~~ 33 percent of the total leasehold excise tax due is allowed for product leases.

(c) **Real property owned by a state university.** For a leasehold interest in real property owned by a state university, a credit is allowed equal to the amount of leasehold excise tax due under chapter 82.29A RCW that exceeds the amount of property tax that would be due

if the property was privately owned by the taxpayer. The credit is available only if the tax parcel that is subject to the leasehold interest has a market value in excess of \$10,000,000. If the leasehold interest attaches to two or more parcels, the credit is available if at least one of the tax parcels has a market value in excess of \$10,000,000. In either case, the market value must be determined as of January 1st of the year prior to the year for which the credit is claimed. This credit may not be claimed for tax reporting periods beginning on or after January 1, 2032, and the credit may not be claimed or approved on or after January 1, 2032. For purposes of this subsection (4)(c), the following definitions apply:

(i) "Market value" means the true and fair value of the property as that term is used in RCW 84.40.030, based on the property's highest and best use and determined by any reasonable means approved by the department;

(ii) "Real property" has the same meaning as in RCW 84.04.090, and also includes all improvements upon the land the fee of which is still vested in the public owner; and

(iii) "State university" has the same meaning as provided in RCW 28B.10.016.

(5) **When payment is due.** The leasehold excise taxes are due on the same date that the contract rent is due to the lessor. If the contract rent is paid to someone other than the lessor, the leasehold tax is due at the time the payment is made to that other person or entity. Any prepaid contract rent will be deemed to have been paid in the year due and not in the year in which it was actually paid if the prepayment is for more than one year's rent. If contract rent is prepaid, the leasehold tax payment may be prorated over the number of years for which the contract rent is prepaid. The prorated portion of the tax will be due in two installments per year, with no less than one-half due on or before May 31st and the second half due no later than November 30th of each year.

(6) **Collection and distribution of tax by the department.** The department collects and distributes the leasehold excise taxes authorized by RCW 82.29A.030 and 82.29A.040.

(a) **Taxes levied by the state.** All money received by the department from leasehold taxes levied under RCW 82.29A.030 is transmitted to the state treasurer for deposit in the general fund.

(b) **Taxes levied by counties and cities.** Prior to the effective date of the ordinance imposing a leasehold excise tax, the county or city imposing the tax must contract with the department for administration and collection services. The department may deduct a percentage, not to exceed two percent, of the taxes collected as reimbursement for administration and collection expenses. RCW 82.29A.080. The department deposits the balance of the taxes collected in the local leasehold excise tax account with the state treasury, and the state treasurer (~~bimonthly~~) distributes those moneys to the counties and cities on a monthly basis.

County treasurers must proportionately distribute the moneys they receive in the same manner they distribute moneys collected from property tax levies in accordance with RCW 84.56.230, provided that no moneys are to be distributed to the state or any city, and the pro rata calculation for proportionate distribution cannot include any levy rates by the state or any city.

(7) **Leasehold interests in federally owned land or federal trust land.** Lessees with a leasehold interest in federally owned lands or

federal trust lands must report and remit the leasehold tax due directly to the department on an annual reporting basis.

[Statutory Authority: RCW 82.01.060 and 82.29A.140. WSR 14-14-034, § 458-29A-600, filed 6/24/14, effective 7/25/14. Statutory Authority: RCW 82.29A.140. WSR 99-20-053, § 458-29A-600, filed 10/1/99, effective 11/1/99.]