

PROPERTY TAXES

PROPERTY TAX EXEMPTIONS - PERSONAL PROPERTY

84.36.070 INTANGIBLES

Description: Intangible personal property is exempt from property tax. Included in the definition of intangibles are: (1) all money and credits, such as mortgages, cash, deposits, loans and securities; (2) private personal service contracts and athletic franchises or agreements; and (3) other intangible personal property including trademarks, trade names, trade secrets, patents, copyrights, franchise agreements, customer lists, licenses and permits, etc. The law specifically excludes characteristics and attributes of real property (zoning, location, view, geographic features, etc.) from the definition of intangibles.

Purpose: To avoid double taxation of tangible assets underlying intangible assets. Also the exemption recognizes the administrative difficulty of locating and valuing such mobile assets.

Category/Year Enacted: Intangibles. 1931. In 1997 the definition was revised to illustrate the three broad categories of intangibles noted above.

Primary Beneficiaries: Holders of intangible assets, both individuals and businesses.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)*</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 3,577,334	\$ 3,854,324	\$ 4,101,623	\$ 4,240,742
Local levies	\$13,735,003	\$15,019,284	\$16,219,509	\$17,025,961

*Estimates based on the full value of assets and existing levy rates; assumes no tax on real estate mortgages or government securities. NOTE: the estimate was increased significantly compared with earlier years, because of a change in methodology and available forecasts of financial assets.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Unlikely - to some extent other taxpayers would experience reduced taxes for the state levy and most local levies. The addition of such a large amount of taxable value would force property tax receipts to the maximum allowable receipts under existing levy limitation; thus there would be the potential for significant additional revenue. However, there would be a significant compliance problem, because intangibles are easily concealed or moved to other states. The few states that attempt to tax intangibles do so either: (1) under the property tax but at very low millage rates, or (2) under an income tax levied on the gains accruing from the assets.

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84.36.079 SHIPS AND VESSELS UNDER CONSTRUCTION

Description: Property tax exemption is provided for vessels of more than 1,000 ton burden which are under construction within the state. Included are the materials and parts held by the builder at the construction site for incorporation into such vessels. (Note: any construction of state ferry boats or Naval vessels would be covered under the public property exemption.)

Purpose: To improve the competitive position of shipyards in Washington.

Category/Year Enacted: Business incentive. 1959

Primary Beneficiaries: Owners of vessels under construction and the shipyards where the activity occurs.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None; no construction of private ships of this magnitude has taken place in recent years and none is anticipated in the near future.

84.36.080(1) COMMERCIAL VESSELS

Description: Vessels used for commercial fishing or for transportation of persons or freight in interstate commerce are subject to the state property tax only and are exempt from all local levies. An apportionment system (RCW 84.40.036) was adopted in 1986 which allocates a portion of the vessel's value to this state based on the length of time spent in Washington waters. Vessels in the state for less than 120 days per year are entirely exempt.

Purpose: To promote ocean-going commerce and commercial fishing in Washington.

Category/Year Enacted: Business incentive. 1931

Primary Beneficiaries: About 3,000 commercial fishing boats and documented commercial vessels.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 912	\$ 923	\$ 916	\$ 891
Local levies	\$ 7,597	\$ 8,080	\$ 8,454	\$ 8,688

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

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84.36.080(2) HISTORIC VESSELS

Description: Ships and vessels listed on the state or federal register of historic places are exempt from property tax.

Purpose: To encourage retention and restoration of historic boats.

Category/Year Enacted: Individuals. 1986

Primary Beneficiaries: Owners of approximately 20 vessels.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 28	\$ 30	\$ 32	\$ 33
Local levies	\$ 112	\$ 122	\$ 131	\$ 137

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

84.36.090 OTHER SHIPS AND VESSELS

Description: All ships and vessels, other than those exempted above under RCWs 84.36.079 and 84.36.080, are exempt from property tax.

Purpose: To protect the owners of pleasure boats and other vessels from paying both the personal property tax and the 0.5 percent state watercraft excise tax.

Category/Year Enacted: Individuals. 1931 (the exemption applied only to 80% of local levies until 1984).

Primary Beneficiaries: Owners of pleasure boats.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)*</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ (10,434)	\$ (11,457)	\$ (12,468)	\$ (13,246)
Local levies	\$ 23,735	\$ 24,612	\$ 25,388	\$ 26,896

*Assumes the state 0.5% watercraft excise tax is in lieu of personal property tax; thus the amount of this tax has been subtracted to indicate the net impact of both taxes.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

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84.36.105 CARGO CONTAINERS

Description: Cargo containers that are principally used in ocean commerce are exempt from property tax.

Purpose: To help Washington ports compete with other West Coast ports.

Category/Year Enacted: Business incentive. 1975

Primary Beneficiaries: Owners of cargo containers.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 256	\$ 269	\$ 284	\$ 293
Local levies	\$ 991	\$ 1,057	\$ 1,134	\$ 1,190

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

84.36.110(1) HOUSEHOLD GOODS AND PERSONAL EFFECTS

Description: Household items and furnishings in actual use by the owner and personal effects held by any person for his/her personal use are exempt from property tax. Originally, the exemption was limited to \$300 of household goods, but in 1935 it was broadened to include all household items in a residence which were not used for commercial purposes or held for sale.

Purpose: To avoid the administrative difficulty of locating and listing household items and establishing current values for used items.

Category/Year Enacted: Individuals. 1871

Primary Beneficiaries: Approximately 2.6 million residential households in the state.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 68,732	\$ 71,030	\$ 72,934	\$ 73,526
Local levies	\$274,310	\$287,710	\$299,799	\$306,850

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

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84.36.110(2) \$15,000 OF PERSONAL PROPERTY

Description: In addition to the complete exemption of household goods and personal effects, the first \$15,000 of taxable personal property for heads of families is exempt from property tax. Since households typically have no other personal property tax liability, this exemption effectively reduces the personal property tax liability of non-corporate businesses, which are subject to personal property tax on business equipment and supplies.

Purpose: The exemption was originally intended to exempt household goods and furnishings up to a value of \$300. When the statute was expanded to completely exempt household goods, furnishings and personal effects, the \$300 exemption effectively applied only to heads of families who have taxable personal property used in a business activity (essentially sole proprietors).

Category/Year Enacted: Individuals. 1890; increased from \$300 to \$3,000 in 1988 and to \$15,000 in 2006.

Primary Beneficiaries: Approximately 15,200 firms apply for the exemption.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 314	\$ 317	\$ 315	\$ 308
Local levies	\$ 1,116	\$ 1,144	\$ 1,153	\$ 1,144

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

84.36.240 SOIL AND WATER CONSERVATION DISTRICTS

Description: Personal property belonging solely to soil and water conservation districts is exempt from property tax.

Purpose: To assist what is essentially a quasi-governmental activity.

Category/Year Enacted: Government. 1963

Primary Beneficiaries: There are 47 soil and water conservation districts.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 2	\$ 3	\$ 3	\$ 3
Local levies	\$ 9	\$ 10	\$ 11	\$ 11

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

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84.36.300 GOODS IN TRANSIT

Description: Goods, wares, merchandise and materials are exempt from property tax, if they are acquired by the taxpayer by any means other than by manufacture within Washington for the purpose of sale or shipment in substantially the same form they were acquired. Breaking of packages or of bulk shipments, packaging, repackaging, labeling or relabeling is not considered a change of form. Items exempted include aircraft parts, equipment, furnishings and accessories but not engines or major structural components that are manufactured outside of Washington.

Purpose: To encourage trade and promote manufacturing within the state.

Category/Year Enacted: Business incentive. 1961

Primary Beneficiaries: Wholesalers of goods passing through the state and manufacturers of aircraft.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) Impact is included with the inventory exemption, RCW 84.36.477.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

84.36.470 AGRICULTURAL PRODUCTS

Description: All agricultural products, as defined in RCW 82.04.213, grown or produced for sale by a person on lands owned or leased by the producer are exempt from property tax.

Purpose: Originally, the exemption was intended to assist a depressed agricultural economy. Now that business inventories are exempt from property tax, the exemption of agricultural products following harvest is superfluous because these items are held for sale, i.e. business inventory.

Category/Year Enacted: Agriculture. 1984; following reduced assessment from 1975 through 1983 and earlier limited exemptions in 1933 and 1939.

Primary Beneficiaries: Agricultural producers, processors and shippers.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 9,181	\$ 9,847	\$ 10,392	\$ 10,748
Local levies	\$ 36,643	\$ 39,887	\$ 42,717	\$ 44,854

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.
Furthermore, harvested agricultural products would likely be considered as exempt inventories.

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84.36.477 BUSINESS INVENTORIES
84.36.510 MOBILE HOME INVENTORIES

Description: Business inventories, including most products held for sale, are exempt from property tax.

Purpose: To provide a stimulant to the economy and help to make Washington competitive with neighboring states that eliminated personal property taxes on business inventories. (It should be noted that the state B&O tax applies to inventories each time they are sold at the wholesale or retail level.)

Category/Year Enacted: Other business. 1974, effective for taxes due in 1984, following a ten year period during which an increasing percentage of the personal property tax paid on inventories was allowed as a credit against the state B&O tax.

Primary Beneficiaries: Manufacturers, wholesalers and retailers.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 83,000	\$ 87,000	\$ 92,000	\$ 95,000
Local levies	\$320,000	\$341,000	\$366,000	\$385,000

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

84.36.590 VITRIFICATION EQUIPMENT

Description: Personal property located on land owned by the U.S. government at the Hanford reservation is exempt from property tax if it is used exclusively in the performance of a privatization contract to pre-treat, treat, vitrify or immobilize tank waste. The personal property must be used by the person who has a privatization contract to perform tank waste clean-up operations at the Hanford Reservation.

Purpose: To support the nuclear waste clean-up activities at Hanford.

Category/Year Enacted: Business incentive. 2000

Primary Beneficiaries: None.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None. One vitrification plant is being constructed at Hanford, but it is not anticipated to be operational until 2019. The plant and equipment will be owned by the US Department of Energy and will be operated by a private contractor. Any equipment used in this effort that is owned directly by the federal government would be exempt under RCW 84.36.010, not this statute.

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84.36.595 MOTOR VEHICLES, TRAVEL TRAILERS, CAMPERS

Description: Motor vehicles, travel trailers and campers are exempt from property tax.

Purpose: Prior to 1951 vehicles were subject to property taxation, but became exempt when they were subject to the motor vehicle excise tax which was in lieu of property tax. When the state motor vehicle excise tax was repealed in 2000, vehicles were technically again subject to property tax. Thus, this exemption was enacted to assure that property tax does not apply to vehicles.

Category/Year Enacted: Tax base. 2000

Primary Beneficiaries: Individuals and businesses who own vehicles.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$125,567	\$134,994	\$142,790	\$148,285
Local levies	\$501,140	\$546,802	\$586,940	\$618,845

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

84.36.600 CUSTOM COMPUTER SOFTWARE

Description: Custom computer software, except for embedded software, is exempt from property tax. Custom software is defined as software that is designed for a specific need for a single person or group of persons. Also exempt are master or golden copies of software, retained rights in computer software and modifications to canned software.

Purpose: To recognize the administrative difficulties in valuing such software and to achieve uniform tax treatment in all counties.

Category/Year Enacted: Other business. 1991

Primary Beneficiaries: Businesses that own custom computer software.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 1,219	\$ 1,280	\$ 1,351	\$ 1,394
Local levies	\$ 4,719	\$ 5,032	\$ 5,397	\$ 5,666

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

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84.36.630 FARM MACHINERY

Description: Personal property in the form of machinery and equipment owned by a farmer and used in growing and producing agricultural products is exempt from the state property tax only. Farm machinery is still subject to local property tax levies.

Purpose: To reduce the property tax burden for farmers.

Category/Year Enacted: Agriculture. 2001

Primary Beneficiaries: Farmers who own machinery and equipment.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 1,033	\$ 1,066	\$ 1,081	\$ 1,076
Local levies	\$ 0	\$ 0	\$ 0	\$ 0

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy.

84.36.645 EQUIPMENT FOR MANUFACTURING SEMICONDUCTOR MATERIALS

Description: All manufacturing machinery and equipment used by the cluster of firms in the semiconductor industry is exempt from property tax if two conditions are met: (1) the equipment must be exempt from retail sales/use tax as manufacturing machinery; and (2) a new semiconductor fabrication facility begins commercial operation in the state. Such a facility must have invested at least \$1 billion in buildings and equipment in Washington. If both conditions are met, the property tax exemption will apply for the first 12 years following completion of the \$1 billion fabrication facility. However, these criteria have not yet been met, and it is believed that the investment will not occur during the forecast period of this study.

Purpose: To encourage the retention of existing semiconductor firms in Washington and to attract similar businesses to this state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: None, because the contingency criteria have not been met.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None to date.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

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84.40.030(3) GROWING CROPS

Description: Crops that have not been harvested as of the January 1 assessment date are excluded from the value of agricultural land for property tax purposes.

Purpose: Most crops are harvested at the end of the growing season and therefore are not subject to property tax. This exemption provides equal treatment for the few crops that may be growing in the ground on January 1, principally winter wheat and fall barley.

Category/Year Enacted: Agriculture. 1890

Primary Beneficiaries: Farmers who have crops growing on January 1.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 186	\$ 200	\$ 211	\$ 218
Local levies	\$ 744	\$ 810	\$ 867	\$ 911

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

84.40.037 CANNED COMPUTER SOFTWARE

Description: "Canned" computer software, except embedded software, is subject to property tax on 100 percent of the acquisition cost in the first year following purchase and on 50 percent of the cost in the second year. Thereafter, it is exempt from property tax. Canned software refers to software programs that are purchased "off the shelf" for direct use without modification for the specific needs of the user.

Purpose: To recognize the rapid obsolescence of software and the difficulty of establishing accurate depreciation schedules for the myriad of software programs. Also, it helps to provide uniformity of taxation throughout the state.

Category/Year Enacted: Other business. 1991

Primary Beneficiaries: Businesses that own canned software.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 2,901	\$ 3,046	\$ 3,215	\$ 3,319
Local levies	\$ 11,230	\$ 11,977	\$ 12,845	\$ 13,487

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.

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84.40.220 NURSERY STOCK

Description: Nursery stock grown in pots or bags is exempt from property tax. This exemption was enacted when the industry changed its method of growing such products by switching to pots and bags, rather than in the ground. Because this stock is not grown in the ground, it is not included in the growing crops exemption under RCW 84.40.030(3).

Purpose: To provide tax treatment for nursery stock that is equivalent to growing crops.

Category/Year Enacted: Agriculture. 1971

Primary Beneficiaries: About 200-300 producers of nursery stock.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
State levy	\$ 129	\$ 138	\$ 145	\$ 150
Local levies	\$ 513	\$ 558	\$ 598	\$ 628

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No - other taxpayers would experience reduced taxes for the state levy and most local levies.