

PROPERTY TAXES

IN LIEU EXCISE TAXES - LEASEHOLD EXCISE TAX

35.21.755 PUBLIC HISTORICAL SITES

Description: Exemption from leasehold excise tax is provided for property listed on a federal or state historic register that is controlled by a public corporation, commission or authority that was in existence before 1987. Also exempt is property that is located in a special review district which was established prior to 1976.

Purpose: To support the social benefits provided by publicly owned historical sites.

Category/Year Enacted: Government. 1977

Primary Beneficiaries: There are approximately ten properties exempt under this statute.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 186	\$ 191	\$ 197	\$ 203
Local taxes	\$ 163	\$ 168	\$ 173	\$ 178

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

82.29A.020(1) GOVERNMENT MANUFACTURING

Description: Excluded from the term "leasehold interest" is any interest in personal property owned by the U.S. government or a foreign government, if the right to use such property is part of a contract to produce articles for sale to these governments.

Purpose: To minimize the cost of the articles produced and to encourage the federal government to contract with Washington businesses.

Category/Year Enacted: Government. 1976

Primary Beneficiaries: Contractors with the federal and foreign governments.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 1,172	\$ 1,230	\$ 1,292	\$ 1,356
Local taxes	\$ 1,028	\$ 1,079	\$ 1,133	\$ 1,190

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

PROPERTY TAXES

82.29A.020(1) EASEMENTS FOR REMOVING PRODUCTS

Description: Excluded from the term "leasehold interest" are road or utility easements and rights of access, occupancy or use for the purpose of removing materials or products purchased from a public owner or lessee or for the purpose of natural energy resource exploration.

Purpose: To minimize costs to private firms and individuals who use public lands for these purposes.

Category/Year Enacted: Other. 1976

Primary Beneficiaries: Utility companies and other businesses and individual who must have long-term access across public lands or who use public roads on a temporary basis to remove timber, minerals, etc. that are purchased from public entities.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 186	\$ 191	\$ 197	\$ 203
Local taxes	\$ 163	\$ 168	\$ 173	\$ 178

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.29A.020(2) HANFORD LEASES, SPECIAL FEES

Description: For purposes of determining leasehold tax on lands on the Hanford reservation which are subleased to a private or public entity by the Department of Ecology, the term "taxable rent" includes only the annual cash rental payment and does not include fees, assessments or other charges.

Purpose: To reduce the cost of such leases.

Category/Year Enacted: Other business. 1991

Primary Beneficiaries: One firm meets the special criteria for this exclusion.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 7	\$ 6	\$ 5	\$ 5
Local taxes	\$ 6	\$ 5	\$ 4	\$ 4

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Unlikely; this reflects a negotiated settlement between the state and the firm.

PROPERTY TAXES

82.29A.120(1) CREDIT FOR EXCESSIVE LEASEHOLD TAX

Description: A credit is allowed against leasehold tax for two types of leases: (1) those executed after April 1, 1986, and (2) leases in which the Dept. of Revenue determines the amount of contract rent. For both types of leases the credit is equal to the amount that the computed leasehold tax exceeds the amount of property taxes that would apply to the leased property if the property were in private ownership.

Purpose: The credit assures that the leasehold tax, which is in lieu of property tax, does not exceed the equivalent amount of property tax.

Category/Year Enacted: Other business. 1986

Primary Beneficiaries: Lessees of public property.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 205	\$ 211	\$ 218	\$ 224
Local taxes	\$ 180	\$ 185	\$ 191	\$ 197

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.29A.120(2) PRODUCT LEASES, 33% CREDIT

Description: A credit is allowed equal to 33 percent of the tax otherwise due on product leases, i.e., leases where the lessee pays the lessor a percentage of the value of the crop produced on the land.

Purpose: To support agriculture.

Category/Year Enacted: Agriculture. 1976; definition of products broadened in 1999.

Primary Beneficiaries: Farmers who produce crops or graze livestock on publicly owned land.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 104	\$ 104	\$ 104	\$ 104
Local taxes	\$ 91	\$ 91	\$ 91	\$ 91

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

PROPERTY TAXES

82.29A.130(3) SUBSIDIZED HOUSING

Description: Excluded from leasehold excise tax are leases of subsidized housing where fee ownership is vested in the U.S. government, the state, or any political subdivision. There must be an income qualification for such housing in order for the exemption to apply.

Purpose: To support public housing for low-income individuals.

Category/Year Enacted: Government. 1976

Primary Beneficiaries: Public housing authorities and the individuals who reside in subsidized housing.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 3,622	\$ 3,731	\$ 3,843	\$ 3,958
Local taxes	\$ 3,177	\$ 3,272	\$ 3,371	\$ 3,472

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

82.29A.130(5) RESIDENCES OF PUBLIC EMPLOYEES

Description: When public employees are required by the terms of their employment to live in a publicly owned residence (e.g., at state parks), the employee is not subject to leasehold excise tax.

Purpose: This exemption was enacted as part of legislative policy to not tax government. Also, the tax would in essence reduce employee compensation or increase government costs.

Category/Year Enacted: Government. 1976

Primary Beneficiaries: Public employees who must live in government housing.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 103	\$ 106	\$ 109	\$ 112
Local taxes	\$ 90	\$ 93	\$ 95	\$ 98

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

PROPERTY TAXES

82.29A.130(6-7) INTERESTS OF ENROLLED INDIANS

Description: Leasehold interest in Indian lands by both Indians and non-Indians is exempt from leasehold tax. Leases by non-Indians are exempt only when the contract rent paid is greater than or equal to 90 percent of fair market value.

Purpose: RCW 82.29A.130(6) recognizes that federal law prohibits the taxation of trust lands of enrolled Indians. RCW 82.29A.130(7) encourages such leases.

Category/Year Enacted: Government. 1976

Primary Beneficiaries: Indians and non-Indians with qualifying leases of Indian property.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 274	\$ 282	\$ 290	\$ 299
Local taxes	\$ 240	\$ 247	\$ 256	\$ 262

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? No.

82.29A.130(8-9) LEASES OF LESS THAN \$250 PER YEAR OR 30 DAYS

Description: Leases of public property are exempt from leasehold tax if the total annual rent is less than \$250 or if the lease period does not exceed 30 days in duration.

Purpose: The \$250 annual threshold supports small businesses and provides administrative convenience for both lessees and lessors. The 30 day threshold can apply to both small and large lessees. It encourages short-term events, such as sporting events and trade shows, to take place in Washington.

Category/Year Enacted: Other business. 1976

Primary Beneficiaries: Qualifying lessees.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 1,710	\$ 1,761	\$ 1,814	\$ 1,869
Local taxes	\$ 1,500	\$ 1,545	\$ 1,591	\$ 1,639

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

PROPERTY TAXES

82.29A.130(10) HOMES PENDING DESTRUCTION

Description: Month-to-month leases in residential units rented for residential purposes pending destruction or removal to construct a public highway or building are exempt from leasehold tax.

Purpose: When a private residence is either condemned or purchased outright to make way for a public project, this exemption provides tax relief during the transition period.

Category/Year Enacted: Other. 1976

Primary Beneficiaries: Residents of homes awaiting destruction or removal.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 31	\$ 32	\$ 33	\$ 34
Local taxes	\$ 27	\$ 28	\$ 29	\$ 30

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

82.29A.130(11) PUBLIC WORKS CONTRACTS

Description: Leasehold interest of public works contractors who use public property while completing public works projects is not subject to leasehold excise tax.

Purpose: To minimize the cost to government of public works construction projects.

Category/Year Enacted: Government. 1976

Primary Beneficiaries: Public works contractors and the government entities with whom they contract.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 26	\$ 27	\$ 28	\$ 29
Local taxes	\$ 23	\$ 24	\$ 24	\$ 25

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

PROPERTY TAXES

82.29A.130(12) INMATE EMPLOYMENT PROGRAMS

Description: Leasehold tax exemption is provided for firms that use space in correctional facilities in conjunction with comprehensive inmate work programs.

Purpose: To promote such programs.

Category/Year Enacted: Government. 1992

Primary Beneficiaries: Approximately 15 firms that are involved with inmate employment programs, as well as the correctional institution.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 20	\$ 20	\$ 21	\$ 22
Local taxes	\$ 17	\$ 18	\$ 18	\$ 19

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Unlikely.

82.29A.130(13) CAMPS FOR DISABLED PERSONS

Description: Nonprofit organizations that provide organized and supervised recreational activities for disabled persons of all ages in a camp facility and for public recreational purposes are exempt from tax.

Purpose: To support the activities of qualifying nonprofit organizations.

Category/Year Enacted: Nonprofit - health or social welfare. 1995

Primary Beneficiaries: There is one known organization that operates a camp for disabled persons on leased public property.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 2	\$ 2	\$ 2	\$ 2
Local taxes	\$ 2	\$ 2	\$ 2	\$ 2

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

PROPERTY TAXES

82.29A.130(14) PROFESSIONAL BASEBALL STADIUM

Description: Leasehold tax exemption is allowed for all interests in the public or entertainment areas of a professional baseball stadium located in Seattle. The facility must have natural turf, a retractable roof, seating capacity of at least 40,000, and be located in King County. Construction of the facility must commence by January 1, 1995 to be eligible for the exemption. The exemption does not extend to nonpublic areas of the stadium such as locker rooms and private offices.

Purpose: To encourage construction and operation of Safeco Field.

Category/Year Enacted: Business incentive. 1995

Primary Beneficiaries: The Seattle Mariners.

Possible Program Inconsistency: Other leases of publicly owned sports facilities are subject to leasehold tax if the lessee has exclusive use of the facility. However, many leases of sports facilities are considered as a license to use the facility rather than an exclusive lease, and therefore leasehold tax does not apply.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 45	\$ 47	\$ 48	\$ 49
Local taxes	\$ 40	\$ 41	\$ 42	\$ 43

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.29A.130(15) PROFESSIONAL FOOTBALL STADIUM

Description: Leasehold tax exemption is provided for all interests in the public or entertainment areas of an open-air stadium that is suitable for professional football and Olympic/World Cup soccer which is constructed after January 1, 1998. The exemption also applies to an exhibition center and associated parking facilities adjacent to the stadium. The exemption does not extend to nonpublic areas of the stadium, such as locker rooms and private offices which are used exclusively by the lessee.

Purpose: To encourage construction and operation of Seahawks Stadium.

Category/Year Enacted: Business incentive. 1997

Primary Beneficiaries: The Seattle Seahawks and soccer teams that utilize the stadium.

Possible Program Inconsistency: Other leases of publicly owned sports facilities are subject to leasehold tax if the lessee has exclusive use of the facility. However, many leases of sports facilities are considered as a license to use the facility rather than an exclusive lease, and therefore leasehold tax does not apply.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 59	\$ 61	\$ 62	\$ 63
Local taxes	\$ 52	\$ 53	\$ 54	\$ 55

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

PROPERTY TAXES

82.29A.130(16) PUBLIC FACILITIES DISTRICTS

Description: Leasehold tax does not apply to interests in property owned by public facilities districts. Facilities covered by the exemption include sports facilities, entertainment venues, conference and convention centers and special events facilities.

Purpose: To encourage construction and utilization of these public facilities.

Category/Year Enacted: Business incentive. 1999

Primary Beneficiaries: Public facility districts and persons who lease their facilities.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 48	\$ 49	\$ 51	\$ 52
Local taxes	\$ 42	\$ 43	\$ 44	\$ 46

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.29A.132 2nd NARROWS BRIDGE

Description: Leasehold interests in state route 16 corridor transportation systems and facilities, constructed and operated pursuant to Chapter 47.46 RCW, are exempt from leasehold excise tax. This includes the second bridge over Puget Sound at the Tacoma Narrows and its approaches.

Purpose: When adopted, this exemption was predicated upon the assumption that upon completion of the bridge, the state would lease the bridge to the private entity that constructed the facility to operate and maintain it for the term of the lease. This statute exempted such a lease from leasehold excise tax. However, the ownership arrangements have since changed and no lease of the facility is currently contemplated.

Category/Year Enacted: Business incentive. 1998

Primary Beneficiaries: None.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None. No lease of the facility is currently contemplated.

PROPERTY TAXES

82.29A.134 R.T.A. SALE/LEASEBACKS

Description: Leasehold interests in property owned by a Regional Transit Authority are exempt from leasehold tax, if they are in connection with a sale/leaseback arrangement pursuant to RCW 81.112.300.

Purpose: The sale/leaseback arrangement (technically a lease/leaseback) is a financing mechanism to facilitate the acquisition of personal property by the RTA. It is anticipated that this procedure will be used to acquire the rolling stock for the high capacity transit system, currently being developed by Sound Transit. Under this arrangement, the personal property is leased by Sound Transit to an institutional equity investor which will, in turn, lease the equipment back to Sound Transit. The principal benefit to the investor is that it may depreciate the property for federal income tax purposes (which Sound Transit could not do). For Sound Transit the major benefit is that there should be a difference between the two leases, resulting principally from the timing of the payments, which will yield an up-front net benefit of about 6-8 percent of the cost of the equipment. This exemption merely facilitates adoption of the agreement by ensuring that there will be leasehold tax liability on the personal property which is transferred to the investor and then transferred back to Sound Transit.

Category/Year Enacted: Government. 2000

Primary Beneficiaries: Sound Transit and the institutional investor.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) It is understood that Sound Transit has entered into one sale/leaseback agreement to date. However, it is assumed that there is no net impact on leasehold tax resulting from this exemption, since there would be no leasehold tax liability for Sound Transit if it had retained actual ownership of the personal property covered by the agreement.

82.29A.135 GASOHOL FACILITIES

Description: Leasehold interests in real and personal property used primarily for manufacturing alcohol fuel, biodiesel fuel, and wood biomass fuel are exempt from leasehold tax. The exemption is available for six years after the facility is operational. The exemption is scheduled to expire at the end of 2009.

Purpose: To encourage the production of alcohol for use in gasohol fuel and reduce the reliance on petroleum-based fuel.

Category/Year Enacted: Business incentive. 1980; amended in 2003 to include biodiesel and wood biomass fuel and to establish the 2009 expiration date.

Primary Beneficiaries: None currently.

Possible Program Inconsistency: None evident.

Taxpayer Savings (\$000) None. There are no known facilities that currently qualify.

PROPERTY TAXES

82.29A.136 RESIDENTIAL/RECREATIONAL DEVELOPMENTS

Description: Leasehold interests comprised of three thousand or more residential and recreational lots which are subleased for residential or recreational purposes are exempt from leasehold excise tax and subject instead to property taxes.

Purpose: The purpose is to treat these lots in a similar manner to other housing and recreational properties. Lessees avoid a processing fee and the properties are governed by the various limits on property tax levies.

Category/Year Enacted: Tax base. 2001

Primary Beneficiaries: Lessees of lots at Lake Cushman which are owned by the City of Tacoma.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 82	\$ 85	\$ 36	\$ 115
Local taxes	\$ (111)	\$ (116)	\$ (219)	\$ (162)

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Yes, but only for the leasehold tax; property taxes would decrease. Overall, the lessees are paying somewhat more tax under the property tax than they would under leasehold tax, but this is not expected to continue for the long run.

82.29A.137 FACILITIES FOR PRODUCING SUPER-EFFICIENT AIRCRAFT

Description: Leasehold interests held by a manufacturer of a super-efficient airplane in property of a port district are exempt from leasehold excise tax. This exemption is scheduled to expire on July 1, 2024.

Purpose: To encourage siting of a facility for production of a super-efficient airplane in Washington. This exemption addresses the possibility that such a facility might be located on port property.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Any manufacturer of such an airplane that locates on port district property.

Possible Program Inconsistency: None evident.

<u>Taxpayer Savings (\$000)*</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
State tax	\$ 0	\$ 1,100	\$ 2,300	\$ 2,300
Local taxes	\$ 0	\$ 965	\$ 2,018	\$ 2,018

*Estimates assume location of the facility on port district property.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.