

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 1801 S HB	<b>Title:</b> Farm & agr land tx exemption
-------------------------------	--

## Estimated Cash Receipts

Agency Name	2005-07		2007-09		2009-11	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	(2,774,000)	(3,005,000)	(3,069,000)	(3,325,000)	(3,256,000)	(3,528,000)
<b>Total \$</b>	(2,774,000)	(3,005,000)	(3,069,000)	(3,325,000)	(3,256,000)	(3,528,000)

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

## Estimated Expenditures

Agency Name	2005-07			2007-09			2009-11		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.4	36,100	36,100	.5	48,900	48,900	.6	68,000	68,000
<b>Total</b>	0.4	\$36,100	\$36,100	0.5	\$48,900	\$48,900	0.6	\$68,000	\$68,000

Local Gov. Courts *									
Local Gov. Other **	Non-zero but indeterminate cost. Please see discussion.								
Local Gov. Total									

--

<b>Prepared by:</b> Doug Jenkins, OFM	<b>Phone:</b> 360-902-0563	<b>Date Published:</b> Final 3/14/2005
---------------------------------------	-------------------------------	---

\* See Office of the Administrator for the Courts judicial fiscal note

\*\* See local government fiscal note

FNPID: 11507

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 1801 S HB	<b>Title:</b> Farm & agr land tx exemption	<b>Agency:</b> 140-Department of Revenue
-------------------------------	--	--

## Part I: Estimates

☐ No Fiscal Impact

### Estimated Cash Receipts to:

FUND	FY 2006	FY 2007	2005-07	2007-09	2009-11
GF-STATE-State 01 - Taxes 57 - Real Estate Excise	(1,306,000)	(1,468,000)	(2,774,000)	(3,069,000)	(3,256,000)
PubWorks Assist-State 01 - Taxes 57 - Real Estate Excise	(109,000)	(122,000)	(231,000)	(256,000)	(272,000)
<b>Total \$</b>	(1,415,000)	(1,590,000)	(3,005,000)	(3,325,000)	(3,528,000)

### Estimated Expenditures from:

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.4	0.4	0.4	0.5	0.6
<b>Fund</b>					
GF-STATE-State 001-1	19,200	16,900	36,100	48,900	68,000
<b>Total \$</b>	19,200	16,900	36,100	48,900	68,000

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 03/04/2005
Agency Preparation: Steve Smith	Phone: 360-570-6080	Date: 03/10/2005
Agency Approval: Don Gutmann	Phone: 360-570-6073	Date: 03/10/2005
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 03/10/2005

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.*

Note: This fiscal note reflects SHB 1801.

Section 1 says that providing targeted incentives to sellers of agricultural lands will allow new and existing small agriculture producers to purchase productive farm land.

Section 2 adds a new section to RCW 82.45 describing the exemption of the sale of certain farm and agricultural land from the state real estate excise tax and the qualifications to participate in this exemption. The sale of farm and agricultural land must be to a qualified purchaser, and the land must stay in agriculture production for the next ten years. If the purchaser becomes disqualified during the ten-year period, the exempted real estate tax becomes immediately due and is subject to interest and penalties. The section specifies what documents are necessary to prove the person is a qualified purchaser and what documents are to be provided to the county treasurer and Department of Revenue. There is an annual report required to the Department of Revenue.

A qualified purchaser is a farmer as defined in RCW 82.04.213 who has had average gross receipts from sale of agriculture products of \$250,000 or less for the preceding five calendar years and along with members of their family provides the day-to-day labor for the farm for the next ten years. RCW 82.04.213 (2) "Farmer" means any person engaged in the business of growing, raising, or producing, upon the person's own lands or upon the lands in which the person has a present right of possession, any agricultural product to be sold. "Farmer" does not include a person growing, raising, or producing such products for the person's own consumption; a person selling any animal or substance obtained in connection with the person's business of operating a stockyard or a slaughter or packing house; or a person in respect to the business of taking, cultivating, or raising timber.

Farm and agriculture land means the same as RCW 82.34.020 (2) "Farm and agricultural land" means:

- (a) Any parcel of land that is 20 or more acres or multiple parcels of land that are contiguous and total 20 or more acres;
- (i) Devoted primarily to the production of livestock or agricultural commodities for commercial purposes;
- (ii) Enrolled in the federal conservation reserve program or its successor administered by the United States department of agriculture; or
- (iii) Other similar commercial activities as may be established by rule.

The state real estate excise tax plus interest and penalty (20 percent) is due if the person no longer meets the definition of qualified purchaser.

Section 3 states that the county treasurer is acting as an agent for the Department of Revenue in approving the exemption..

Section 4 provides that the amount of real estate excise tax exempted is a lien on the real property until such time as all conditions of the exemption have been met.

Sections 5 states that the exempted tax is due immediately upon the disqualification of the purchaser.

Sections 6-9 provide that this exemption does not extend to the local real estate excise taxes levied under RCW 82.46.

Section 10 provides for an effective date of July 1, 2005.

## II. B - Cash receipts Impact

*Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.*

### ASSUMPTIONS/DATA SOURCES

Data is from county officials, Department of Revenue tax data, and the Census of Agriculture.

It is assumed that some 490 transactions per year will qualify with average savings of \$3,000 each.

**CURRENTLY REPORTING TAXPAYERS** (Impact for taxpayers who are known or estimated to be currently paying the tax in question)

The state general fund will suffer estimated losses of \$1.3 million in FY 2006 while the public works assistance account will lose \$109,000.

### TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

#### General Fund

FY 2006 -	\$ (1,306)
FY 2007 -	\$ (1,468)
FY 2008 -	\$ (1,512)
FY 2009 -	\$ (1,557)
FY 2010 -	\$ (1,604)
FY 2011 -	\$ (1,652)

#### Public Works Assistance Account

FY 2006 -	\$ (109)
FY 2007 -	\$ (122)
FY 2008 -	\$ (126)
FY 2009 -	\$ (130)
FY 2010 -	\$ (134)
FY 2011 -	\$ (138)

Local Government, if applicable (cash basis, \$000): None

## II. C - Expenditures

*Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.*

This estimate assumes the counties will pay recording fees and assess the state tax, penalties, and interest.

To implement this legislation, the Department will incur costs of approximately \$36,100 during the 2005-2007 Biennium. Fiscal Year 2006 costs include:

- 1) 0.1 FTE at the Misc. Tax Specialist 2 level to verify activity on reported transactions and oversee the affidavit process.
- 2) 0.25 FTE at the Tax Service Rep. 1 level to monitor annual affidavit process, assist with the assessment/ lien verification process and perform annual mailings.
- 3) \$100 for printing annual affidavits and general correspondence.

The Department will incur ongoing costs of approximately \$48,900 in the 2007-09 Biennium and \$68,000 in the 2009-11 Biennium. Ongoing costs relate to FTEs discussed in 1 and 2 above and printing/postage costs in 3 above.

Without an appropriation to cover the expenditure impact, the Department may not be fully able to implement the legislation.

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2006	FY 2007	2005-07	2007-09	2009-11
FTE Staff Years	0.4	0.4	0.4	0.5	0.6
A-	11,600	11,600	23,200	31,700	43,000
B-	2,900	2,900	5,800	8,000	10,800
E-	2,300	2,400	4,700	6,800	9,200
G-				1,000	4,000
J-	2,400		2,400	1,400	1,000
<b>Total \$</b>	<b>\$19,200</b>	<b>\$16,900</b>	<b>\$36,100</b>	<b>\$48,900</b>	<b>\$68,000</b>

**III. B - Detail:** *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2006	FY 2007	2005-07	2007-09	2009-11
MISC TAX SPEC 2	41,520	0.1	0.1	0.1	0.2	0.3
TAX SERVICE REP 1	29,626	0.3	0.3	0.3	0.3	0.4
<b>Total FTE's</b>		<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>

### Part IV: Capital Budget Impact

NONE.

### Part V: New Rule Making Required

*Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.*

The Department is currently revising chapter 458-60 WAC and would incorporate this legislation without incurring additional rulemaking costs. Persons affected by this would include qualified purchasers of farm and agricultural lands.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

<b>Bill Number:</b> 1801 S HB	<b>Title:</b> Farm & agr land tx exemption
-------------------------------	--

## Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

### Legislation Impacts:

- ☐ Cities:
- ☒ Counties:
- ☐ Special Districts:
- ☐ Specific jurisdictions only:
- ☐ Variance occurs due to:

## Part II: Estimates

- ☐ No fiscal impacts.
- ☐ Expenditures represent one-time costs:
- ☐ Legislation provides local option:
- ☒ Key variables cannot be estimated with certainty at this time: Indeterminate but minimal expenditures expected from computer reprogramming and document handling

### Estimated revenue impacts to:

Jurisdiction	FY 2006	FY 2007	2005-07	2007-09	2009-11
City					
County					
Special District					
<b>TOTAL \$</b>					
<b>GRAND TOTAL \$</b>					

### Estimated expenditure impacts to:

<b>Indeterminate Impact</b>
-----------------------------

## Part III: Preparation and Approval

Fiscal Note Analyst: Linda Kercher	Phone: 360-725-5038	Date: 03/08/2005
Leg. Committee Contact:	Phone:	Date: 03/04/2005
Agency Approval: Louise Deng Davis	Phone: (360) 725-5034	Date: 03/14/2005
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 03/14/2005

## **Part IV: Analysis**

### **A. SUMMARY OF BILL**

*Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.*

This bill creates a state real estate excise tax (REET) exemption for sale of farm and agricultural land to small farmers when the land is used for farm and agricultural purposes for 10 years after the sale.

Sec. 2(1) amends the state REET to exempt sales of farm and agricultural land to qualified purchasers and when the land is not converted to different purposes for 10 years after sale.

Sec. 2(2) Provides that, other than in circumstances not attributable to the person, a person who no longer meets qualifying requirements for the exemption or sells the property to an unqualified purchaser shall pay the entire amount of taxes that would have been due at sale, plus interest and penalties.

Sec. 2(3) requires a purchaser to submit schedule F or the successor schedule required for filing farm income from federal tax returns for the previous five years and an affidavit certifying that the person meets the requirements for the exemption. These documents are to be filed with county treasurer along with a REET affidavit. The documents must be submitted annually to the Department of Revenue (DOR) on the date the state and local property taxes are initially due, until the requirements for exemption in Section 2(1)(b) are met (the land is not converted to a different purpose or use within 10 years of the sale).

Sec. 2(4) defines a qualified purchaser to mean a farmer with annual gross receipts from sales of agricultural products of \$250,000 or less for five years preceding the sale, and who, along with his family, provides a majority of day-to-day labor.

Sec. 3 provides that the county treasurer shall act as an agent of the state for purposes of approving the exemption.

Sec. 4 provides that the amount of tax claimed as exempt shall be a specific lien on real property from the time of sale until qualifying conditions are met. The county treasurer is to record the lien with the county auditor and transmit the lien and the supporting federal tax documents and affidavits to DOR.

Sec. 5 amends interest and penalty provisions to include disqualification from the exemption as a grounds for allowing assessment or refund by the Department of Revenue more than four years after the date of sale.

Sections 4-7 amend the city and county real estate excise tax provisions under Chapter 82.46 RCW to provide that the farm and agricultural exemption is only for the state REET and does not extend to taxes imposed under the local REET

#### **DIFFERENCES BETWEEN ORIGINAL AND SUBSTITUTE:**

Sec. 2(2) of the substitute bill includes the sale of property to an unqualified buyer as an event that would require payment of the entire amount of taxes that would have been due at sale, plus interest and penalties. This section also changes the due date, for purposes of calculating a penalty, from July 1 of the year of disqualification to 30 days following date of disqualification.

Sec. 2(3) of the original bill required a person claiming an exemption to include five years of federal tax returns with the real estate tax affidavit filed with the county treasurer.

Sections 3 and 4 of the substitute bill are new.

### **B. SUMMARY OF EXPENDITURE IMPACTS**

*Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.*

The cost to counties under this bill is indeterminate, though it is expected to be minimal.

Costs to treasurers would result from computer reprogramming and document handling that is required under the bill (sending federal tax returns, affidavits and lien documents to DOR).

#### **DIFFERENCE IN IMPACT FROM ORIGINAL:**

The expenditure impact under the original bill was expected to be substantial if county treasurers were required to track property throughout the 10-year qualifying period.

This substitute bill clarifies the role of the county treasurer and DOR in administering the exemption. DOR is responsible for monitoring

properties throughout the qualifying period, while treasurers are responsible for accepting exemption claims and approving the exemption. For example, section 2(3)(b)(ii) requires tax return documents and affidavits be submitted to DOR annually. Section 3 expressly states the county treasurer's role as agent of the state for purposes of approving the exemption. Section 4 creates a lien on the real property for the amount of tax claimed as exempt until qualifying conditions are met.

## **C. SUMMARY OF REVENUE IMPACTS**

*Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.*

No local revenue impact is anticipated under this bill, according to the Department of Revenue (DOR).

NOTE: As a result of the REET exemption in this bill, a revenue loss to the public works assistance account is reflected on DOR's note. This account is used to provide low-interest loans to local governments for public works projects associated with water, sewer, stormwater, roads, and bridges.

## **SOURCES**

Washington State Association of County Treasurers  
Department of Revenue