

SB 1565 Property Tax Exemption/deferral programs for new industrial improvements

SB 1565 is a redraft of SB 938 in the 2015 session. It was written for Willamette Vineyards initially as a retroactive incentive for the new tasting room at the vineyard.

This bill gives wide latitude to cities and counties to set the criteria for the exemption. It is so flexible that the amount of administrative workload for county assessors and tax collectors is, in our view, excessive. I have come up with three options I think will meet the policy objectives while at the same time reducing the workload.

I met with Senator Boquist and we discussed the alternative offered by the assessors to streamline the bill while achieving most all of what the industry and cities were looking for as an outcome.

The bill:

The bill allows an exemption or tax deferral for the improvements or new property of any business classed as industrial where a city or county approves the tax benefit. The bill sets some parameters but gives broad authority to the city or county sponsor to set the percentages as those established in the bill or as they see fit within a pattern of decline over a three or five year period, establish additional criteria, set forth whether the program is an exemption or a tax deferral. Each city within the county can dictate differing criteria. This makes administration of a myriad of differing programs costly to program and expensive to manage off line, which would be required.

The proposed amendment:

Like most all property tax exemptions make the exemption 100% in year one, taxable in year two and 100% exempt in year three with an optional additional fifth year at 100% exemption as an option for cities or counties.

This meets the objectives of the bill as I understand it. First it gives the business a 100% exemption for the investment in new property for year 1 and 3 at a minimum. Cities and counties can control any additional tradeoff in tax revenue by allowing or not allowing an additional year, year 5. It deals with the clawback concerns because if the property no longer is used for the purpose in the application the look back is just one year and not the potential 5 years in the case of the current version.

It eliminates the whole deferral option since that is not likely to ever be chosen anyway and would simply require county assessors and tax collectors to prepare for it and maybe never have to implement it. The deferral is unprecedented in the property tax. It would be like no other program and for which there is not programing and current IT capacity. It would place a tax lien on any property affected, which would be positioned ahead of any lending or bank liens making it a poor choice. The taxes due would essentially be double in years six through ten which would be a significant impact for industry and would certainly be an incentive to remove, sell or put offline the new property or equipment to reduce the tax liability in those years. Additionally, the bill calls for the

option of “future payments” to the collector for those deferred obligations. The property tax system does not contemplate credits in the sense that the income or corporate tax allows. The distribution of revenues to local governments is designed to get the money out of the hands of the county and into the hands of the local districts, including schools. The payment-credit scheme in the bill runs counter to that model, creates an exception and adds complexity to an already complex property tax.

For these reasons, it makes sense to pattern the exemption after existing, well understood and programmed calculations of tax administrators.