

SENATE BILL REPORT

EHB 2447

As of February 24, 2014

Title: An act relating to a property tax exemption for qualified nonprofit small business incubators that assist in the creation and expansion of innovative small commercial enterprises.

Brief Description: Concerning a property tax exemption for qualified nonprofit small business incubators that assist in the creation and expansion of innovative small commercial enterprises.

Sponsors: Representatives Kirby, Kretz, Sawyer, Ormsby, Riccelli, Short, Ryu, Magendanz and Freeman.

Brief History: Passed House: 2/17/14, 73-23.

Committee Activity: Trade & Economic Development: 2/27/14.

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Staff: Jeff Olsen (786-7428)

Background: Property Tax for Nonprofit Organizations. All real and personal property in this state is subject to property tax each year based on its value, unless a specific exemption is provided by law. Several property tax exemptions exist for property owned by churches and a variety of other nonprofit organizations, including schools, camps, veteran organizations, blood and tissues banks, public assembly halls, ecological education, and conservation organizations.

Small Business Incubators. Small business incubators (incubators) are organizations that provide space for start-up and expanding firms including shared equipment, work areas, technical resources, and support services. For purposes of the small business incubator program, the Department of Commerce (Department) may certify a small business incubator if it is designated as a nonprofit organization under section 501(c)(3) or consist of a partnership between a 501(c)(3) nonprofit organization and a government or quasi-government agency, focused on developing small businesses in an economically distressed or disadvantaged area, and structured around a sound business plan.

Rural County and Community Empowerment Zones. The Legislature has defined certain geographic areas of the state for the purpose of providing tax incentives and encouraging

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economic development. For example, certain rural counties may impose a sales and use tax for public facilities if they have a population density of less than 100 persons per square mile or are a county smaller than 225 square miles. Currently 31 out of Washington's 39 counties qualify as a rural county under this definition. A community empowerment zone (CEZ) is an area designated by a local legislative authority as an area to receive federal, state, and local assistance to increase economic, physical, or social activity in an area. To qualify, the area must have at least 51 percent of the households with incomes at or below 80 percent of the county's median income. In addition, the average unemployment rate for the area for the most recent 12-month period must be at least 120 percent of the average unemployment rate of the county. Currently there are five CEZs including areas in Bremerton, Spokane, Tacoma, Yakima, and Duwamish/White Center.

Summary of Bill: A state and local property tax exemption is provided to qualified small business incubators that assist emerging or start-up businesses located in an economically distressed area to provide tax relief and to create jobs. An economically distressed area is defined as a rural county, a county that contains a CEZ, or a CEZ. To qualify for the exemption, a qualified small business incubator must be a nonprofit organization that is nonsectarian, is governed by a volunteer board of directors of at least five members, and is certified by the Department as a qualified small business incubator. The organization must also charge fair market rent to businesses that use the organization's work areas. Any qualified incubator claiming this exemption must annually report information regarding the businesses it serves to the Department. If this information is not reported, the qualified incubator is ineligible for the exemption. The property tax exemption is available for taxes levied for collection in 2015 through 2022, and the exemption expires January 1, 2023.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.