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## Finance Committee

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### HB 1818

**Brief Description:** Concerning the exclusion of compensating tax when land is sold to a governmental entity intending to manage the land similarly to designated forestland or timberland.

**Sponsors:** Representatives Tharinger and Chapman.

<p style="text-align: center;"><b>Brief Summary of Bill</b></p> <ul style="list-style-type: none"><li>• Creates an exception to additional and compensating tax when there is a sale or transfer of designated forest land or open space land to a governmental entity.</li></ul>
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**Hearing Date:** 3/23/23

**Staff:** Kristina King (786-7190).

**Background:**

Property Tax.

All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law.

Current Use Classification.

Property meeting certain conditions may have property taxes determined on current use values rather than market values. There are four categories of lands that are classified and assessed on current use. Three categories are covered in the open space law: open space lands; farm and agriculture lands; and timber lands. The remaining category is designated forest land in the timber tax law.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

The land remains in current use classification if it continues to be used for the purpose it was placed in the current use program. Land is removed from the program for the following reasons:

- written notice from the owner to remove all or a portion of the classified land;
- sale or transfer to an owner making all or a portion of the land exempt from property taxes, such as a sale to a governmental entity that is exempt from property taxes;
- sale or transfer to a new owner unless the owner signed a notice of continuance;
- an owner who fails to respond to a request from the assessor for information regarding use of the land;
- the granting authority denies an owner's request for reclassification;
- the assessor determines land no longer meets criteria; or
- the assessor discovers the land was classified in error.

When property is removed from current use classification, back taxes, plus interest, must be paid by the landowner. For open space categories, back taxes also called additional tax, represent the tax benefit received over the most recent seven years plus interest and penalties. For designated forest land, back taxes also called compensating tax, are equal to the tax benefit in the most recent year multiplied by the number of years in the program (but not more than nine) plus compensating taxes on the land at forestland value up to the date of removal. Additionally, prorated taxes on the land at true and fair value from the date of removal to the end of the current tax year and any interest is also owed. Additional and compensating tax become a lien on the property if not paid within 30 days after notification of it being due. There are some exceptions to the requirement for payment of back taxes. For example, back taxes are not required on the transfer of the land to an entity using the power of eminent domain or in anticipation of the exercise of that power.

When land classified under either category is sold to a buyer subject to property tax (a private buyer) who intends to manage the land under its classification, the buyer is required to submit a notice of continuance and other paperwork, sometimes including a land management plan to the county assessor. Once approved, additional tax and compensating tax is not collected from the seller. If a seller sells or transfers land to a governmental entity that is not subject to property tax, the seller is required to pay additional or compensating tax on the property due to the exclusion of governmental entities exclusion from property tax.

### **Summary of Bill:**

This bill creates an exception to additional and compensating tax when there is a sale or transfer of designated forestland or open space land to a governmental entity. The governmental entity must manage the land consistent with the designated forest land or open space program it was previously classified in, and the governmental entity must provide the county assessor with a timber management plan or a notice of intent to manage the land as designated forest land or open space as required by law. When the land is not managed as forest land or open space or when the governmental entity sells or transfers the land, back taxes are due by the government owner unless the change in the use of the land, sale, or transfer falls under an exception in law.

For example, if the buyer intends to manage the land under current use.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.