HOUSE BILL REPORT

HB 1026

As Reported By House Committee on:
Revenue

Title: An act relating to valuation for property tax purposes.

Brief Description: Providing property tax relief for certain homeowners.

Sponsor(s): Representatives Wang, Holland, Fraser, Heavey, R. Meyers, Dorn, Anderson, Wineberry, Sprenkle, Jones, Prentice, Kremen, Leonard, Pruitt, Cantwell, G. Fisher, Valle, Winsley, Rasmussen and Scott; by request of Governor Gardner.

Brief History:
Reported by House Committee on:
Revenue, March 9, 1991, DPS.

HOUSE COMMITTEE ON REVENUE

Majority Report: *That Substitute House Bill No. 1026 be substituted therefor, and the substitute bill do pass.* Signed by 13 members: Representatives Wang, Chair; Fraser, Vice Chair; Holland, Ranking Minority Member; Wynne, Assistant Ranking Minority Member; Belcher; Brumsickle; Day; Leonard; Morris; Morton; Phillips; Rust; and Silver.

Staff: Rick Peterson (786-7150).

Background: Property subject to property tax is assessed at its true and fair value. In most cases this is the market value in the property's highest and best use. The values are set as of January 1st. These values are used for determining property bills to be collected in the following year.

County assessors establish new assessed values on regular revaluation cycles. The length of revaluation cycles vary by county. The most common length is four years although three and two year schedules are used by some counties. A proportionate share of the county is revalued during each year of the cycle. In most cases, individual property values are not changed during the intervening years of the revaluation cycle. The change in value for an individual property follows a stair step pattern; no change in value for four years then, in one year, a change representing four years of value growth, or two or three years in case of a two or three year cycle.

Some counties are on a program of annual updates. Values are adjusted annually based on market value statistical data. In this case, a physical inspection of each property is done once every six years.

A combination of delayed value changes due to revaluation cycles and volatile real estate markets can generate substantial changes in assessed values from one year to the next.

Qualifying senior citizens and retired disabled persons are entitled to a property tax exemption on their principal residence. To qualify a person must be 61 or older in the year of application, or retired from employment because of a physical disability. In addition, the disposable income of the applicant's household must fall below $18,000 a year.

Disposable income is the sum of federally defined adjusted gross income and the following if not already included: capital gains, deductions for loss, depreciation, pensions and annuities, military pay and benefits, veterans benefits, social security benefits, dividends and interest income. The income of a spouse and cotenants with an ownership interest in the residence is included in disposable income. Payments for nursing home care for either spouse reduce disposable income.

All qualified persons are exempt from paying excess property tax levies. Excess levies are those levies approved by the voters of taxing districts to be collected over and above the property taxes levied within the constitutional 1 percent rate limit. Property taxes within the constitutional 1 percent limit are called regular property tax levies.

In addition to the exemption for excess levies, persons with income of $14,000 or less but above $12,000 are exempt from regular levies on the greater of $24,000 or 30 percent of their residence's value but not to exceed $40,000 of value. Persons with income of $12,000 or less are exempt from regular levies on the greater of $28,000 or 50 percent of their residence's value. These income and value thresholds were most recently changed during the 1987 legislative session. The changes first took effect for taxes due in 1989.

Qualifying persons may choose to defer any taxes remaining after the above exemptions. The total cumulative amount of taxes deferred may not exceed 80 percent of the owner's equity. The State pays the deferred taxes and is repaid with interest at the rate of 8 percent upon sale of the property.

Summary of Substitute Bill: The income and assessed valuation thresholds for the senior citizen property tax exemption are increased for taxes due in 1992. The $18,000 exemption is increased to $22,000. The $12,000 to $14,000 income category changes to $15,000 to $18,000. The valuation exemption for this category becomes the greater of $30,000 or 30 percent of the value not to exceed $50,000. The $12,000 and below income category becomes $15,000 and below. The exemption amount for this category becomes the greater of $34,000 or 50 percent of value.

Costs for in home care for either spouse are allowed as a deduction to income.

Substitute Bill Compared to Original Bill: In addition to the expansion of the senior citizen property tax relief program, the original bill limited the assessed value growth of owner occupied homes to 6 percent a year. This limit is deleted from the substitute bill.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect July 1, 1991.

Testimony For: Expansion of senior citizen property tax relief program is necessary to prevent property taxes from taxing people out of their homes. For determination of senior program eligibility, in home care expenses need to be taken into account. The property value growth limit will protect homeowners from unexpected rapid increases in tax bills.

Testimony Against: The value growth limit will create additional administrative difficulties for county assessors. The property tax system should tax the land value and not the value of the improvements.

Witnesses: Ruthe Ridder, King County Assessor; Jack Westerman, Jefferson County Assessor; Dennis Okamoto, Director, Will Rice Assistant Director, Department of Revenue; Tony Lee, WA Assoc. of Churches; David West, WA Citizen Action; Charles Chong, Admiral Community Council; Enid Layes and John Penney, AWB; Stan Finkelstein, Assoc. of Cities; Rick Wickman, Assoc. of Counties; Ray Ryan, Cowlitz

County Assessor; Fred Saeger, WA Assoc. of City Officials; and Charles McNurlin, AARP; and Marvin Saillard, Meta Heller, Hamlet Hilpert, Washington State Georgists.