HOUSE BILL REPORT

HB 2672

As Reported By House Committee On:
Revenue

Title: An act relating to property tax relief.

Brief Description: Providing property tax relief with homestead exemptions, very low-income housing exemptions and phase-in valuation increases.

Sponsors: Representatives G. Fisher, Kessler, Holm, Anderson, Finkbeiner, Dunshee, Romero, Patterson, Scott, Karahalios, Brown, Quall, Flemming, Wang, Leonard, Linville, Jones, Valle, Campbell, Chappell, Thibaudeau, Lemmon, Basich, Pruitt, Ogden, Sheldon, Caver, Peery, G. Cole, H. Myers, Kremen and Roland.

Brief History:
Reported by House Committee on:
Revenue, January 28, 1994, DPS.

HOUSE COMMITTEE ON REVENUE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives G. Fisher, Chair; Holm, Vice Chair; Anderson; Brown; Caver; Leonard; Romero; Rust; Thibaudeau; Van Luven and Wang.

Minority Report: Do not pass. Signed by 5 members: Representatives Foreman, Ranking Minority Member; Fuhrman, Assistant Ranking Minority Member; Cothern; Silver and Talcott.

Staff: Rick Peterson and Bob Longman (786-7150).

Background: Property taxes are calculated by multiplying a tax rate by the assessed value of each piece of property. By statute, assessed value must be equal to 100 percent of the fair market value of the property, unless the property qualifies under a special tax relief program. Each taxing district may have a separate tax levy on property within the district. The state imposes a property tax levy and dedicates the revenue for the support of the common schools. This levy funds only a portion of state appropriations for basic education. Other general fund monies are also appropriated for this purpose.

Homeowner property tax relief is provided for senior citizens and persons retired due to disability. To qualify a person must be age 61 in the year of application or retired from employment because of a physical disability, own their principal residence, and have an income below certain levels. Eligible persons with incomes less than $26,000 receive partial exemptions of tax. Eligible persons with incomes less than $30,000 may defer taxes.

Taxes that are deferred become a lien against the property and accrue interest at 8 percent per year. If deferred taxes are not repaid within three years after the claimant ceases to own and live in the residence, the lien will be foreclosed and the residence sold to recover the taxes.

County assessors must revalue each property at least every four years. Some counties revalue property more frequently. 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. County assessors generally complete valuation assessments and mail notices to taxpayers by May 30. The levy rate calculation process occurs during the fall, and county treasurers mail tax bills the following February.

The total levy amount for any taxing district is limited to 106 percent of the district's levy for the previous year, with certain exceptions and adjustments. The levy amount for each district is then divided by the amount of taxable property in the district to determine a levy rate. There are maximum levy rates established by law for each type of taxing district. If the Legislature increases the amount of property that is exempt in a district, and the district levy rate is less than the maximum, the result often is a higher levy rate on the remaining taxable property.

Summary of Substitute Bill: A homestead exemption from the state property tax levy is provided for each owner-occupied single family residence. The exemption will operate by reducing the assessed value of each home by an amount equal to 35 percent of the median value of owner-occupied homes in each county. Homestead exemptions apply to the state levy only; thus there will be no fiscal impact on local taxing districts.

Partial property tax exemptions are also provided for very low income rental properties, equal to 35 percent of the assessed value. These exemptions apply to the state levy only, thus there will be no fiscal impact on local taxing districts. Eligible very low income rental properties are multifamily buildings and mobile home parks that charge below market rents to households with incomes at or below 50 percent of the median income.

Since the current state rate is less than the allowable maximum, some of the cost of these exemptions will be shifted to other taxpayers in the form of a higher rate. The bill also increases the state property tax rate maximum from $3.60 per thousand dollars of assessed value to $3.70. This will tend to increase the portion of tax that is shifted to other taxpayers.

A person who is unemployed may choose to defer property taxes. These deferred taxes become due one year after the person is no longer unemployed, or when the person ceases to own and live in the residence, whichever is earlier. As is the case for deferrals for senior citizens, three additional years are allowed for repayment before the residence can be sold to recover deferred taxes, and interest accrues at 8 percent per year.

The bill provides a procedure to lessen the impact of large property tax valuation increases that occur during times of rapid growth in market values. Under this procedure, a county assessor may choose to phase-in valuation increases over as many years as are in the county revaluation cycle. The phase-in option must be approved by the Department of Revenue as part of the review process for county revaluation plans. Valuation notices sent by county assessors to property owners must show the phased-in values for all years in the revaluation cycle as well as the full market value.

Tax bills sent by county treasurers must show the amount of taxes due to each taxing district for the current year and the previous year, with separately stated voter-approved and non-voter-approved amounts.

Substitute Bill Compared to Original Bill: The substitute bill contains all the material in the original bill and adds the property tax deferral program for unemployed persons.

Fiscal Note: Requested January 18, 1994.

Effective Date of Substitute Bill: The bill is effective for taxes levied for collection in 1995 and thereafter. However, the bill only takes effect if the proposed amendment to Article VII of the state Constitution, providing for a homestead exemption, is validly submitted to and is approved and ratified by the voters at the next general election. If the proposed amendment is not so approved and ratified, this bill is void in its entirety.

Testimony For: The homestead exemption provides broad-based relief to homeowners, with the greatest proportion of the relief going to low-valued homes. The homestead exemption provides twice the relief to the median-valued home than an equivalent across-the-board tax rate reduction. It is based on the value of homes in each county so therefore recognizes the wide variation in home values across the state. Homeowners have experienced rapid increases in property taxes due to rising assessments. Property taxes are shifting onto residential property. It is time to listen to the little person. This bill is for the homeowner. We need to make property taxes progressive. Bill should be expanded to include limits on valuation increases. Homeowners need relief now. County assessors support the concept of a homestead exemption but cannot implement in time for the 1995 tax bill.

Testimony Against: The cost of any tax relief program must be viewed in light of the current budget situation. The amount of relief that the budget can afford will not provide enough tax relief to each homeowner. Washington's tax system needs major reform to create a balanced tax system that is fair and produces adequate revenue. This task still lies ahead. The business community is sympathetic to homeowners facing increased taxes but wants to preserve valuation at 100 percent of market value. It is not sound tax policy to shift taxes to non-homeowner property. The underlying problem (increasing home prices) can be solved by increasing the supply of building lots to keep pace with the demand for residential housing. The bill will cause an increase in lease costs to businesses, especially small businesses with triple net leases. Property taxes should be shifted away from improvements (buildings) and onto land using a two-rate property tax with a higher rate on the land.

Witnesses: Greg Fisher, prime sponsor; Lynn Kessler, sponsor; Will Rice, Department of Revenue; Gladys Burns, People for Fair Taxes; David Miller, Normandy Park City Council; Vallana Piccolo, Johnson Point Homeowners Association; Gail Raush, Snohomish County Assessor; Earl Tower, Association of Washington Business; Terri Hotvedt, realtor; Russ Segner, Washington State Commercial Real Estate; Bonnie Baker-Minsh, Thurston County Assessor; Eugene A. Levin, People for Fair Taxes and Washington State Georgist Society; Cecil Peter Escalante, senior citizen; Arnold Fox, Washington Apartment Association; Jerry Starzel, Clallam County homeowner; Lynn Goring, King County Assessor's Office; Carol Belas, Kitsap County Assessor's Office; and Ben Guess, Clark County.