FINAL BILL REPORT

I 722

C 2 L 01
Synopsis as Enacted

Brief Description: *Limiting/repealing taxes.*

Sponsors: *By People of the State of Washington.*

Background: *All property in this state is subject to the property tax each year based on the property's value unless a specific exemption is provided by law. Taxable property includes both real property and personal property.*

Valuation. For property tax purposes, real property is valued at its true and fair value, which is its market value. This value is determined by the market based on the highest and best use of the property. The highest and best use of the property is the most profitable use of the property, which may not necessarily be the current use of the property. There are three common approaches used in valuing real property: the sales approach (comparable sales); the cost approach (replacement cost); and the income approach (capitalized income potential). One, two, or all three methods may be applied to a given parcel. The sales approach is mainly used for residences, the cost approach is used for manufacturing and similar facilities, and the income approach is used principally for commercial property, including apartment houses.

Revenue Limit (106 percent limit). Under the state Constitution, aggregate property tax levies are limited to 1 percent of value, or $10 per $1,000 of assessed value, without a vote of the people. These levies are called regular levies. Each year, the regular property tax levies of taxing districts are limited to a percentage of the districts' highest levy of the three preceding years. The percentage is the limit factor.

The limit factor is equal to the lesser of 106 percent or 100 percent plus the percentage change in the implicit price deflator. However, a different limit factor applies in two instances. For a taxing district with a population of less than 10,000, the limit factor is 106 percent. A taxing district, other than the state, may provide for the use of a limit factor of up to 106 percent for the year. In districts with legislative authorities of four members or less, two-thirds of the members must approve the change. In districts with legislative authorities of more than four members, a majority plus one vote must approve the change.

Added to this is an amount equal to the amount of revenue that new construction, improvements to property, and changes in state-assessed property would have generated at the preceding year's tax rate.

To remove the incentive to maintain a high levy, taxing districts other than the state are assumed to have levied the maximum allowed since 1986. This additional capacity is known as levy "banking" or "stockpiling." The banked amount may allow a taxing district to increase its levy by a percentage greater than 6 percent.

Any levy by a taxing district in excess of the taxing district's limit requires voter approval. If such a levy is approved, it becomes the base for calculation of future levies, unless approved for only a limited time or purpose.

__Exemptions__. The only class of property which is exempt by the state Constitution is that owned by the United States, the state, its counties, school districts, and other municipal corporations, but the state Constitution allows the Legislature to exempt other property from taxation. During the 2000 session, the Legislature exempted motor vehicles, travel trailers, and campers from property tax, retroactive to January 1, 2000, in SSB 6115 (Chapter 136, Laws of 2000). SSB 6115 restored the property tax exemptions for vehicles as they existed before passage of Initiative 695.

Summary: *__Valuation Increases.__ Persons are exempt from property taxes on the increase in value of existing real and personal property over its 1999 valuation, plus the lesser of 2 percent per year or inflation. This exemption applies only as long as the sale of property is subject to the real estate excise tax.*

Persons are exempt from property taxes on newly constructed or manufactured real and personal property after 1999 over the property tax imposed on the owner of a comparable property constructed as of 1999, plus the lesser of 2 percent per year or inflation. This exemption applies only as long as construction materials are subject to the retail sales tax.

"Inflation" means the percentage change in the implicit price deflator for personal consumption expenditures for the United States as published for the most recent 12-month period by the bureau of economic analysis of the federal Department of Commerce in September of the year before the taxes are payable.

Property tax increases attributable to maintenance improvements made after January 1, 1999, are exempt from property tax. "Maintenance improvements" includes reconstruction after fire and natural disaster and replacement of existing components such as roofs, siding, windows, doors, and painting. This exemption applies only as long the retail sales tax remains in effect.

__Revenue Limit.__ The revenue limit is decreased to the lesser of 102 percent or 100 percent plus the percentage change in the implicit price deflator. The maximum levy allowed by a super-majority vote of the legislative body of a taxing district is reduced from 106 percent to 102 percent.

The 1986 law which assumes that taxing districts have levied at the maximum amount since 1986 is repealed.

__Vehicles.__ Vehicles are exempt from property taxes as long as the retail sales tax applies to vehicles. "Vehicles" are defined to include all vehicles licensed under the state's vehicle licensing law, Chapter 46.16 RCW, including personal and business owned cars, trucks, sport utility vehicles, motorcycles, motor homes, campers, travel trailers, and mobile homes held as inventory.

__Repeal of Taxes.__ Any tax increase adopted between from July 2, 1999, through December 31, 1999, by the state is repealed and must be refunded to the taxpayer.

"Tax" includes but is not limited to sales and use taxes; property taxes; business and occupation taxes; fuel taxes; impact fees; license fees; permit fees; water, sewer, and other utility charges, including taxes, rates, and hook-up fees; and any other excise tax, fee, or monetary charge imposed by the state. "Tax" does not include higher education tuition; civil and criminal fines and other charges collected in cases of restitution or violation of law or contract; and the price of goods offered for sale by the state.

"Tax increase" is defined to include but is not limited to a new tax, a monetary increase in an existing tax, a tax rate increase, an expansion in the legal definition of a tax base, and an extension of an expiring tax.

"State" is defined to include the state and all its departments and agencies, any city, county, special district, and other political subdivision or governmental instrumentality of or within the state.

Effective: *December 7, 2000. On November 30, 2000, the Thurston County Superior Court enjoined implementation of Initiative 722 pending summary judgment motion arguments. On February 23, 2001, the Thurston County Superior Court invalidated I-722 in its entirety on the grounds that it contained more than one subject, failed to set out statutes amended in full, and was a prohibited lending of state credit.*