SENATE BILL REPORT
SB 6178

As Reported By Senate Committee On:
Ways & Means, November 29, 2007

Title: An act relating to providing a fifty percent property tax deferral for households with income of fifty-seven thousand dollars or less.

Brief Description: Providing a fifty percent property tax deferral for households with income of fifty-seven thousand dollars or less.

Sponsors: Senators Kauffman, Haugen, Rasmussen, Franklin, Brown, Eide, Rockefeller, Kline, Kilmer, Prentice, Hargrove, Shin, Berkey, Oemig, McAuliffe; by request of Governor Gregoire.

Brief History:
Committee Activity: Ways & Means: 11/29/07 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6178 be substituted therefor, and the substitute bill do pass.
Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Fairley, Hatfield, Keiser, Kohl-Welles, Oemig, Rasmussen, Rockefeller and Tom.

Minority Report: Do not pass.
Signed by Senators Zarelli, Ranking Minority Member; Parlette and Schoesler.

Minority Report: That it be referred without recommendation.
Signed by Senators Carrell and Hobbs.

Staff: Dean Carlson (786-7305)

Background: All real and personal property in Washington State is subject to property tax, unless a specific exemption is provided by law. For example, Article 7, section 1 of the State Constitution exempts property of the United States, Washington State, counties, cities, and other local districts. The State Constitution also authorizes the Legislature to exempt other property by general law, with certain restrictions. Property taxes are calculated by multiplying a tax rate by the assessed value of each 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. Article 7, section 1 of the State Constitution provides that all taxes must be uniform on the same class of property. This means that taxes must be the same on

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property of the same value and requires both an equal rate and equality in valuing the property taxed.

Currently, there are two property tax relief programs that are afforded to senior citizens and persons retired due to disability. The first is an exemption program. To qualify, a person must be age 61 in the year of application or retired from employment because of a physical disability, own his or her principal residence, and have a disposable income of less than $35,000 a year. Persons meeting these criteria are entitled to partial property tax exemptions and a valuation freeze.

The second is a property tax deferral program. Eligible persons of age 60 and older with incomes less than $40,000 may defer taxes. A person is eligible if he or she qualifies for the exemption program, except for the age and income requirements. Taxes that are deferred become a lien against the property and accrue interest at 5 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.

Property tax exemptions reduce the amount of property over which property tax levies are spread. Thus, exempting property from paying the property taxes causes a shift in the tax burden from the individual getting the exemption onto all the other taxpayers. There are no shifts for property tax deferrals since the taxes are still owed and are being paid. Disposable income is defined as 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 except attendant-care and medical-aid payments; Social Security and federal railroad retirement benefits; dividends; and interest income on state and municipal bonds. Payments for: the care of either spouse received in the home, in a boarding home, in an adult family home, or in a nursing home; prescription drugs; and Medicare health care insurance premiums are deducted in determining disposable income.

Property taxes are due on April 30 each year. However, a homeowner may pay for half of the taxes on April 30 with the remainder due on October 31.

Summary of Bill: Beginning in 2008, a homeowner may defer the second half of their real property taxes or special assessments in the year in which the following conditions are met:

- It must have been the principle place of residence as of January 1st of the year the taxes are due.
- The claimant must have a combined disposable income of $57,000 or less in the preceding calendar year.
- The claimant must have owned the residence for five years before the deferral can be taken.
- The claimant must have paid one-half of the total amount of taxes due for the year in which the claim is made.
- The claimant must have fire and casualty insurance in a sufficient amount to protect the interest of the state in the claimants equity value.
- The total amount deferred by a claimant must not exceed 40 percent of the amount of the claimants equity value in the residence.
- The claimant may not defer taxes under this program and under the senior deferral program.

A claimant must file an application to the county assessor no later than September 1st of the year in which the deferral is sought.

The Department of Revenue must pay to the county treasurers the amount of the deferred taxes or assessments to be distributed to the local taxing or improvement districts. The amount of property taxes deferred becomes a lien in favor of the state on the property.

The deferred taxes become payable together with interest at the time of the following:
- upon the sale of the property;
- upon the death of the claimant except a surviving spouse who is qualified may elect to incur the tax lien;
- upon the condemnation of property by a public or private body exercising eminent domain power; or
- at such time the claimant ceases to reside permanently in the residence.

The interest rate for the deferred taxes is the average federal short-term rate from the previous year plus 2 percentage points.

During calendar year 2011, the Joint Legislative Audit and Review (JLARC) is required to review the program and report to the Legislature by December 1, 2011. The report will look at, among other things, the effectiveness and the costs of the program.

EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Ways & Means): The substitute removes the requirement that the holders of a mortgage or purchase contract which requires a reserve for payment of property tax must cosign on the declaration of deferral.

Appropriation: None.

Fiscal Note: Requested on November 28, 2007.

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony: PRO: This bill provides relief for those that are about to be taxed out of their home. Habitat for Humanity supports this bill. This is the beginning of a conversation and a sign of hope. This helps the lower income workers who add so much to our communities.

CON: We feel this has an impact of the uniformity clause of the constitution. This could cause a tax shift if the general fund appropriation doesn't happen. This could cause a shift of taxes to others. This is too complex not to be done by session. We think this may have a lending of credit constitutional issue. This would treat people differently in this state and could have a large magnitude.

OTHER: The bill would not work well with a special assessment deferral. The September deadline gives 60 days to turn around. It would require a special meeting of the board of equalization. Mortgage companies don't need to be in the bill. We feel a flat rate would be a more fare rate. This is a reverse mortgage and people don't like those. Five percent should be the interest rate. This will not help the people who really need it, which is those people that just purchased a home. This should be looked at in the regular session. True relief would be a reduction in the state levy. This could actually be seen as a tax increase because of the interest charged. The best way to protect homeowners is a permanent property tax cut.

Persons Testifying: PRO: Cindy Zehnder, Governor's Office; Cindi Holmstrom, Department of Revenue; Maureen Howard, Habitat for Humanity.

CON: Greg Hanon, National Association of Industrial and Office Properties; Amber Carter, Association of Washington Business.

OTHER: Rose Bowman, Washington Association of Public Officials; Dave Cook, Yakima County Assessor; Paul Guppy, Washington Policy Center.