SENATE BILL REPORT
SSB 5587

As Passed Senate, May 18, 2011

Title: An act relating to expiring an underutilized deferral program in the department of revenue under chapter 84.37 RCW

Brief Description: Expiring an underutilized deferral program in the department of revenue under chapter 84.37 RCW.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Schoesler, Sheldon, Zarelli, King, Tom, Delvin, Honeyford and Hewitt).

Brief History:

Committee Activity: Ways & Means: 3/31/11, 4/19/11, 4/28/11, 5/03/11, 5/05/11 [DPS, DNP, w/oRec].

First Special Session: Passed Senate: 5/18/11, 25-17.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5587 be substituted therefor, and the substitute bill do pass.

Signed by Senators Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Baumgartner, Baxter, Hatfield, Holmquist Newbry, Honeyford, Kastama, Pridemore, Rockefeller, Schoesler and Tom.

Minority Report: Do not pass.

Signed by Senators Conway and Fraser.

Minority Report: That it be referred without recommendation.

Signed by Senator Keiser.

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

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

Currently there are two property tax deferral programs. The first allows eligible persons of age 60 and older with incomes less than $40,000 to defer taxes. A person is eligible if that person 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.

The second program is for low-income property owners. In this program 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 principal place of residence as of January 1 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 1 of the year in which the deferral is sought.

The deferred taxes become payable together with interest at the following times:

- 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 Committee 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.

Summary of Substitute Bill: The low-income property tax deferral program is terminated beginning in 2011. Other provisions remain in statute to regulate the deferrals made prior to 2011. A scheduled JLARC study is eliminated as the program is going away.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: CON: I don't know why this bill is before us. Why eliminate a program that would help a low-income homeowner keep their home. We should continue to provide help for desperate homeowners to keep their homes. This seems like something that could potentially keep people in their homes.

OTHER: Our largest concern is to eliminate a tool for people to avoid foreclosure. This has been used successfully with a small business owner to help keep their property with a loan modification. There is a gap with the senior program where seniors who do not qualify for the senior deferral could qualify for this deferral.

Persons Testifying: CON: Bruce Reeves, Senior Citizen Lobby; Nick Federici, Washington Low Income Housing Alliance.

OTHER: Bruce Neas, Columbia Legal Services.