HOUSE BILL REPORT
EHB 1421

As Passed House:
April 18, 2013

Title: An act relating to protecting the state's interest in collecting deferred property taxes.

Brief Description: Protecting the state's interest in collecting deferred property taxes.

Sponsors: Representatives Tharinger and Nealey; by request of Department of Revenue.

Brief History:
Committee Activity:
Finance: 2/8/13, 2/25/13 [DP].
Floor Activity:
Passed House: 4/18/13, 93-0.

Brief Summary of Engrossed Bill

- Directs proceeds from the sale of property acquired by the county at a property foreclosure sale to first be applied to reimburse the county and then to pay the amount of deferred property taxes owed to the state.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 13 members: Representatives Carlyle, Chair; Tharinger, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Fitzgibbon, Hansen, Lytton, Pollet, Reykdal, Springer, Vick and Wilcox.

Staff: Jeff Olsen (786-7175).

Background:

Property Taxes.
Property taxes are due on April 30 each year. If one-half of the tax is paid by April 30, then the other half is due on October 31. If the first-half property tax payment is not made on time, the entire tax is delinquent and interest is charged at the rate of 12 percent per year. A

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penalty of 3 percent is assessed on taxes that are delinquent on June 1. An additional 8 percent penalty is assessed on taxes that are delinquent on December 1.

Property Tax Deferral Programs.
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. 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 deferral program is for limited income property owners. Individuals with an annual household income of $57,000 or less may defer 50 percent of yearly real property taxes and special assessments. Deferred amounts, including interest, become a lien on the residence.

Foreclosure.
After three years from the date of property tax delinquency, the county treasurer may begin foreclosure proceedings to recover past due property taxes. Proceeds from the sale of property must first be applied to discharge liens for general taxes. However, if the county does not receive a bid that satisfies past due property taxes, penalties, and interest, the county acquires title to the land in trust for the taxing districts. Lands acquired by the county are called "tax title lands," and no claims are allowed from taxing districts. If the property is eventually resold by the county, the proceeds from the sale are distributed to other taxing districts, including the state.

In Attorney General Opinion No. 3, 2012 the Department of Revenue (Department) asked if a lien established under the senior deferral program remained in effect after a county acquires property subject to a lien at a tax foreclosure sale. The Attorney General noted that at the time the county acquired the property through foreclosure, all taxes are cancelled.

Summary of Engrossed Bill:

Proceeds from the sale of property acquired by the county due to property tax foreclosure must first be applied to reimburse the county and then to pay the Department for taxes deferred under the senior and limited-income property tax deferral programs. The Department may charge off past-due obligations from the senior and limited-income deferral program as uncollectible if the Department determines that there are no cost-effective means of collecting the amount due.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is Department agency-request legislation and it is designed to restore the process for being reimbursed for deferral payments the state has paid on foreclosed property. The state pays taxes on property in a tax deferral program, and if a property becomes a tax title property (no bidder at auction), the Attorney General indicated the liens to repay the state do not remain in effect. The Department understands there are concerns at the local level regarding how to manage foreclosure costs, and the Department has proposed language to address those concerns.

(Opposed) Local governments need to be able to recover the costs incurred for foreclosing on properties. Local governments want to cooperate with the Department on the deferral process, but should not be unpaid tax collectors.

Persons Testifying: (In support) Drew Shirk, Department of Revenue.

(Opposed) Monty Cobb, Washington Association of Counties.

Persons Signed In To Testify But Not Testifying: None.