

SENATE BILL REPORT

SB 5442

As Reported by Senate Committee On:
Ways & Means, February 20, 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: Senators Hill and Hargrove; by request of Department of Revenue.

Brief History:

Committee Activity: Ways & Means: 2/07/13, 2/20/13 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5442 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Nelson, Assistant Ranking Member; Bailey, Becker, Braun, Conway, Dammeier, Fraser, Hasegawa, Hatfield, Hewitt, Kohl-Welles, Murray, Parlette, Ranker, Rivers, Schoesler and Tom.

Staff: Juliana Roe (786-7438)

Background: Property Tax Deferral Programs. The Department of Revenue (DOR) administers a property tax deferral program for eligible senior citizens and disabled individuals, and a similar program for eligible low-income individuals. When an individual property owner qualifies for a deferral program, the owner can defer payment of property taxes and special assessments on their primary residence. DOR pays the deferred taxes and assessments on the owner's behalf. Taxes that are deferred become a lien in favor of the state against the property and accrue interest at 5 percent per year.

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 at the foreclosure sale, title to the property vests in the county and all taxes due are canceled. Property acquired by the county in this manner is known as tax-title property. If the property is later sold by the county, the proceeds from the sale are distributed to other taxing districts, including the state.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Historically, counties have paid the deferral liens to the state out of proceeds from the sale of a tax-title property. However, Pierce county recently declined to pay the deferred taxes when a tax-title property was sold. DOR sought and obtained clarification from the Attorney General's Office as to whether a property tax deferral lien survives a property tax foreclosure sale. In Attorney General Opinion No. 3, 2012, the Attorney General noted that at the time the county acquired the property through foreclosure, all taxes were cancelled.

Summary of Bill (Recommended Substitute): Proceeds from the sale of property acquired by the county due to property tax foreclosure must first be applied to pay the counties for costs of foreclosure and sale, then to the state for taxes deferred under the senior and limited-income property tax deferral programs, and then to other general tax liens, local improvement assessment liens, and county funds. DOR may charge off past-due obligations from the senior and limited-income deferral programs as uncollectible if DOR determines that there are no cost-effective means of collecting the amount due.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): Proceeds from the sale of property acquired by the county due to property tax foreclosure must first be applied to pay the counties for costs of foreclosure and sale, then to the state for taxes deferred under the senior and limited-income property tax deferral programs, and then to other general tax liens, local improvement assessment liens, and county funds.

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: PRO: This is agency-requested legislation that restores DOR's authority to be refunded for tax deferral liens. Whatever taxes a person defers, the state pays up front. The state wants its funds restored from proceeds of the property being sold. It is a matter of equity and is good policy.

CON: This bill gives the state priority, making the counties second in line to be repaid. This makes the county an unpaid bill collector for the state. There are significant costs to the county when they go through the foreclosure process on these properties.

If Pierce County would have paid the state for the deferral tax lien, it would not have been able to recoup the costs it incurred through foreclosure and property upkeep.

Persons Testifying: PRO: Drew Shirk, DOR.

CON: Monty Cobb, WA Assn. of County Officials; Brynn Brady, Assn. of Counties.