

HOUSE BILL REPORT

HB 1494

As Reported by House Committee On:
Finance

Title: An act relating to providing housing safety, security, and protection for Washington families by creating the antidisplacement property tax exemption.

Brief Description: Providing housing safety, security, and protection for Washington families by creating the antidisplacement property tax exemption.

Sponsors: Representatives Harris-Talley, Berg, Davis, Wicks, Peterson, Ortiz-Self, Orwall, Gregerson, Chapman, Ramel, Simmons, Berry, Lekanoff, Frame, Hackney, Slatter, Duerr, Kirby, Thai, Valdez, Ormsby and Morgan.

Brief History:

Committee Activity:

Finance: 2/9/21, 3/31/21 [DPS].

Brief Summary of Substitute Bill

- Creates the anti-displacement property tax exemption for the state property tax levy on principal residences up to \$250,000 of assessed value, subject to funding.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Frame, Chair; Berg, Vice Chair; Walen, Vice Chair; Chopp, Harris-Talley, Morgan, Orwall, Ramel, Springer, Thai and Wylie.

Minority Report: Do not pass. Signed by 5 members: Representatives Orcutt, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Chase, Stokesbary and Vick.

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

Staff: Tracey O'Brien (786-7152).

Background:

Property Tax – Regular Levies.

All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. In 2017 the Legislature adopted Engrossed House Bill 2242, which created the additional state levy. For taxes levied for collection in calendar years 2018, 2020, and 2021, the combined rate for both state levies is \$2.70 per \$1,000 of assessed value (AV). For taxes levied for collection in calendar year 2019, the combined rate for both state levies is \$2.40 per \$1,000 AV. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both levies. Participants in the senior citizens, individuals with disabilities, and qualifying veterans property tax exemption program receive a partial exemption from the original state levy and a full exemption from the additional state levy.

The Washington Constitution limits regular levies to a maximum of 1 percent of the property's value (\$10 per \$1,000 AV). There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit.

Summary of Substitute Bill:

The anti-displacement property tax exemption (PTE) is created to apply to the state property tax levy and may exempt up to the first \$250,000 AV of qualified residential property beginning in calendar year 2024. The state property tax levy must be reduced to prevent a tax shift. The anti-displacement PTE is in addition to the senior citizens, persons retired due to disability, and veterans property tax relief.

The anti-displacement PTE applies to residential tax parcels consisting of fewer than three residences. It also applies to each residence within a multiunit residential dwelling wherein each residence is owned and taxed separately or is owned by a cooperative housing association, corporation, or partnership. In order to qualify for the anti-displacement PTE, the residence must be the principal place of residence for the claimant and the claimant must own or hold a life estate in the residence. If the claimant's residence is part of a housing association, corporation or partnership, the claimant must own a share of the cooperative representing the unit in which the claimant resides. In addition, a residential property must have an AV of less than \$2.5 million for the current calendar year in order to qualify for the anti-displacement PTE. Every fourth year, the AV limit will be adjusted by

the lesser of the consumer price index for shelter or 5 percent.

"Residence" is defined to include a single-family dwelling unit whether such unit is separate or part of a multiunit dwelling, including the land on which such dwelling stands that is held in fee or trust, a floating home, or a manufactured/mobile home or park model that is fixed in location, on a foundation and connected to utilities.

The Department of Revenue (DOR) and county assessor must publicize the qualification and manner of making claims for the anti-displacement PTE. A claimant must annually apply for the anti-displacement PTE online with the DOR by April 30 of the calendar year prior to the year for which the exemption will be claimed. In addition to the online applications with the DOR, a county assessor must make application forms available at the assessor's office, on the assessor's website, by mail, and by electronic mail upon request.

The DOR must verify the claimants have a single residence claimed for that calendar year and provide the county assessors with a list of claimant, parcels, associated exemption, and other necessary information by August 1 each year. There is a framework to provide funding for administration of the anti-displacement PTE based on a formula of \$5 per application to be paid from the appropriated Anti-Displacement PTE Administrative Account.

If a claimant fails to meet the deadline for the application, the application must be denied unless good cause is demonstrated. A claimant may appeal a denial.

If a county assessor finds that the claimant's residence does not meet the qualifications for the anti-displacement PTE, the assessor must deny or cancel the anti-displacement PTE. If the county assessor determines the claimant has received the anti-displacement PTE in error in prior years, the county treasurer must collect all the state property tax that would have been paid for those prior years, not to exceed six years. Interest must be applied to delinquent taxes, but no penalties may be assessed.

The DOR may increase the annual anti-displacement PTE maximum amount based on a calculation of a year over year percentage growth in the state levy collections.

The Washington Tax Justice and Equity Fund (Fund) is created. By December 10 each year, the DOR must determine the amount of revenue deposited into the Fund during the previous 12 months ending November 30. The DOR must then determine if sufficient moneys are in the Fund to fully finance the anti-displacement PTE for the upcoming calendar year. If the Fund lacks sufficient moneys, the DOR must calculate a new anti-displacement PTE based on the Fund's available balance. If there are funds remaining, expenditures from the Fund can include funding the working families tax exemption, a replacement to the business and occupation tax, and other tax fairness policies that may be suggested by the Tax Structure Work Group.

Substitute Bill Compared to Original Bill:

The substitute bill restricts qualified primary residences eligible for the anti-displacement PTE to those residential properties with an AV of less than \$2.5 million for the current tax year. Every fourth year, the AV limit will be adjusted by the lesser of the consumer price index for shelter or 5 percent. A definition of maximum exemption amount is added.

All references made to a declaration are changed to an application. The application for the anti-displacement PTE must be filed with the DOR by April 30 of the calendar year prior to the tax year for which the exemption is sought.

The substitute makes other changes to the dates and provisions to clarify and facilitate the administration of the anti-displacement PTE by the DOR and the county assessors. It also provides a framework to provide financial assistance to counties for the cost incurred by county assessors in administering the anti-displacement PTE.

The substitute clarifies that the primary use of the Fund is for the anti-displacement PTE; however, the Fund may also be used for offsetting reductions in revenue due to implementation of other policies such as the working families tax exemption, a replacement to the business and occupation tax, and other tax fairness policies such as those that may be suggested by the Tax Structure Work Group.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on August 1, 2022, if House Joint Resolution 4204 is approved and ratified at the next general election.

Staff Summary of Public Testimony:

(In support) We are living through a racial reckoning and it is time to reflect and remedy inequities. Property taxes have been used historically to diminish Black prosperity. The anti-displacement PTE will slow down displacement by addressing economic inequality. It helps reduce the cost of homeownership and creates security for families. There is a human cost to losing a home and the COVID-19 pandemic has shown us a house is more than just a place to live. Right now, more people are working from home and running businesses from their homes. The challenge of paying a property tax bill creates stress and is often related to medical issues. This bill would help protect those most at-risk by providing a substantial property tax exemption for a primary residence.

(Opposed) None.

(Other) The county assessors are concerned about the administrative burdens without a mechanism to fund the work. Counties lack the ability to absorb the cost of processing the property tax exemption, which would include the need for additional staff and software upgrades.

Persons Testifying: (In support) Representative Harris-Talley, prime sponsor; Shaun Scott, Statewide Poverty Action Network; Sai Samineni, Dream Investment Strategies Incorporated; Denise Rodriguez, Washington Homeownership Resource Center; and Matthew Lang, Seattle Transit Riders Union.

(Other) Steven Drew, Assessor Association and Thurston County Assessor's Office; and John Wilson, Office of Assessments.

Persons Signed In To Testify But Not Testifying: None.