

SENATE BILL REPORT

SB 5033

As of January 25, 2022

Title: An act relating to limiting the property tax exemption for improvements to single-family dwellings to the construction of accessory dwelling units.

Brief Description: Limiting the property tax exemption for improvements to single-family dwellings to the construction of accessory dwelling units.

Sponsors: Senators Kuderer, Saldaña, Das, Nguyen and Wilson, C..

Brief History:

Committee Activity: Housing & Local Government: 1/13/21, 1/21/21 [DPS-WM, DNP, w/oRec].

Ways & Means: 1/27/22.

Brief Summary of First Substitute Bill

- Limits the property tax exemption for improvements to single-family dwellings to only include the construction of detached accessory dwelling units.

SENATE COMMITTEE ON HOUSING & LOCAL GOVERNMENT

Majority Report: That Substitute Senate Bill No. 5033 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Kuderer, Chair; Das, Vice Chair; Cleveland, Lovelett and Salomon.

Minority Report: Do not pass.

Signed by Senators Fortunato, Ranking Member; Short, Assistant Ranking Member.

Minority Report: That it be referred without recommendation.

Signed by Senators Gildon, Assistant Ranking Member; Warnick.

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: Jeff Olsen (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Alia Kennedy (786-7405)

Background: 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. Examples of property tax exemptions established either by statute or constitutionally include exemptions for churches, nonprofit hospitals, affordable housing, and certain improvements to single family residences. If a single family residence is improved by remodeling, adding new rooms, decks, patios, accessory dwelling units, or other improvements, a person may apply for a three-year exemption from property taxes on the value of the physical improvement. Physical improvements do not include normal maintenance items, and the value of the improvements must be 30 percent or less of the value of the original structure. The exemption may not be claimed more than once in a five-year period.

Legislation enacted in 2020, specifically added the value of attached and detached accessory dwelling units (ADUs) as improvements that may qualify for the single family dwellings property tax exemption. The legislation also directed the Department of Revenue to work with county assessors to evaluate the exemption for home improvements and determine its effectiveness. The report determined the exemption is not effective in encouraging homeowners to make improvements to their residences, participation is relatively low, and homeowners are often unwilling to work with the county assessor to apply for the exemption.

Summary of Bill (First Substitute): The property tax exemption for improvements to single-family dwellings is limited to only include the construction of detached ADUs.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Original Bill (Housing & Local Government) (Regular Session 2021): *The committee recommended a different version of the bill than what was heard.* PRO: The exemption for improvements to single-family dwellings was expanded to include ADUs last year. The Department of Revenue was directed to evaluate the exemption and they reported the exemption is not heavily used and does not create a large impact. By narrowing the exemption to ADUs it will incentivize the development for housing that is needed and it is for a measurable public purpose.

CON: The current exemption provides an incentive for homeowners to make improvements, including helping seniors remodel their residences to age in place. It is too complex to apply for the current exemption and it is not convenient to apply. Rather than eliminate the exemption the process for using the exemption should be improved.

OTHER: County assessors have concerns about the administrative burden of implementing the proposed changes to the exemption. To properly administer the exemption would require assessors to inspect the inside of residences for an integrated ADU. If the exemption was limited to detached ADUs it would be easier to administer.

Persons Testifying (Housing & Local Government): PRO: Senator Patty Kuderer, Prime Sponsor.

CON: Steve Gano, Building Industry Association of Washington.

OTHER: Steven Drew, Thurston County Assessor, Washington State Association of County Auditors, Legislative Committee Chair.

Persons Signed In To Testify But Not Testifying (Housing & Local Government): No one.