

FINAL BILL REPORT

ESB 5454

C 192 L 21
Synopsis as Enacted

Brief Description: Creating a property tax exemption for homes damaged by natural disasters.

Sponsors: Senators Schoesler, Brown, Frockt, Honeyford, Padden, Rolfes, Van De Wege, Wagoner, Warnick and Wilson, J..

Senate Committee on Ways & Means
House Committee on Finance

Background: Property Tax. All real and personal property in the state is subject to property tax each year based on its value, unless a specific exemption is provided by law. The Washington Constitution limits regular property tax levies to a maximum of 1 percent of the property's value. Excess levies are not subject to this constitutional limit and require voter approval. There are statutory rate maximums for individual taxing districts and aggregate rate maximums to keep the total tax rate of regular property taxes within the constitutional limit.

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 created a second 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. For taxes levied for collection in calendar year 2019, the combined rate for both state levies is \$2.40 per \$1,000 assessed value. 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 and the rate is calculated based on the total levy amount.

All regular levies, except the state levies, are subject to a statutory revenue growth limit. If the taxing authority has a population of 10,000 or more, the revenue growth limit is the lesser of inflation or 1 percent plus the valuation of new construction. If the taxing authority has a population of less than 10,000, the revenue growth limit is 1 percent plus the value of new construction.

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.

Destroyed Property. Any real or personal property that has been destroyed in whole or part, or is in an area that has been declared a disaster area by the Governor or the county legislative authority, and has been reduced in value by more than 20 percent may be eligible for a property assessment reduction or abatement of property taxes, or both.

Tax Preference Performance Statement. State law provides a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a tax preference performance statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary: Beginning with taxes levied for collection in 2022, physical improvements to a single-family dwelling damaged by a natural disaster are exempt from property tax for three years following the completion of the improvement.

To qualify for the exemption, the dwelling must be:

- located in an area that has been declared a disaster area by the Governor or the county legislative authority;
- reduced in value by more than 20 percent as a result of a natural disaster that occurred on or after August 31, 2020; and
- held by the same persons who owned the property at the time it was reduced in value as a result of a natural disaster, or their relatives.

An area that has been declared a disaster area by the Governor includes areas within the scope of the Governor's request to the President of the United States for a major disaster declaration.

The amount of the exemption is determined by deducting the value of the property after it was damaged from the value of the property before it was damaged.

To obtain the exemption, a taxpayer must file an application with the county assessor before beginning construction of the improvement. However, if a taxpayer began construction before the effective date of this act, then the taxpayer may apply for the exemption by October 1, 2021.

County assessors may not approve any application for exemption received after June 30, 2026.

The value of the improvements must be considered as new construction as though the

property was not exempt under this chapter.

The Department of Revenue may adopt any rules necessary to administer the property tax exemption.

The act is exempt from tax preference performance review and automatic expiration.

Votes on Final Passage:

Senate	49	0
House	97	1

Effective: July 25, 2021