

SENATE BILL REPORT

SB 5463

As of January 31, 2022

Title: An act relating to exempting a portion of the valuation of residential property from property taxation.

Brief Description: Exempting a portion of the valuation of residential property from property taxation.

Sponsors: Senator Wilson, L..

Brief History:

Committee Activity: Ways & Means: 2/01/22.

Brief Summary of Bill

- Authorizes a \$250,000 assessed value homestead exemption for state property taxes, subject to approval by the voters of a constitutional amendment.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Alia Kennedy (786-7405)

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

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.

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.

State Constitution. The Washington State Constitution requires that state and local property taxes be uniform within each class of property. Real property constitutes a single class of property under the Constitution. Uniformity requires both an equal rate of tax and equality in valuing the property. Under the Constitution, the Legislature may by general laws exempt property from taxation. Based on the uniformity requirement, differential treatment of different types of real property is disallowed.

To amend Washington's Constitution, the Legislature must first approve the proposed amendment with a two-thirds vote. Then, the approved proposal must be placed on the ballot at the next state general election. It becomes law if approved by a majority of the electors.

Summary of Bill: The first \$250,000 of value of a residence is exempt from state property taxes. The amount of the homestead exemption for a residence may not result in a tax reduction that exceeds the amount of state property taxes that would otherwise be levied on that residence.

Residence is defined as a single-family dwelling unit whether such unit is separate or part of a multi-unit dwelling, including the land on which such a dwelling stands. Residence includes:

- a single-family dwelling situated upon lands the fee of which is vested in or held in trust by the United States or any of its instrumentalities;
- a federally recognized Indian tribe, the state of Washington or any of its political subdivisions, or a municipal corporation;
- a single-family dwelling consisting of a manufactured/mobile home or park model that has substantially lost its identity as a mobile unit by virtue of its being fixed in location and placed on a foundation with fixed pipe connections with sewer, water, or other utilities; and
- a single-family dwelling consisting of a floating home which must be occupied by the property owner as their principal place of residence.

The homestead exemption is in addition to the senior citizen property tax relief program.

For taxes levied for collection in calendar year 2023, and each subsequent year thereafter, the amount of homestead exemption must be increased from the prior year's exemption amount by the percentage growth in the state levy for the prior calendar year.

The homestead exemption must be claimed and renewed on forms developed by the Department of Revenue (DOR) or by the county assessor and approved by DOR. Each county assessor must make declaration and renewal declaration forms available at the assessor's office, on the assessor's official website, and by mail or email upon request.

The resulting revenue loss from the exemption is prohibited from being shifted onto other property owners through an increase in the state property tax rate.

The homestead exemption takes effect January 1, 2022, if a proposed constitutional amendment specifically authorizing a homestead exemption is approved by the voters in the next general election.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill takes effect on January 1, 2022.