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ENGROSSED SECOND SUBSTITUTE SENATE BILL 5045

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State of Washington

68th Legislature

2023 Regular Session

By Senate Ways & Means (originally sponsored by Senators Kuderer, Dhingra, Holy, Hunt, Lias, Nguyen, Nobles, Randall, Rolfes, Shewmake, Wellman, and C. Wilson)

READ FIRST TIME 02/17/23.

1 AN ACT Relating to incentivizing rental of accessory dwelling  
2 units to low-income households; amending RCW 84.36.400; creating new  
3 sections; and providing an expiration date.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 84.36.400 and 2020 c 204 s 1 are each amended to  
6 read as follows:

7 (1) Any physical improvement to single-family dwellings upon real  
8 property, including constructing an accessory dwelling unit, whether  
9 attached to or within the single-family dwelling or as a detached  
10 unit on the same real property, shall be exempt from taxation for the  
11 three assessment years subsequent to the completion of the  
12 improvement to the extent that the improvement represents ~~((thirty))~~  
13 30 percent or less of the value of the original structure. A taxpayer  
14 desiring to obtain the exemption granted by this section must file  
15 notice of his or her intention to construct the improvement prior to  
16 the improvement being made on forms prescribed by the department of  
17 revenue and furnished to the taxpayer by the county assessor(~~(=~~  
18 PROVIDED, That this)). The exemption in this subsection cannot be  
19 claimed more than once in a five-year period.

1 The department of revenue shall promulgate such rules and  
2 regulations as are necessary and convenient to properly administer  
3 the provisions of this (~~section~~) subsection (1).

4 (2)(a) A county legislative authority for a county with a  
5 population of 1,500,000 or more may exempt from taxation the value of  
6 an accessory dwelling unit if the following conditions are met:

7 (i) The improvement represents 30 percent or less of the value of  
8 the original structure;

9 (ii) The taxpayer demonstrates that the unit is maintained as a  
10 rental property for low-income households. For the purposes of this  
11 subsection, "low-income household" means a single person, family, or  
12 unrelated persons living together whose adjusted income is at or  
13 below 60 percent of the median household income adjusted for  
14 household size, for the county where the household is located, as  
15 reported by the United States department of housing and urban  
16 development;

17 (iii) The taxpayer files notice of the taxpayer's intention to  
18 participate in the exemption program on forms prescribed by and  
19 furnished to the taxpayer by the county assessor;

20 (iv) Rent charged to a tenant does not exceed more than 30  
21 percent of the tenant's monthly income; and

22 (v) The accessory dwelling unit is not occupied by an immediate  
23 family member of the taxpayer. For purposes of this subsection  
24 (2)(a), "immediate family" means any person under age sixty that is a  
25 state registered domestic partner, spouse, parents, grandparents,  
26 children, including foster children, siblings, and in-laws.

27 (b) An exemption granted under this subsection (2) may continue  
28 for as long as the exempted accessory dwelling unit is leased to a  
29 low-income household.

30 (c) A county legislative authority that has opted to exempt  
31 accessory dwelling units under this subsection (2) may:

32 (i) Allow the exemption for dwelling units that are attached to  
33 or within a single-family dwelling or are detached units on the same  
34 real property, or both;

35 (ii) Collect a fee from the taxpayer to cover the costs of  
36 administering this subsection (2);

37 (iii) Designate administrative officials or agents that will  
38 verify that both the low-income household and the taxpayer are in  
39 compliance with the requirements of this subsection (2). The  
40 designated official or agent may not be the county assessor but may

1 include housing authorities or other qualified organizations as  
2 determined by the county legislative authority; and

3 (iv) Determine what property tax and penalties will be due, if  
4 any, in the case of a finding of noncompliance by a taxpayer.

5 NEW SECTION. Sec. 2. (1) This section is the tax preference  
6 performance statement for the tax preference contained in section 1,  
7 chapter . . . , Laws of 2023 (section 1 of this act). This performance  
8 statement is only intended to be used for subsequent evaluation of  
9 the tax preference. It is not intended to create a private right of  
10 action by any party or to be used to determine eligibility for  
11 preferential tax treatment.

12 (2) The legislature categorizes this tax preference as:

13 (a) One intended to induce certain designated behavior by  
14 taxpayers as indicated in RCW 82.32.808(2)(a); and

15 (b) A general purpose not identified in RCW 82.32.808(2)(a)  
16 through (e) as indicated in RCW 82.32.808(2)(f) and further described  
17 in subsection (3) of this section.

18 (3) It is the legislature's specific public policy objective to  
19 encourage homeowners to rent accessory dwelling units to low-income  
20 households and increase the overall availability of affordable  
21 housing.

22 (4)(a) The joint legislative audit and review committee must  
23 review the tax preference under section 1, chapter . . . , Laws of  
24 2023 (section 1 of this act) as it applies specifically to the  
25 property tax exemption for accessory dwelling units and complete a  
26 final report by December 1, 2029. The review must include, at a  
27 minimum, the following components:

28 (i) Costs and benefits associated with exempting from taxation  
29 the value of an accessory dwelling unit. This component of the  
30 analysis must, at a minimum, assess the costs and benefits of changes  
31 in the following metrics since the start of the program:

32 (A) The number of taxpayers filing notice to participate in the  
33 exemption program;

34 (B) The number of units exempt from property tax under the  
35 program, including the extent to which those units are attached or  
36 within a single-family dwelling or are detached units; and

37 (C) A summary of any fees or costs to administer the program;

38 (ii) An evaluation of the information calculated and provided by  
39 the department under RCW 36.70A.070(2)(a);

1 (iii) A summary of the estimated total statewide costs and  
2 benefits attributable to exempting from taxation the value of an  
3 accessory dwelling unit, including administrative costs and costs to  
4 monitor compliance; and

5 (iv) An evaluation of the impacts of the program on low-income  
6 households.

7 (b) If the review finds that a county with a population greater  
8 than 1,500,000 offers this exemption and the exemption increases the  
9 amount of accessory dwelling units rented to low-income households,  
10 then the legislature intends to extend the expiration date of this  
11 tax preference.

12 (5) In order to obtain the data necessary to perform the review  
13 in subsection (4) of this section, the joint legislative audit and  
14 review committee may refer to any data collected by the state.

15 NEW SECTION. **Sec. 3.** This act expires January 1, 2034.

16 NEW SECTION. **Sec. 4.** This act applies to taxes levied for  
17 collection in 2024 and thereafter.

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