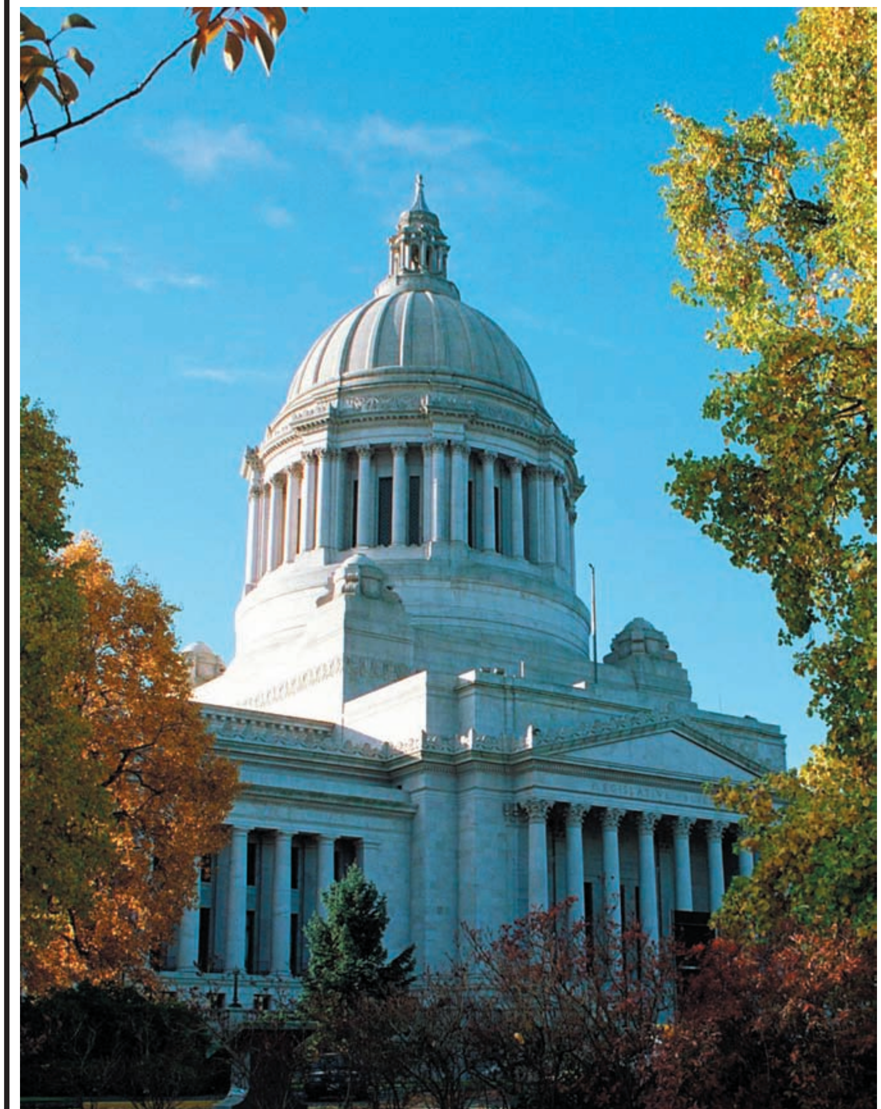
A Legislative Guide to Washington State Property Taxes



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Introduction

A Legislative Guide to Washington State Property Taxes is offered as a resource to members of the Senate, their staff, and other interested persons to provide an overview of the property tax system in this state. It describes the evolution and characteristics of our property tax structure and provides comparative and historical analyses.

The *Legislative Guide to Washington State Property Taxes* was prepared by the Senate Ways and Means Committee staff (within Senate Committee Services) and the Legislative Evaluation and Accountability Program (LEAP) to provide answers to many of the typical questions regarding property taxes. This *Legislative Guide to Washington State Property Taxes* is a summary of our property tax system intended to assist its readers in understanding basic terminology and gaining a historical and analytical perspective with which to evaluate potential reforms. Staff of the Senate Ways and Means Committee have also developed the following tax-related documents, all of which are much more comprehensive and technical, requiring a basic understanding of the property tax system and terminology. These documents were developed as resource documents and are available upon request.

- *Overview of Washington's Tax Structure*
- *Washington State Property Tax Manual*
- *The Taxation of Agriculture in Washington State*
- *The Taxation of Nonprofit Organizations in Washington State*
- *Property Taxes: Exemptions and Special Programs*

Questions concerning this report or requests for other documentation should be directed to:

Senate Ways and Means Committee

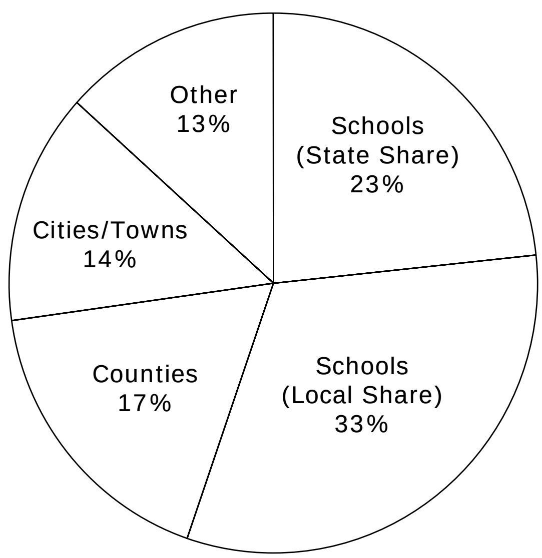
311 John A. Cherberg Building
Olympia, Washington 98504-0482
Telephone: 360-786-7715
Fax: 360-786-7615
http://www.leg.wa.gov/senate/scs/wm/default.htm

How Much Money Does the Property Tax Generate and How is it Spent?

In 2005, Washington State taxpayers paid a total of $6.9 billion in property taxes to local governments, state government and school districts. $3.8 billion, 55 percent, of all property tax revenues collected both by the state and local governments are collected in support of K-12 education, with the state's share being distributed entirely to public schools. Of this $3.8 billion, $1.6 billion was collected by the state, $1.3 billion was collected via maintenance and operations levies, and $926 million was collected via levies for capital expenses and bonds.

The proportions displayed in the following chart represent the distribution of taxes collected from the "average" individual taxpayer in the state.

Distribution of Property Taxes
Calendar Year 2005

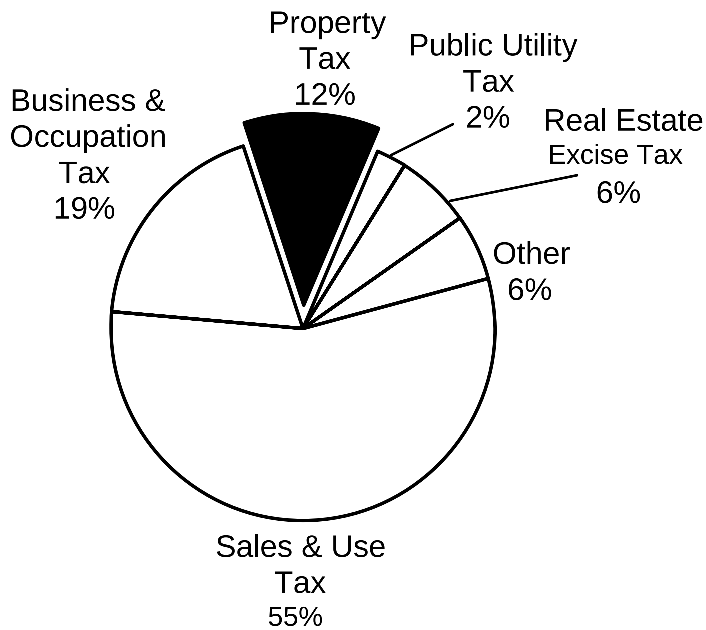


Source: Property Tax Statistics 2006, Department of Revenue

Property taxes are the largest source of tax revenue for local governments, generating about $2.2 billion in 2005, approximately 43 percent of local government tax revenues. The property tax is the third largest source of revenue to the state General Fund, generating approximately $1.4 billion in the 2005 fiscal year, or about 12 percent of General Fund revenue.

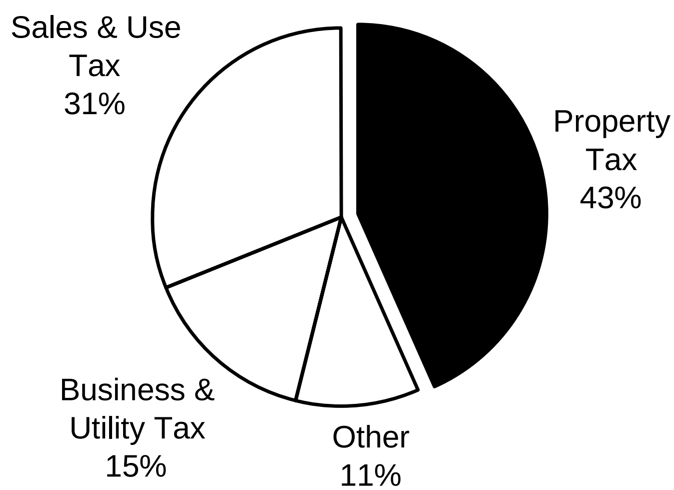
The following charts show the breakdown of tax revenues for state and local government.

State Government Tax Revenue
Fiscal Year 2005



Source: Property Tax Statistics 2006, Department of Revenue

Local Government Tax Revenue
Calendar Year 2005



Source: Local Government Financial Reporting System

Local government consists of hundreds of separate taxing districts across the state. In addition to the state (a single taxing district for purposes of collecting the state levy), there are 39 counties, 274 cities and towns, 392 fire districts, 139 emergency medical service (EMS) districts, 76 ports, and 40 library districts.

What Property is Taxable?

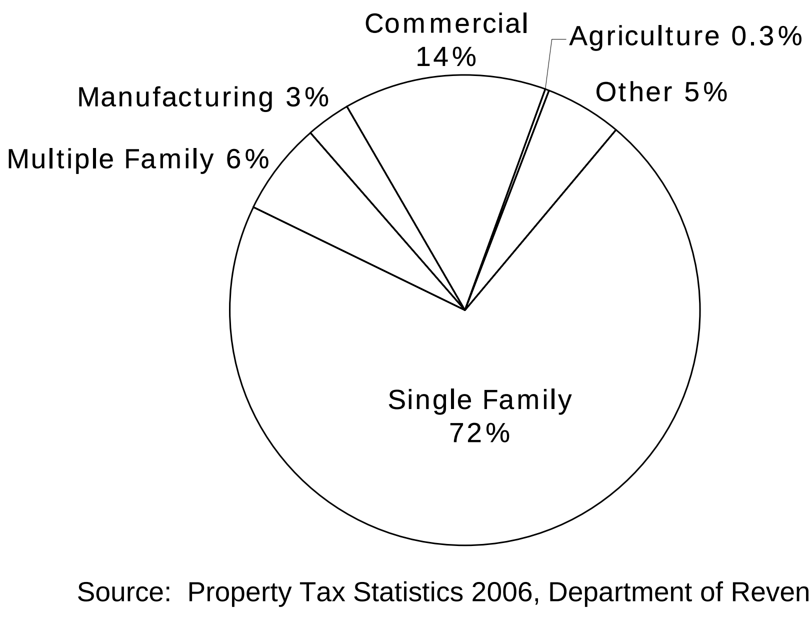
Article 7, section 1 of the State Constitution defines property as everything that can be owned, whether tangible or intangible. The property tax is applied annually to the assessed value of all property unless it is specifically exempt by law.

The Constitution requires that taxes be uniform within a class of property. For property tax purposes, there are two broad classes of property, *real* and *personal*. *Real property* consists of land and buildings, structures, or improvements that are affixed to the land.

In general, everything else is referred to as *personal property*. Because the Legislature has exempted motor vehicles, household goods, and personal effects from the property tax, only personal property used in business is subject to the property tax.

In 2005, 95 percent of all assessed property subject to property tax was real property, while only 5 percent was personal property. Nearly all of the taxable personal property used by businesses is machinery and equipment. The following chart displays the distribution of all taxable real property.

Distribution of Taxable Real Property
Calendar Year 2005



Source: Property Tax Statistics 2006, Department of Revenue

What are the Major Exemptions from Property Tax?

The text of the original State Constitution declares, "Such property as the legislature may by general laws provide shall be exempt." It is this provision of the Constitution that allows the Legislature to grant property tax exemptions. Note that it allows the Legislature to exempt types of *property*; it does not allow the Legislature to exempt property based on its *owner*.

Any property tax exemption has the effect of slightly increasing the tax rate that owners of all other taxable property must pay by reducing the overall base of taxable property. This circumstance of causing one segment of taxpayers' taxes to increase as a result of exempting the value of property of another segment of taxpayers is commonly referred to as a "*tax shift*."

There are numerous exemptions from property tax, established either by statute or constitutionally. The largest exemption is for intangible property. This includes money, mortgages, notes, accounts, stocks and shares of corporations, trademarks, trade names, patents, copyrights, trade secrets, franchise agreements, licenses, etc.

Other exemptions include business inventories, household goods, most personal property, retired persons, churches, nonprofit hospitals, private schools and colleges, and agricultural products.

In total, $64.7 billion was exempted from state and local taxes over the 2003-05 biennium.

The document entitled "Property Taxes: Exemptions and Special Programs" provides more in-depth information of these exemptions and can be obtained by contacting the Senate Ways and Means Committee at (360) 786-7715 or via the website at the following address: http://www.leg.wa.gov/senate/scs/wm/default.htm.

When Were These Exemptions Granted?

The exemption for intangible property was originally granted by the Legislature in 1925 and has been amended several times, most recently in 1997. The exemption for business inventories was passed by the Legislature and phased in over ten years, beginning in 1974. Motor vehicles were exempted from property tax in 1937, when the current motor vehicle excise tax was enacted. As early as 1871, there were exemptions for household and personal effects, but the expanded exemption that individuals have today was granted in 1935. Churches and hospitals have exemptions that were granted prior to statehood, in 1854 and 1886 respectively. Computer software was exempted in 1991.

Exemptions for agricultural products were subject to legislative changes in 1973 through 1984 when the current exemption for all such products was enacted. Private schools and colleges were exempted by the Legislature in 1925.

It is important to note that many of these exemptions were granted in statute by the Legislature. The State Constitution authorized other exemptions, such as exemptions for governmental entities, a $15,000 exemption from tax on personal property for sole proprietors, and property tax exemptions for retired persons.

What Types of Property Tax Relief are Available to Retired Persons?

Property tax exemptions for retired persons (defined as seniors, disabled persons, and 100% disabled veterans) originated with a constitutional amendment in 1966 and have been modified by the Legislature many times since. A constitutional amendment was required because exemptions for retired persons are based on the owner of the property, not on the type of property.

Only low-income homeowners who are seniors, or are retired as a result of a physical disability, are eligible for property tax relief. This relief can come in the form of an exemption, a freeze in their assessed value, and/or a deferral of tax due, depending on individual circumstances. Property tax exemptions are available to retired persons who are income qualified. Exemptions include total exemptions for excess levies (voter-approved property taxes) or partial exemptions from regular levies.

Exemption Program

Homeowners 61 years of age and older may apply for an exemption from paying excess levies if their household income is $35,000 or less. The property tax relief is available for taxes payable in the year after the application is made and every year thereafter. They are also exempt from regular levies on a portion of their home value if their income is $30,000 or less. A further benefit for these homeowners with incomes of $35,000 or less is that the taxable value of the property is frozen when the homeowners becomes eligible for the program.

Deferral Program

A related program allows homeowners at least 60 years of age with household incomes of $40,000 or less to defer payment of all property taxes. These taxes may be deferred until the sale of the property or until the property ceases to be the permanent residence of the homeowner or surviving spouse.

Even though the eligibility requirements are broader for the deferral program than for the exemptions, only 1,041 people took advantage of the available tax deferral for 2005, compared to 115,801 receiving exemptions.

The document entitled "Property Taxes: Exemptions and Special Programs" provides more in-depth information about this form of tax relief and can be obtained by contacting the Senate Ways and Means Committee at (360) 786-7715 or via the website at the following address: http://www.leg.wa.gov/senate/scs/wm/default.htm.

What are "Current Use" Valuations and "Open Space?"

A Constitutional amendment in 1968 established a *current use* assessment for *open space*, timber, and agricultural lands. Although not a tax exemption in the strict sense of the term, *current use valuations* reduce the tax burden on certain properties. As a result, the reduction for them "shifts" the tax burden to other taxpayers just as an exemption does. This is done by allowing the assessed value to be determined based on how the property is currently utilized, rather than the market value (or the "highest and best use") of the property.

The *open space* program allows agricultural lands, timberlands, and other "open space" lands to be assessed according to their value as they are currently being used, rather than the market value. This "current use" value is typically much lower than market value and is, therefore, a tax benefit for the property owner.

"Open space" lands are lands which conserve natural resources, promote conservation, enhance public value and recreation, preserve visual quality, or have other legislatively identified attributes which are of public benefit. Agricultural and timber lands are subject to various requirements regarding size, use, and income. When property is removed from the current use valuation program, either by the owner or the assessor due to a change in use, back taxes must be paid.

The document entitled "Property Taxes: Exemptions and Special Programs" provides more in-depth information about the current use and open space programs and can be obtained by contacting the Senate Ways and Means Committee at (360) 786-7715 or via the website at the following address: http://www.leg.wa.gov/senate/scs/wm/default.htm.

What Types of Restrictions and Limitations are There on Property Taxes?

The myriad of constitutional and statutory provisions regarding property taxes have served to create an interconnected system of property tax administration and collection. In order to understand the overall system and the rationale for its evolution, it is important to review the restrictions and limitations governing property taxes.

Uniformity in Taxation

Perhaps the most important principle of property taxation in our state is the uniformity of taxation. In the 1853 Organic Act establishing the government of the Washington Territory, the U.S. Congress imposed a strong requirement for uniformity in taxation in order to prevent the territory's residents from imposing a disproportionate share of taxes on nonresidents. Uniformity of taxation continued as a fundamental principle in the State Constitution adopted in 1889.

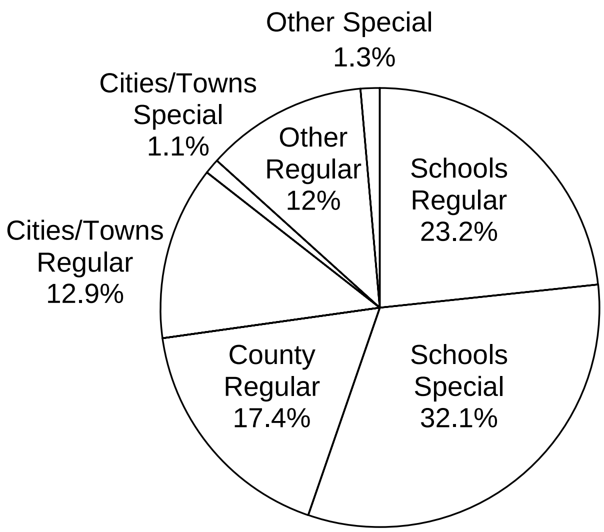
The State Constitution includes a *uniformity clause,* which provides that "taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax…All real estate shall constitute one class." This means that taxes must be the same on real property of the same market value. Uniformity requires both an equal rate of tax and equality in valuing the property taxed. Many other states have differential tax rates or different value standards that depend upon the separate classifications of property. Such a system would not be constitutional in Washington.

One Percent Limit (Ten Dollar Limit)

Beyond the principle of uniformity, the Washington State property tax system as we know it today really took shape in the early 1970s. In 1972, Washington State voters amended the Constitution to limit the annual amount of property taxes that may be imposed on an individual parcel of property to one percent of its true and fair value. By law, tax rates are stated in terms of dollars per $1,000 of value. Therefore, the 1 percent limit is the same as $10 per $1,000. Under the constitutional amendment, the *one percent limit ($10 limit)* may be exceeded only with the approval of 60 percent of the district's voters.

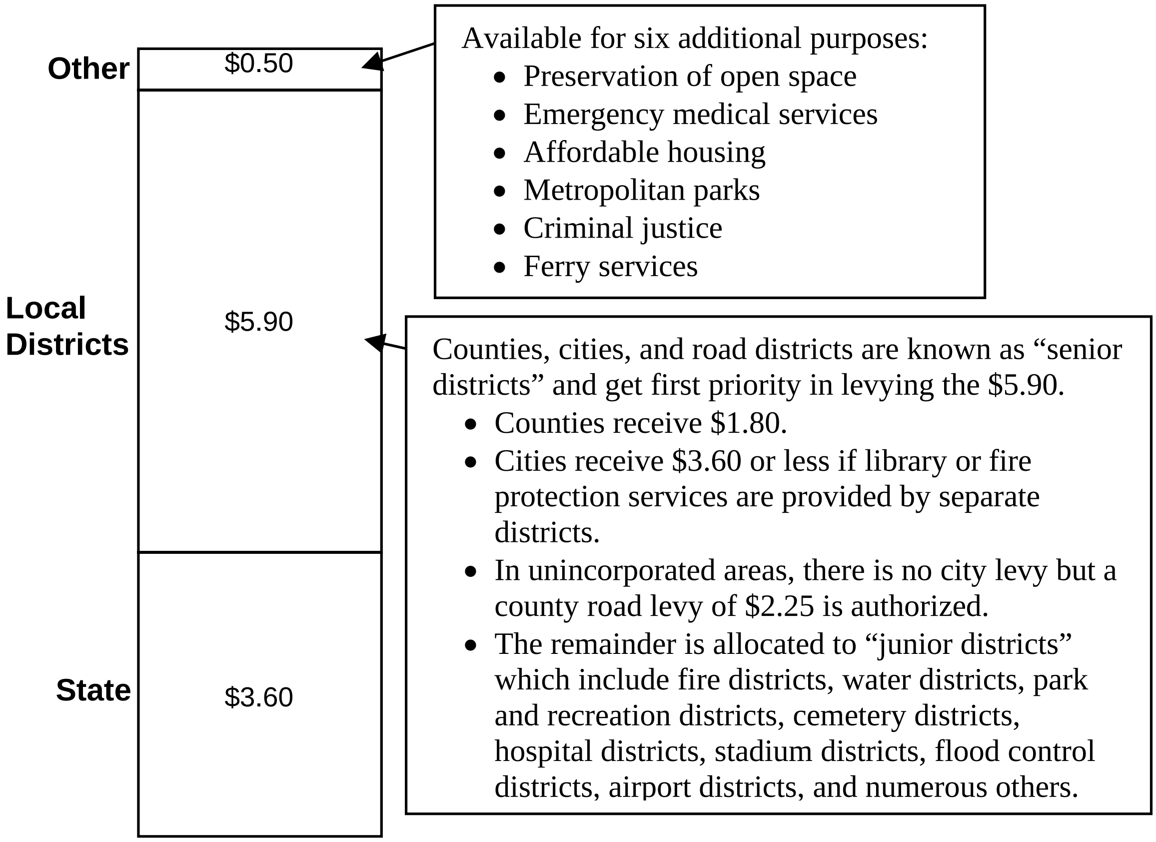
Taxes imposed under this limit are termed *"regular" levies*, while those outside the limit are *"excess"* or *"special" levies*. For statewide taxes due in 2005, 65.5 percent were regular levies and 34.5 percent were excess voter-approved levies. The majority of excess levies are school district levies. The following chart breaks down the statewide average regular and excess levies by type of taxing district.

Breakdown of Regular and Excess Levies Due in 2005



Source: Property Tax Statistics 2006, Department of Revenue

The one percent maximum rate for regular property taxes is limited further by a complex series of statutes. The $10 limit is broken down as follows:



The Limit (Inflation) Factor

Local government taxing districts generally determine their property tax levy based on the revenue required to fund their budget for the following year. However, in 1971, the Legislature imposed a statutory limit on annual increases in local governments’ revenues from property taxes. Under this limit, revenues from any district’s *regular* property tax levy may not exceed 106 percent of the highest amount of revenue received from any levy in the preceding three years. Added to this is an amount to account for new construction and improvements. The 1979 Legislature extended this limit to the state property tax as well.

In 1997, voters passed Referendum 47, which imposed additional requirements on the 106 percent limit. Under this provision, taxing districts with a population over 10,000 were only allowed to increase the regular levy by the rate of inflation or six percent, whichever was smaller. For a district to increase the levy by the full six percent, a super majority vote of the governing body in each district was required. In addition, Referendum 47 limited the growth of assessed values, by averaging large valuation increases over time. This averaging provision was subsequently thrown out by the Supreme Court in 1998 for being unconstitutional because of the requirement for "uniform" valuation of properties.

In 2000, voters passed Initiative 722, which limited future increases of taxable value to the lesser of inflation, or 2 percent per year. It also limited taxing district increases to 2 percent and rolled back certain property tax increases levied in the year 2000. However, the Supreme Court in 2001 ruled this initiative unconstitutional because it violated the constitution's requirement that initiatives only involve a single subject.

How is Assessed Value Determined?

There are three criteria used to value real property: *comparable sales, cost,* and *income potential*.

- *Comparable sales*: value is determined or estimated based on multiple sales of similar properties. Most residential property is valued using this method.
- *Cost*: value is determined based on the cost of replacing an existing structure with a similar one that serves the same purpose. This method is used to value new construction.
- *Income*: value is determined based on the income producing potential of the property. This method is often used to value business property.

For many years, assessment practices varied widely across the state, resulting in both constitutional and statutory changes intended to improve adherence to requirements for uniformity. In the early 1950s, with the imposition of the real estate excise tax, the state received more accurate data on actual sales prices of real property. This data revealed significant inequities between the assessed value and the actual market value among taxpayers living in different areas of the state. In 1955, the Legislature adopted a property revaluation cycle, requiring that revaluation occur a minimum of every four years.

Frequent revaluation of property during a time when property values are rapidly increasing improves uniformity, because property assessments more closely reflect the current value. Otherwise, recently revalued property is closer to current market values while property that has not been revalued lags far behind the market value. In addition, less frequent revaluation cycles can create rapid increases in property tax assessments. For example, if a property in a rapidly increasing market is revalued every four years, the assessed value will more dramatically jump after revaluation. Of the 39 counties today, 20 revalue on a four-year cycle and 17 revalue annually, with only two counties on two or three year cycles. Since several counties with large property bases revalue annually, the large majority of property in the state is revalued annually.

How is the Amount of Tax Levied by a Taxing District Determined?

A taxing district levies a property tax in the amount needed to fund its budget for the following year. By November 30th of each year, the amount of taxes to be levied by taxing districts are certified to the County Assessor who computes the tax rate necessary to raise that amount of revenue. The County Assessor calculates the tax rate necessary by dividing the total levy amount by the amount of taxable property in the district. This number is expressed in terms of a dollar rate per $1,000 of valuation. For example, a rate of $0.00025 is expressed as 25¢ per $1,000 of assessed value. For the state levy (which is dedicated to the support of the common schools), the state Department of Revenue determines the amount of tax to be levied, apportions the tax to the various counties, and certifies the tax to the county assessors.

There are three main components to the property tax; the *levy*, *assessed value*, and *levy rate*.

- The *levy* is the total amount collected from the taxpayers by a taxing district. Currently, the taxing districts are only able to increase their levies by 1% per year.
- The *assessed value* and the *levy rate* are the tools that are used to distribute the property tax burden equally to all taxpayers.
- Assessed Value x Levy Rate = *levy*

Since levies are capped at one percent actual property taxes received by a taxing district can only increase that much. The levy rates actually decrease so that the levy itself is limited to a one percent increase.

How are Individual Property Taxes Determined?

The tax on a particular property is calculated by multiplying its assessed value by the tax rate. Once the maximum allowable regular property tax levy amount is determined for a district under the one percent limit factor, the county assessor then calculates the necessary tax rate by dividing the total levy amount by the amount of taxable property (total assessed value) in the district. The rate is expressed in terms of dollars per $1,000 of assessed value. The rate is multiplied by each $1,000 in value for each parcel to determine the tax. An individual tax bill is the total of all such calculations for all of the individual districts levying tax on the particular property.

For example, for a parcel of property assessed at $100,000, the tax would be determined as follows, assuming a tax rate of $11.87:

$$\text{Tax Rate (per \$1,000)} \quad x \quad \frac{\text{Assessed Value}}{1{,}000} \quad = \quad \text{Tax Due}$$

$$\$11.87 \quad x \quad \frac{\$100{,}000}{1{,}000} \quad = \quad \$1{,}187$$

The Constitution stipulates that property tax is to be levied against the “true and fair” value of property. Property assessment, or *valuation*, is the process by which the “true and fair” value is determined. In order to comply with the provisions of the Constitution, all taxable property must be assessed at 100 percent of its true and fair value unless the law specifically provides otherwise, such as with low-income retired persons. A county assessor makes these assessments for about 97 percent of the property in the state. The Department of Revenue makes the remaining three percent of the assessments.

Does Higher Assessed Value Necessarily Mean Higher Property Taxes?

No. Many individuals have seen rapid growth in their assessed values, but this does not necessarily equate to a rapid increase in their property tax bill. The amount that a local taxing jurisdiction may levy is limited to an increase of one percent per year.

With the levy only rising one percent per year, the effect of rapidly growing assessed values is a reduction in the levy rate. For example, if each and every parcel of property in a taxing district increased by exactly

30 percent, the actual tax rate due on each parcel of property would still only increase by one percent.

A property that does not increase in value as much as the other properties in a district may even see a reduction in taxes or will bear less of the burden of the levy. On the other hand, a property whose value increases at a greater rate than other properties in the district will bear a greater burden of the tax. It is how values grow in relation to other properties in the same district.

In a district where values average 30 percent growth, a home with 10 percent value growth would actually see a reduction in taxes. Alternatively, in a district where values average five percent growth, a home with 10 percent value growth would likely see a significant increase.

How is Property Assessed and the Tax Collected?

All property, except new construction, is assessed on its value as of January 1 of the assessment year and is listed on the tax rolls by May 31. For new construction, the value as of July 31 of the tax year is listed on the rolls. Notices of valuation changes are mailed to the owner of the property. If taxpayers disagree, they can appeal the valuation. Appeals of assessed values must be filed with the county Board of Equalization by July 1 or 30 days following the mailing of the notice of revaluation, whichever is later. However, the county legislative authority may authorize up to 60 days.

The treasurer in the county where the property is located collects property taxes. The treasurer is required to send each taxpayer a notice which must include the amount of tax owed, the value of both real and personal property, and the name and amount for each taxing district levying a tax. The notice must also separately state the amount of excess (voter-approved) levies. The county treasurer mails the tax bill to the "taxpayer" listed on the tax rolls, which may be a lending institution in cases where the property owner has provided that taxes are to be paid from a reserve account administered by the lending institution. The treasurers mail tax bills after February 15. The first half of the tax is due by April 30; the second half by October 31. Given the timelines required for revaluation and billing, the taxes due in any particular year are based upon the assessed value from the preceding year.

What Does Equalization of Assessments Mean?

In the 39 counties in Washington State, there are differences in revaluation cycles and assessment practices. The state Constitution requires taxes on real estate to be uniform within a district. For the purpose of collecting the state property tax, the state is one district. Since differences in county assessment practices would result in the state property tax being applied non-uniformly across the state, the Department of Revenue estimates, in each county, the relationship between the assessed value and the actual market value.

The Department of Revenue then adjusts the state property tax rate according to the average appraised value for that entire county, but does *not* adjust assessed values for each property. As a result, the effective state property tax rate is different in each county. However, this rate multiplied by the assessed value results in a uniform tax across the entire state. This process is called *"equalization."*

For example, if a parcel of property sold for $100,000 (after deducting an amount for any personal property that may have been included in the sale) and its assessed value is $90,000, the ratio of assessed value to market value would be 90 percent, determined as follows:

Assessed Value	÷	Market Value	=	Assessment Ratio
$90,000	÷	$100,000	=	90%

Are Public Schools Funded from the Property Tax?

The Washington State Constitution established basic education as the state's paramount duty. This duty has been reaffirmed in subsequent statutes and court decisions, which acknowledge that the *state* must provide sufficient aid to local school districts to fund basic education. Currently, almost one-half of the state General Fund budget is spent for public schools.

As mentioned earlier, the state property tax levy is dedicated for public schools and is frequently called the state school levy. The revenues are paid directly into the General Fund, along with all the other tax revenues that go to the General Fund. Initiative 728 (I-728), approved by state voters in November 2000, transfers a portion of the state property tax from the state general fund to the Student Achievement Fund (SAF). The SAF is distributed to school districts to use for class size reduction, extended learning opportunities for students, professional development for educators, early childhood programs, and necessary building improvements to support class size reductions or extended learning opportunities.

The state school levy provides about a quarter of the money in the General Fund that the state spends on public schools. In addition, revenues from the sales tax, business and occupation tax, real estate excise tax, and other sources support public schools (see the chart on page 4).

The state school levy as we know it today was enacted in 1975. Prior to 1975, property owners paid a *local regular* school levy of $3.60 per $1,000. The local regular levy was replaced by the regular state levy and state aid was increased to replace the lost local revenue. Over the following few years, the state moved to fully fund basic education from the state General Fund.

Today, local school districts are allowed to collect excess property tax revenues, with voter approval, to enrich their programs beyond the level of basic education. These local school excess levies are limited to an amount equal to 24 percent of revenues received from state and federal sources. Certain districts, which were collecting a higher percentage of property taxes before the *"levy lid"* was imposed, are still able to collect an amount greater than 24 percent through a "grandfather clause" in the statute. Excess school levies for maintenance and operation are allowed for a period of up to four years and require a 60 percent voter approval. Subject to similar voter approval requirements, districts may also levy property taxes to fund school construction, technology, and school buses.

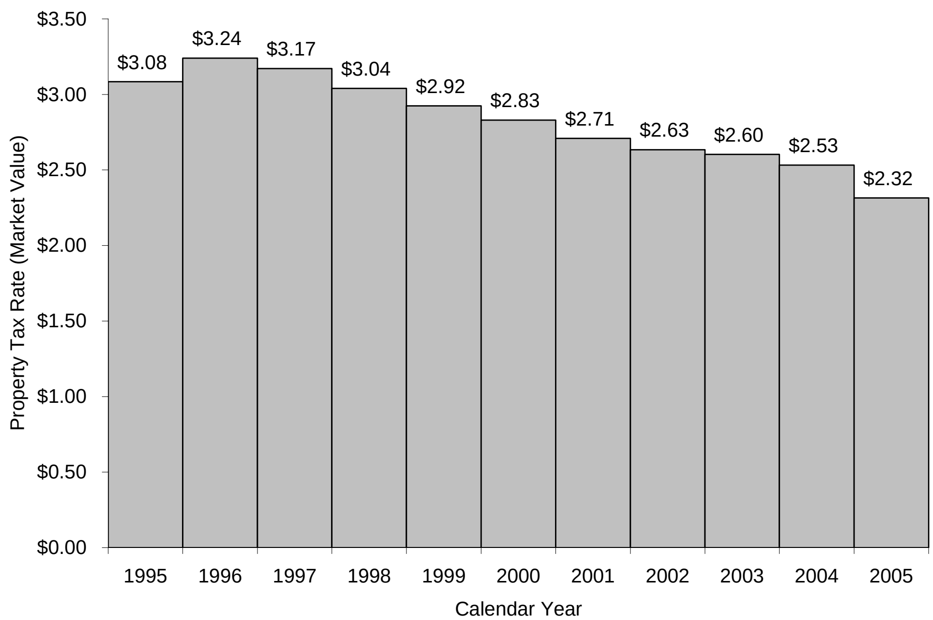
School district excess levies account for 24 percent of the total property taxes collected statewide (see the chart on page 9). The state property tax levy (also dedicated for schools) accounts for another 23 percent.

The document entitled "A Citizen's Guide to Washington State K-12 Finance" provides more in-depth information regarding the funding of public schools and can be obtained by contacting the Senate Ways and Means Committee at (360) 786-7715 or via the website at the following address: http://www.leg.wa.gov/senate/scs/wm/default.htm.

How do Washington State Property Taxes Compare?

This section examines a number of comparative statistics regarding property taxes in Washington State, including comparisons with other states and historical comparisons to examine how property taxes have changed over time. The analysis is accomplished largely through the use of a series of graphic presentations.

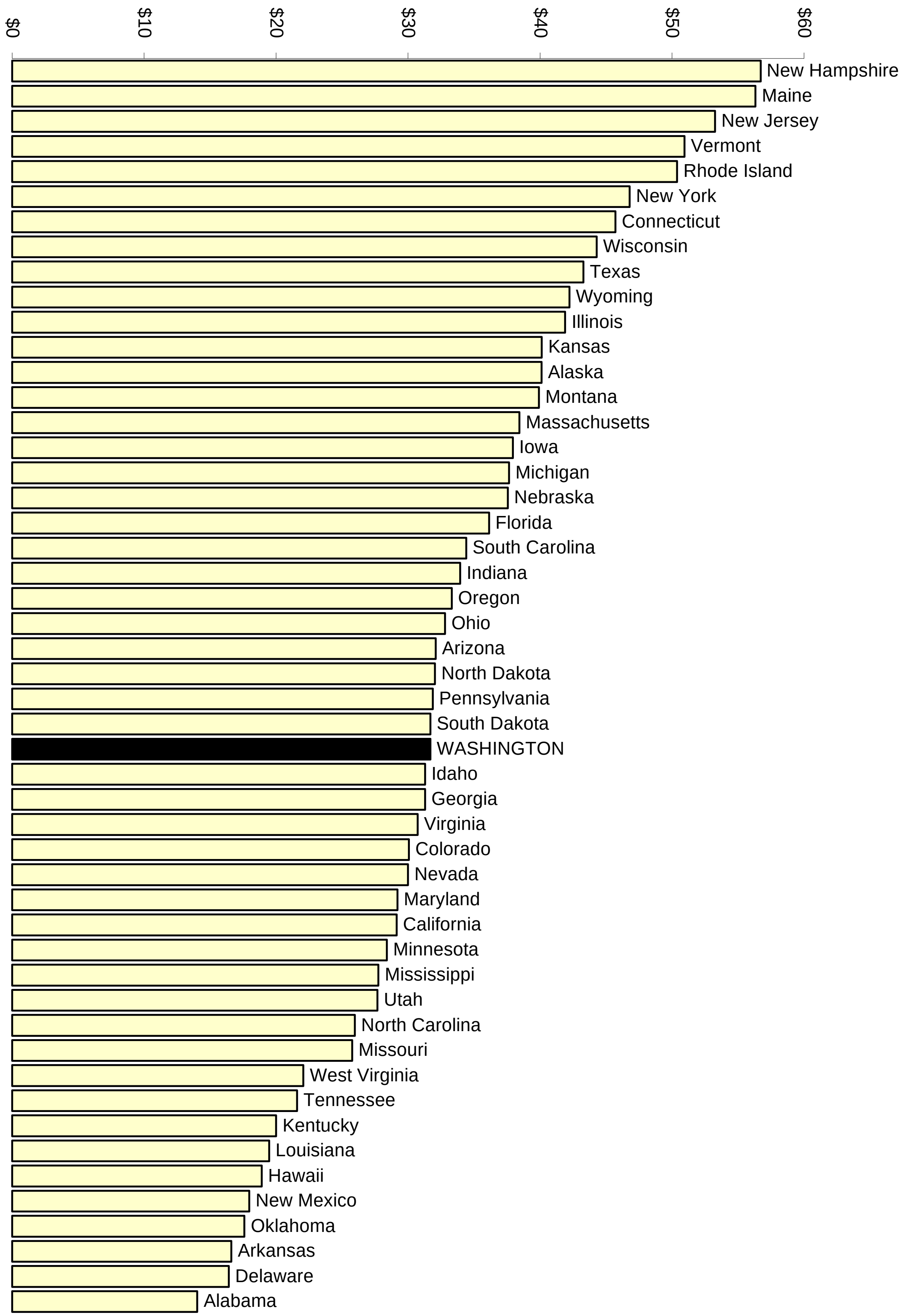
The following chart shows the history of the state property tax rate. The rate is statutorily limited to $3.60 per $1,000 of assessed value, however, it does fluctuate from year to year due to the interaction between property values and levy limitations. The rate in 2005 was only $2.32.



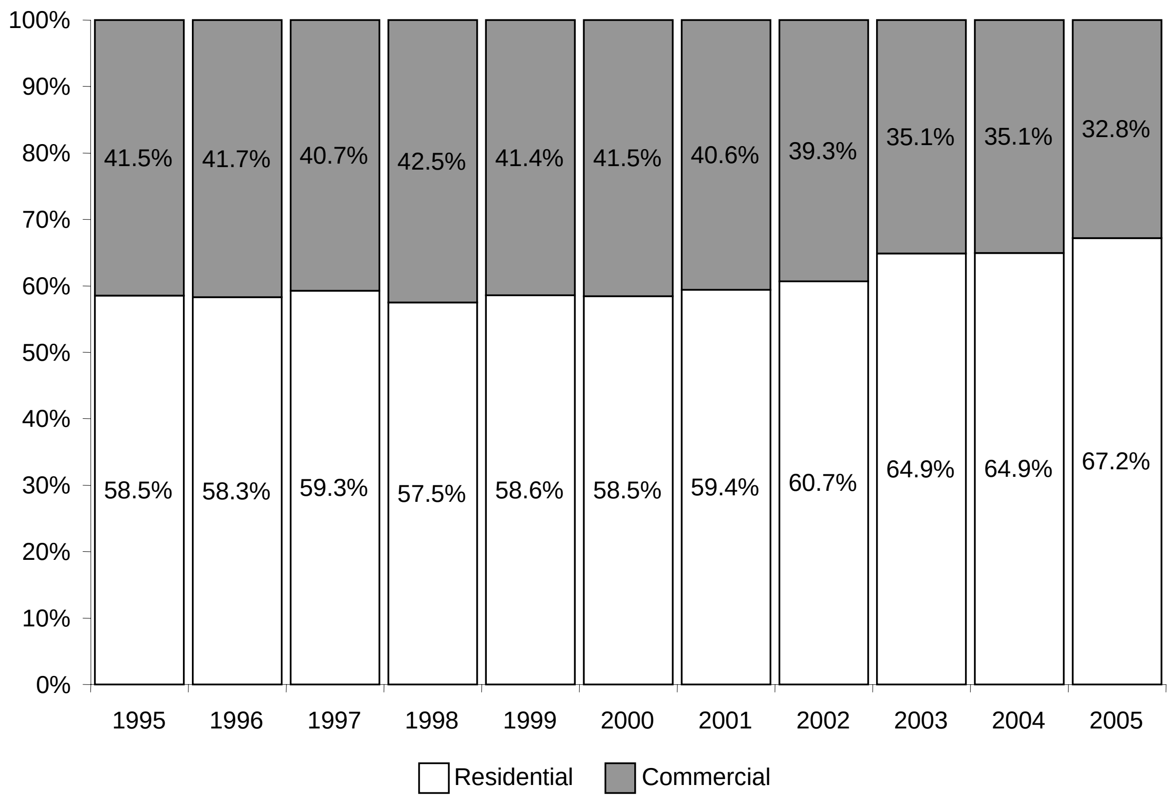
The chart on the following page is a comparison among all states of property taxes relative to income. When compared to the other 49 states, state and local property taxes in Washington appear to be about in the middle. For fiscal year 2004, Washington ranked 28th in property taxes at $31.68 per $1,000 of personal income, below the national average of $34.75. Calculated on a per capita basis, Washington ranked 18th at $3,452 per person.

Property Taxes Per $1000 of Personal Income
Fiscal Year 2004

Source: Department of Revenue



A recent trend, particularly since the early 1990s, has been the shift of the tax burden from taxpayers whose property is not increasing in value to taxpayers whose property is increasing in value.   As can be seen from the following chart, the proportions of statewide assessed value (and therefore the tax burden) of commercial and residential property have been changing.



In 1995, commercial value of property represented 41.5 percent of the statewide assessed value, and therefore paid 41.5 percent of the property tax. Since then, the relative share of commercial assessed value (and therefore taxes) has decreased by 8.7 percent points to 32.8 percent.

What are Some of the Recent Legislative Changes to the Property Tax?

Property Tax Exemption to Veterans with Severe Disabilities (HB 1019 – Chapter 248, Laws of 2005)

Veterans of the United States armed forces with 100 percent service-connected disability are eligible for the same property tax relief as retired persons based on their income.

Property Tax Exemption to Widows or Widowers of Members of the Military (SHB 1509 – Chapter 253, Laws of 2005)

Established a grant program in the Department of Revenue to provide assistance to widows and widowers of veterans for the payment of property taxes. The person must be eligible for the retired persons property tax exemption, other than the income limits, and a widow or widower of a veteran who died from a service-connected disability; was 100 percent disabled for the ten years prior to death; was a prisoner of war and 100 percent disabled at least one year prior to death; or died while on active duty or in active military training status. The assistance is equal to property taxes imposed on the difference between the value eligible for exemption under the retired persons program and: 1) $50,000 if the income level is $35,001 to $40,000; 2) $75,000 if the income level is $30,001 to $35,000; and 3) $100,000 if the income level is $30,000 or less.

Property Tax Deferral Interest Rates (SHB 2569 – Chapter 275, Laws of 2006)

The interest rate charged on property taxes deferred under the retired persons property tax deferral program was reduced from 8 percent to 5 percent for future deferrals. The Department of Revenue (DOR) will study and report on the adequacy and appropriateness of the interest rate in 2012.

Retired Persons Property Tax Exemption Program (SB 6338 – Chapter 62, Laws of 2006)

The land eligible for the retired person property tax exemption program was increased from one acre to five acres if zoning requires this larger parcel size.

Property Taxation of Nonprofit Entities (SHB 1510 – Chapter 305, Laws of 2006)

This bill expanded the ability of certain nonprofit organizations to use their exempt property for financial gain without losing their property tax exemption. For example, the days a nonprofit public assembly hall or meeting place or a war veterans' organization may loan or rent its property tax exempt property for gain or to promote business activities is increased from 7 to 15 days per year. Counties in which a public assembly hall or meeting place property tax exempt property may be used for dance or music lessons and art classes is increased from 10,000 to 20,000 in population. Nonprofit social service organizations in counties with less than 20,000 population may loan or rent their property tax exempt property for gain or to promote business activities for 15 days per year if there is no private for-profit facility that could be used within 10 miles and may loan or rent their property to a nonprofit community group for 15 days per year if the community derives a benefit.

Removing the Irrevocable Dedication Requirement for Exemption from Property Tax for Nonprofit Entities (SB 6280 – Chapter 319, Laws of 2006)

Eliminated the requirement that property owned by a nonprofit organization and eligible for property tax exemption must be irrevocably dedicated to the purpose for which the exemption was granted.

Personal Property Tax Exemption for a Head of Family (SHB 3164 – Chapter 281, Laws of 2006)

The statutory personal property tax exemption was increased for a head of family from $3,000 to $15,000 for taxes payable in 2007 and thereafter.

What Legislative Changes to the Property Tax Might be Proposed in the Future?

Multiple Classification Systems ("Split Rolls")

In many states, property tax classification systems provide for different classes of property which are subject to different tax rates or valuations. For example, residential property might be classified separately from commercial property and taxed at a lower rate. Different types of commercial property might be separated into classes and taxed at different rates, much the same as our state administers the business and occupation tax. To do so will likely require a constitutional amendment due to the provisions of the uniformity clause. When one type of property is taxed at a lower rate (either through split rolls or exemptions), the property tax burden is shifted to other taxpayers and some taxing districts may receive less revenue.

Homestead Exemptions and Credits

Homestead exemptions and credits apply to owner-occupied residential property. Homestead *exemptions* reduce the assessed value of a homeowner's property. For example, a homeowner might be exempt from paying tax on the first $50,000 in value on the home; or perhaps a homeowner's primary residence would be exempt from property tax altogether. That tax burden would shift to property owners who do not get the homestead exemption, such as homeowners with higher-valued property or commercial property owners. Again it is likely that such a proposal would require a constitutional amendment.

Alternatively, homestead *credits* are amounts subtracted from the tax owed. With a homestead credit, assessed value and taxes are calculated as usual, but certain homeowners receive a tax credit that decreases the actual tax bill. As a result, taxing districts (including the state) lose revenue but there is no shift of the taxes to other taxpayers.

Thirty-seven states offer homestead exemptions or credits; 14 states and the District of Columbia have programs with no age limits; 14 states have programs for seniors only; and nine states offer programs for all ages with more generous benefits for retired persons.

Tax Deferrals

Sixteen states and the District of Columbia offer deferral programs that allow certain people, usually the elderly and disabled, to postpone paying property taxes until death or the sale of their property. The programs in 14 states (including Washington) are limited to persons over a certain age.

Legislation has been introduced to expand options for tax deferrals to other taxpayers in our state. Proposals have included tax deferrals for low-income homeowners of any age and deferrals of tax increases beyond a certain percentage, regardless of age or income. Such proposals are intended to help taxpayers who might be likely to lose their homes because of rising taxes.

Other taxpayers are unaffected because tax deferrals do not shift taxes to other taxpayers. Since the program is a deferral and not an exemption, the taxes are recovered over time.

Administrative Changes

Numerous bills have bee introduced in Washington to change the way the property tax is administered. Proposals have included requiring counties to provide additional information on revaluation notices and tax statements, to have tax statements sent to the property owner as well as the registered taxpayer, to prohibit further increases in valuation during administrative appeals, and to require cities to notify assessors when action they take could affect land values.

Bills have also been introduced to eliminate twice yearly property tax payment. These bills have authorized quarterly or monthly payments.

Legislation has also been considered to require annual revaluation of all property in order to decrease the magnitude of any one increase in assessed value. For counties on revaluation cycles longer than two years, the change in value for an individual parcel of property follows a stair-step pattern. For example, in a four-year revaluation cycle, there is no change in value for a parcel of property for three years. In the fourth year, there could be a substantial change in value representing four years of value growth.

Conversely, some people like the three-year "free ride" under the four-year cycle. Annual revaluations also require a greater commitment of resources at the county level, and the change in valuation in some counties may be so gradual as not to justify annual revaluations.

Glossary

Class of Property – The term is used in the State Constitution to describe a broad type of property. There are only two classes of property – real property (real estate) and personal property (everything else).

Comparable Sales Approach – A criterion which assessors use in determining the value of a parcel of property. In fact, it is the primary criterion that assessors are required to use in determining value. Assessors look at the dollar value of sales of comparable parcels of property.

Cost Approach – Cost (or replacement cost) is a criterion which assessors may use in determining the value of a parcel of property. In the absence of definitive data on comparable sales, assessors examine the cost, or replacement cost, of the parcel of property.

Current Use Valuation – A method of establishing the assessed value of a parcel of property which allows the assessor to determine value based on the use for which the property is currently utilized rather than the market value. Current use valuation allows an owner to reduce the tax burden on agricultural lands, timberlands, and open space lands. For example, agricultural lands may be valued based on their production, even though the property has a higher market value as commercial property or a housing development.

Equalization – A process by which the state Department of Revenue adjusts the state property tax rate within each county to account for differences in assessment practices between the 39 counties in which the state property tax is levied. Equalization is necessary to ensure that the state property tax is levied uniformly on taxpayers across the state.

Excess (or Special) Levy – Property taxes imposed in excess of the 1 percent constitutional limit which must be voter approved.

Income Approach – Income is a criterion which assessors may use in determining the value of a parcel of property. In the absence of definitive data on comparable sales, assessors estimate the income potential of a parcel of property and its effect on market value.

Indicated Ratio – The statistical ratio between the average assessed value of property within a county and the actual market value of property within the county. The indicated ratio for each county is determined by the state Department of Revenue on the basis of averages derived from sampling individual parcels within the county. Indicated ratios are used in equalizing the state property tax levy across the state to ensure uniform taxation.

Junior Districts – Taxing districts which can levy property taxes but which have a lower priority in levying property taxes than counties, cities, and road districts. Junior districts include fire districts, library districts, water districts, park and recreation districts, hospital districts, cemetery districts, flood control districts, and numerous others.

Limit factor - A statutory limit approved by the voters in Referendum 47 defined as 100 percent plus the percentage change in the implicit price deflator for personal consumption (inflation).

One Percent Limit - A constitutional provisions limiting the annual amount of property taxes that may be imposed on an individual parcel of property, without voter approval, to 1 percent of its true and fair value.

Open Space – Open space lands are lands which conserve natural resources, promote conservation, enhance public value and recreation, preserve visual quality, or have other attributes which are of public value. Such lands are eligible for valuation based on current use rather than market value.

Personal Property – All property, tangible and intangible, which is not real property (real estate) is personal property.

Real Property – Real property consists of land and the buildings, structures, or improvements that are affixed to the land. Real property and real estate are used synonymously.

Regular Levy – Property taxes imposed under the constitutional 1 percent limit on levies are termed regular levies. Regular levies do not require voter approval.

Split Roll – Taxing one type of property differently than another type. The example most often cited is taxing commercial property differently than residential property.

Tax Shift – Causing one segment of taxpayers' taxes to increase as a result of exempting the value of property of another segment of taxpayers. For example, exempting a portion of residential property may cause taxes on commercial property to increase.

Uniformity Clause – Article 7, Section 1 of the State Constitution requires "All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax…" Uniformity requires both an equal rate of tax and equality in valuing the property to be taxed. The Constitution also stipulates that real estate is one class of property.

Valuation – The process used by the assessor to determine the true and fair value, or the assessed value, of property. Another term for valuation is property assessment.

106 Percent Limit – A statutory limit imposed by the Legislature in 1971 (in 1979 for the state levy) that limits annual increases in property tax revenues for a taxing district from regular levies to no more than 106 percent of the highest amount of revenue from any levy in the past three years. (see also **Limit Factor** above).