# Property Tax in Washington

**Senate Ways & Means Committee**

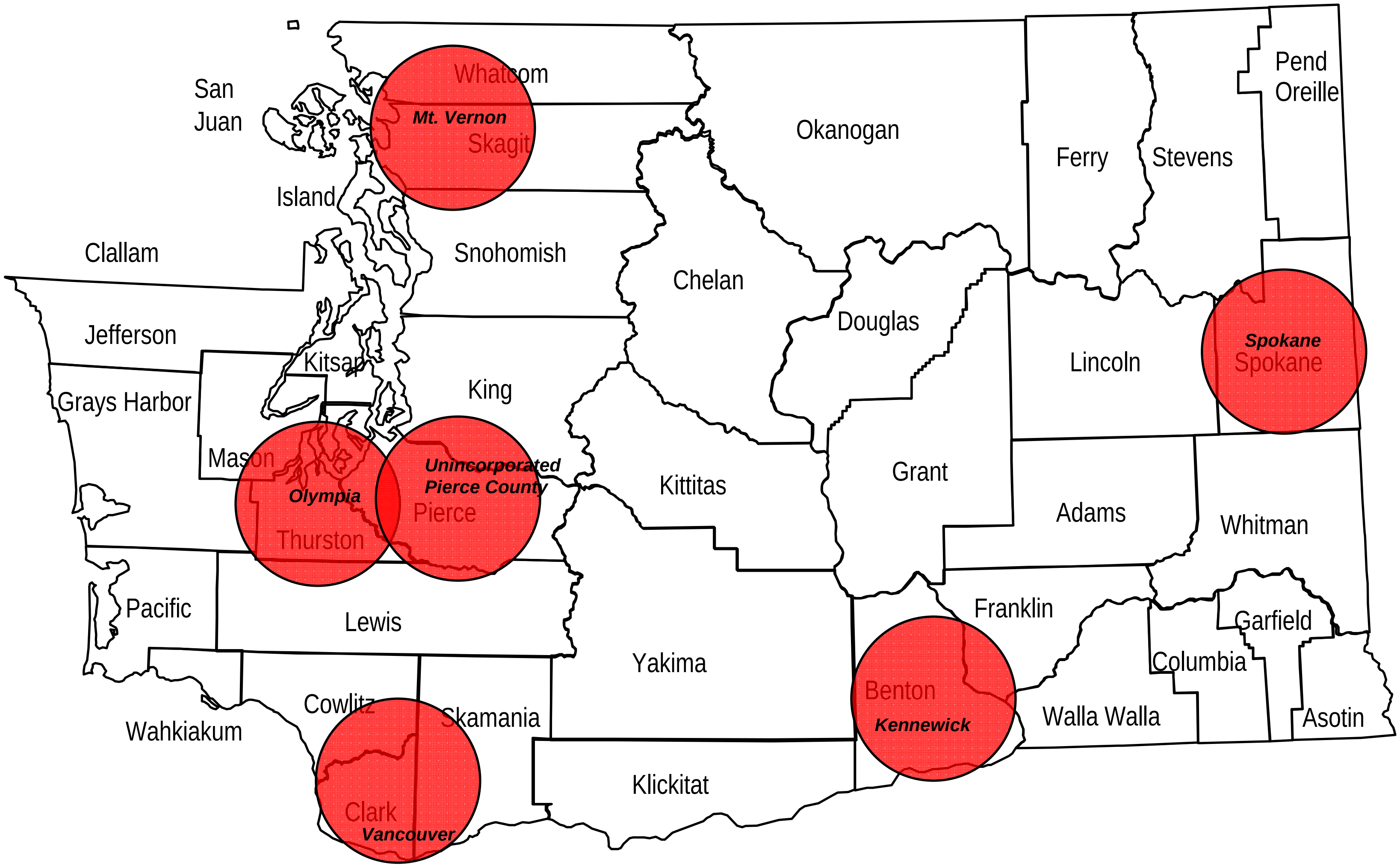
**2008 Interim – Tacoma**

Washington State
SCS
Senate Committee SERVICES

# Ways & Means 2008 Property Tax Meeting Schedule

| Date/Time | Location | Details |
|---|---|---|
| May 8th | Kennewick | Benton County Justice Center |
| June 26th, 1-3pm | Mount Vernon | Skagit Valley College, Multipurpose Room, Campus Center Building |
| July 14th, 6-8pm | Pierce County | Pacific Lutheran University, Xavier Hall, Room 201 |
| September 4-5, TBA | Vancouver | Committee Days |
| October 8th, TBA | Spokane | Spokane Davenport Hotel in conjunction with County Officials convention. |
| December 4-5th, TBA | Olympia | Committee Days |

# 2008 Washington State Property Tax Tour



# Understanding Washington’s Property Tax Structure

# What Property is Taxed?

- All real and personal property is subject to the property tax, unless specifically exempted by law.
- Real property = land and the buildings, structures, or improvements that are affixed to the land.
- Personal property = all other property

# What Property is Not Taxed?
## Exemption Examples

- Motor vehicles
- Household goods & personal effects
- Qualified senior citizens' residential property (partial)
- Various nonprofit property: Churches, Private schools & colleges, Nonprofit hospitals…
- Public Property
- Intangible Property
- Business inventories
- Agricultural products

Note: Because motor vehicles and household goods & personal effects are exempt, personal property that is taxed is generally used in a trade or business.

# What is Assessed Value?

- Assessed value (AV) = 100% of market value.

- "Market value" is:
  - What a willing buyer would pay to a willing seller
  - Based on highest and best use of the property

# Property Tax: Budget-Based System

1. Taxing jurisdictions calculate levy
2. Property within the district is assessed
3. Levy rate calculated based on levy and assessed value (AV)
4. The levy rate is applied to individual assessed values

# …..in other words

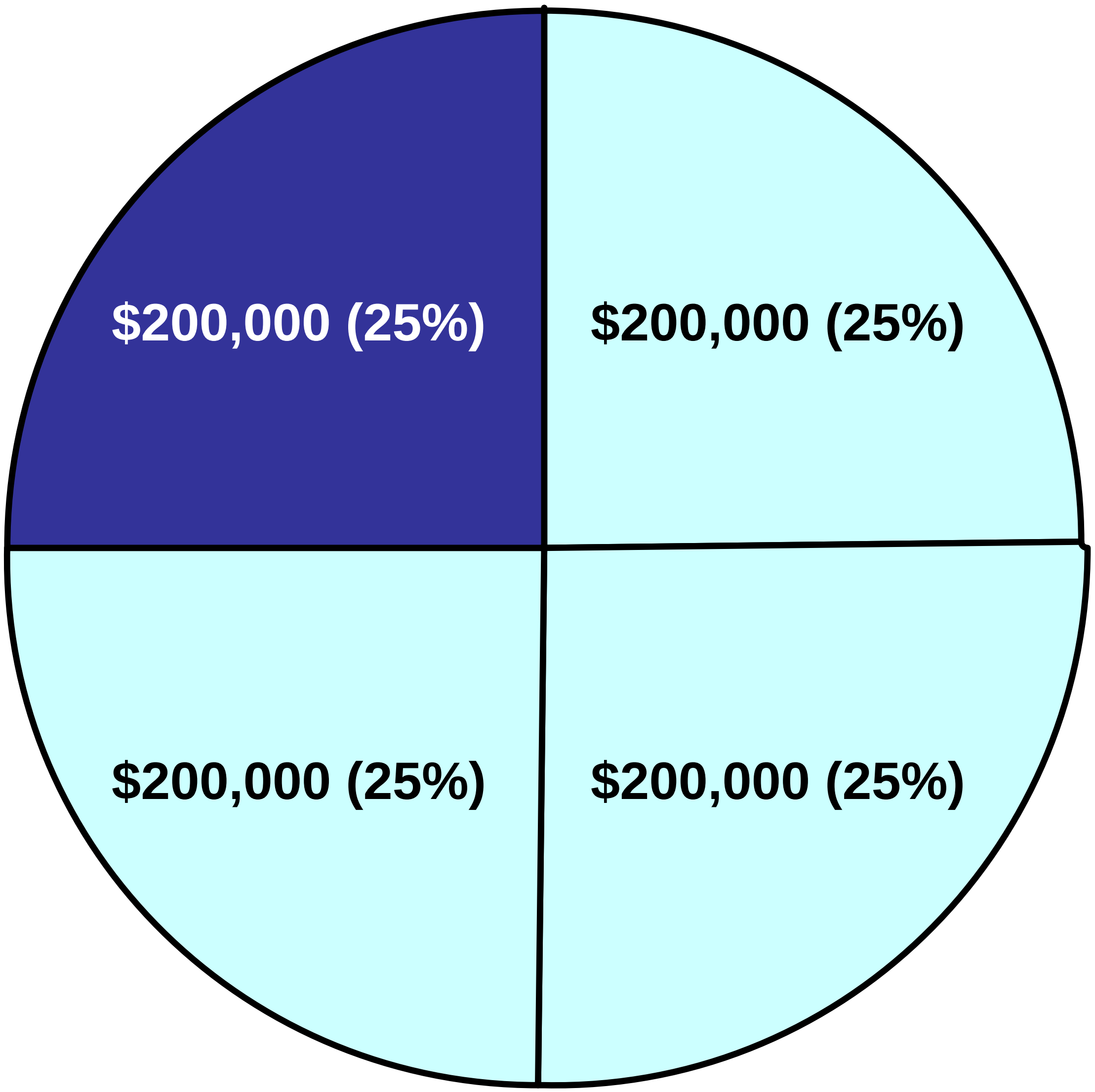
Therefore, local tax jurisdictions calculate taxes using the following:

**Levy Rate = Levy / AV**

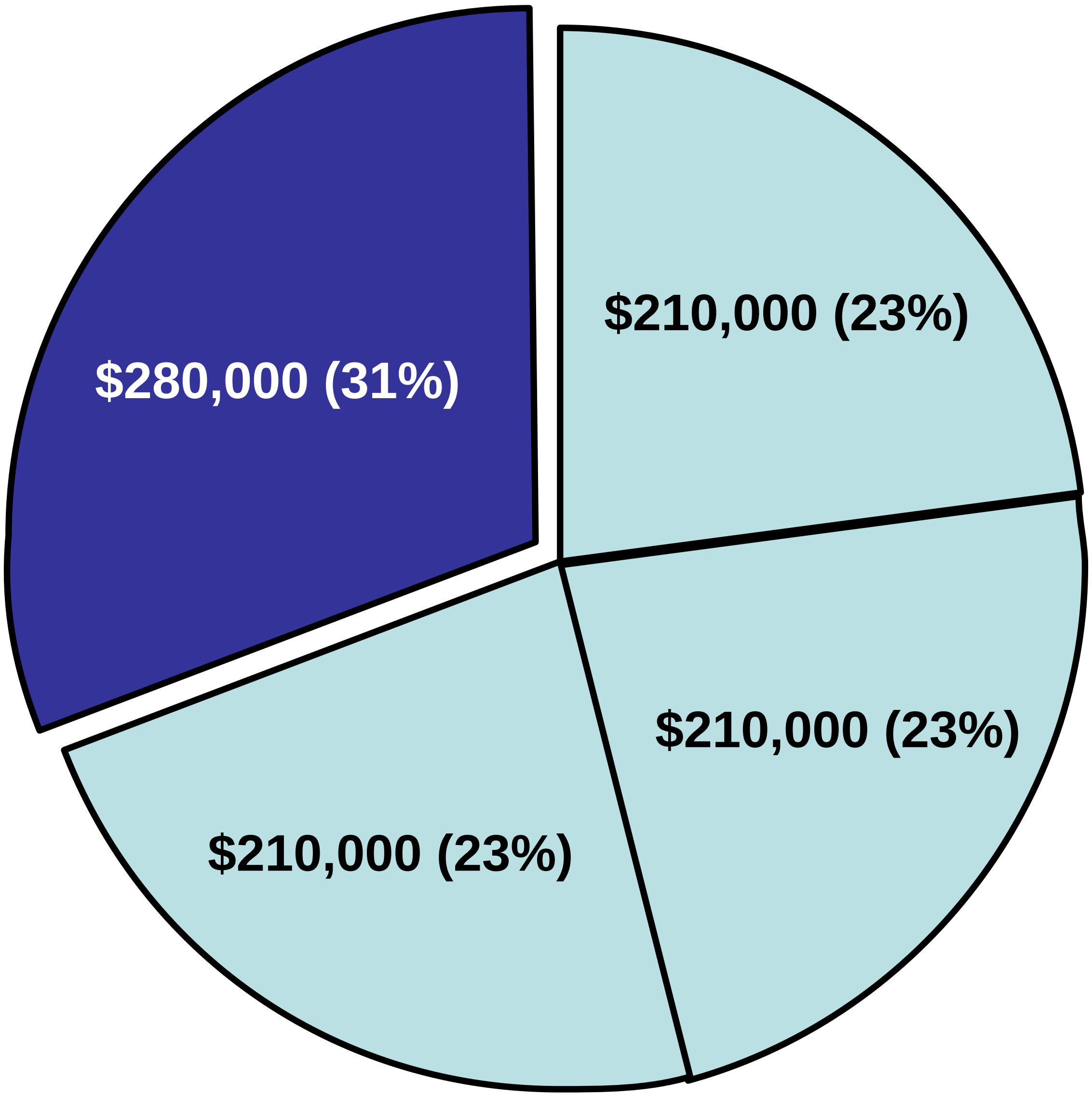
However, the equation for a taxpayer is:

**AV * Levy Rate = Tax Due**

# 2006 Levy Example



# 2007 Levy Example



# 3 Limits on Levies

# 1st Limit:  The $10 Limit

- 1% Constitutional Limit – This is otherwise known as the $**10** limit.  State and local regular levies may not exceed $10 per $1,000 of assessed value.

# “Regular” vs. “Excess” Levies

- Levies under the $10.00 limit are termed “regular” levies.

- Levies in excess of the $10.00 limit require voter approval and are called “excess” or “special” levies.

# 2nd Limit: $3.60 and $5.90 = $9.50

Statutory maximum regular property tax rates keep the combined state and local property taxes under the $10 limit:

- $3.60 limit – maximum rate for the state levy
- $5.90 limit – Junior taxing districts total levies may not exceed $5.90 in any tax code area.
- $0.50 of remaining capacity

# Character of 1st and 2nd Limits

Both

- $10 constitutional limit, and
- the statutory maximum rates ($3.60-state, $5.90-local)

are limits on the maximum <u>rate</u>

These limits do not directly limit increases in a taxing district's budget (levy).

# **3rd Limit:**

Capping Increases in a District's Levy (Budget)

# How does the 1% levy limit work?

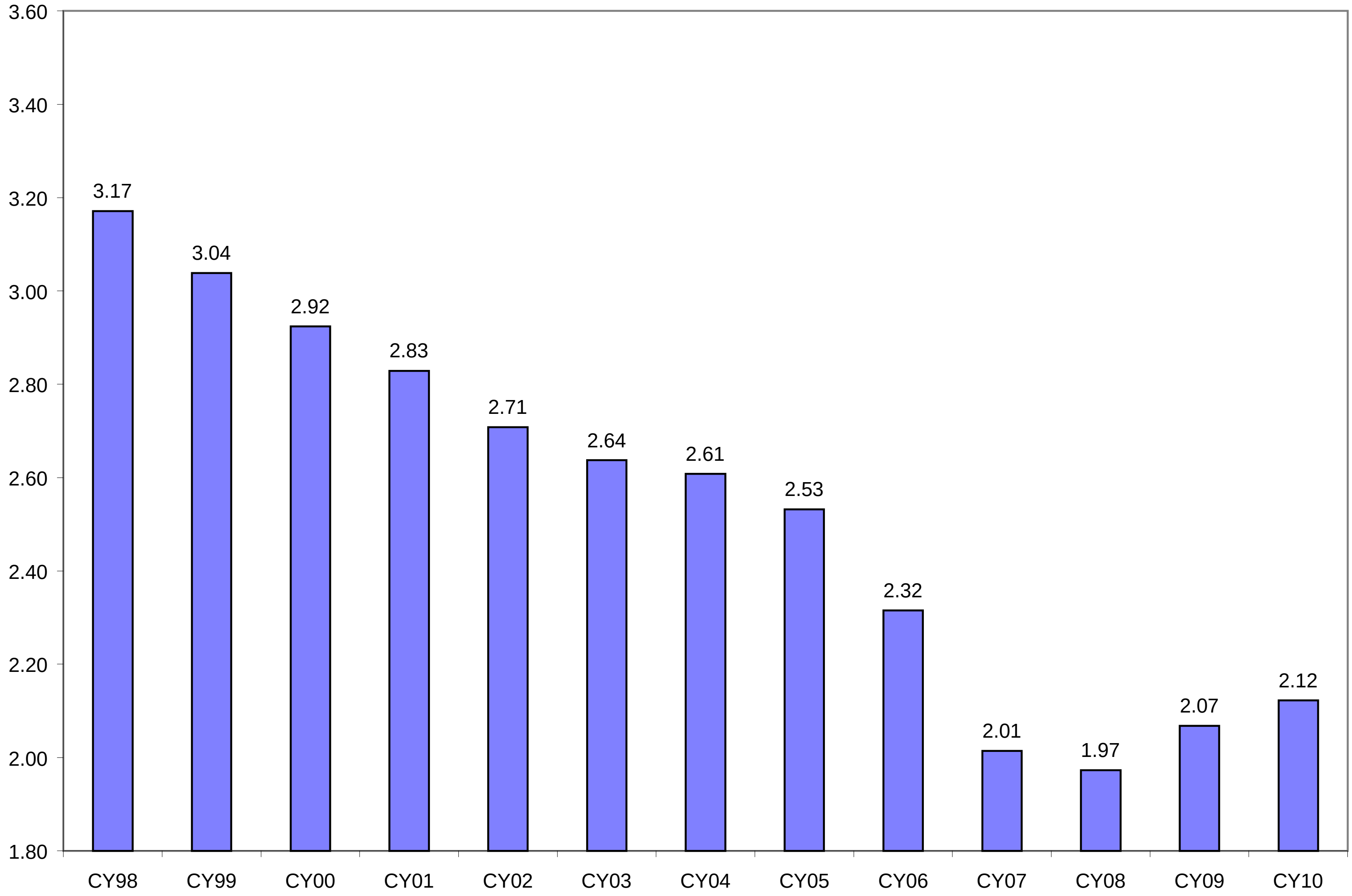
- Levy Limit = a cap on the growth of increases in a district's budget and the amount a district may collect.
- The limit is on the taxes collected, not the growth in property values.
- I-747 = limits annual increases in regular property taxes to 1%

# How does the 1% limit work?

| | Value | Levy | Rate (per $000) |
|---|---|---|---|
| This Year | $5,000,000,000 | $1,000,000 | $0.20 |
| | 105% | 101% | |
| Next Year | $5,250,000,000 | $1,010,000 | $0.19 |

# This limit tends to drive down rates.

For example, the state school levy.



# Shifts and Losses

# Property Tax Shift

Property tax shift = the shift of the property tax burden to other taxpayers in a district when property values change or property is exempted.

# Shift Trends

- Taxes are shifted from SLOW growing properties and onto FAST growing properties.
- Taxes are shifted from exempt to non-exempt properties.

# Effect of Exemptions

- Exemptions lower the taxable value in the district.

- Lower value results in higher tax rate.
  - ➢ Tax rate = tax levy / taxable value
  - ➢ Lower taxable value = higher tax rate

- Higher rate is a shift of tax from the exempt taxpayer to the non-exempt taxpayer.

- To the extent the rate is greater than the district's maximum authorized rate, the district loses revenue.

# The State Constitution and Property Tax

# Constitutional Requirements

- All taxes on real estate must be uniform within a taxing district.
  - Tax uniformity requires both an equal tax rate and equality in valuing the property taxed.
  - Limits ability to provide targeted property tax relief.
- Legislature may exempt property from tax.

# Exceptions: Constitutional Value Limits

- Senior Property Tax Relief Programs

  Article VII, section 10

- Current Use Programs

  Article VII, section 11

# The Property Tax:

## Seniors, Disabled Persons, and Low-Income Persons

# Property Tax Programs for Seniors and Disabled Persons

- Property Tax Exemption Program
- Property Tax Deferral Program

# Exemption Program: 2 Components

- Valuation Limit – “Freeze”
- Exemptions

# Applicant Qualifications

- Must be:  61 years of age, unable to work due to a disability, or a disabled veteran with 100% service connected disability
- Must be the applicant's principal residence
- Applicant must have ownership interest – life estates, leases for life, and revocable trusts qualify
- Combined disposable income may not exceed $35,000.

# Participation in the Program

For Taxes Due in 2007:

- 114,862 Approved Applicants
- $168,383,834 Total Relief
- $1,466 Average Relief

# Property Tax Deferral: Seniors and Disabled Persons

# Deferring the Property Tax

- Allows a qualifying individual to defer (postpone) payment of property taxes.
- The amount of the deferred taxes and/or special assessments, plus interest, becomes a lien in favor of the state until the amount is repaid.
- State pays the local property taxes on behalf of the taxpayer.
- Up to 80% of the home’s equity may be deferred.

# Applicant Qualifications

- Must be 60 years old or unable to work due to a disability
- Must be the applicant's principal residence
- Must be owned by the applicant (life estates, leases for life, & revocable trusts do not qualify)
- Combined disposable income may not exceed $40,000
- Equity must be sufficient to cover the interest of the state

# Participation in the Program

- Total Active Accounts – 950
- Current Accounts Receivable - $9.1 Million
- Amounts Deferred in 2007 - $607,577
- Repayments in 2007 - $1,473,416

# Property Tax Deferral: Low Income Persons

Enacted during the 2007 special session as SSB 6178.

# Deferred Taxes

- 50% of property taxes and/or special assessments can be deferred.
- The state pays the local levies on the taxpayer's behalf.
- The taxes deferred cannot exceed 40% of the home's equity.
- First applications: April 30, 2008.

# Applicant Qualifications

- Combined household disposable income must be $57,000 or less.
- Home must be owned for five years before deferral application.
- The home must be the applicant's primary residence.
- Prior to applying, applicant must pay ½ of the property tax due for the year before April 30.
- Applicants must continue to pay the first ½ of the property taxes due.

# Revaluation Cycles

# Revaluation Cycle

County assessors update assessed values on a revaluation cycle, which varies by county.

<u>For 2008:</u>

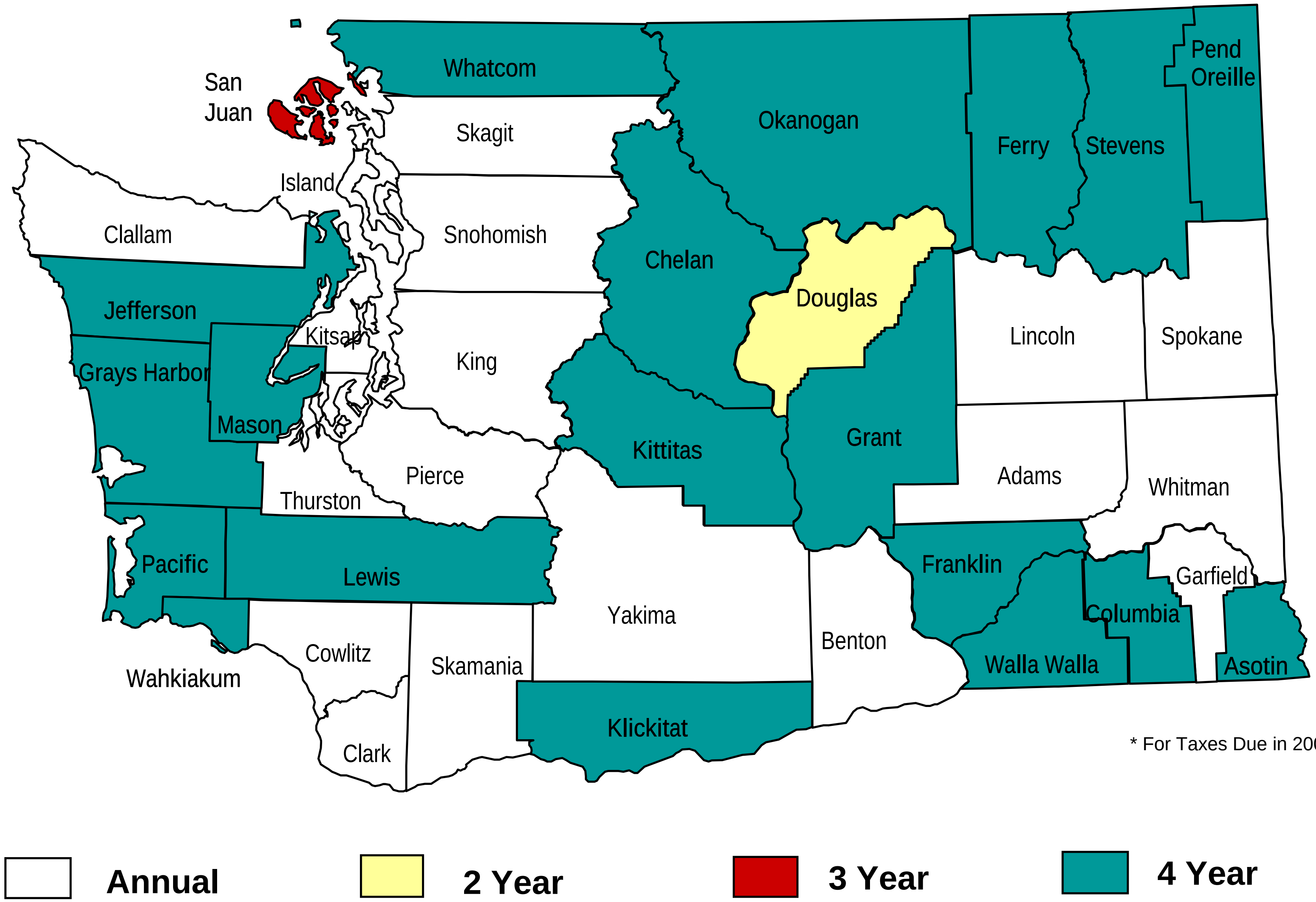
- 18 counties on an annual revaluation cycle
- 1 county on a 2-year cycle
- 1 county on a 3-year cycle
- 19 counties on a 4-year cycle

** In 2009, Walla Walla and Franklin counties switch to the annual revaluation cycle.*

# Multi-Year vs. Annual

- For multi-year revaluation cycles: a proportionate share of the county is revalued during each year of the cycle. Individual property values are not changed during the intervening years of the revaluation cycle.
- For annual revaluation counties: property values are adjusted annually based on market value statistical data.

## County Revaluation Cycles for 2006 Assessment Year *




* For Taxes Due in 2007

# Tax Reform Ideas

- Annual Revaluation
- Adjusting levy growth limits
- Tax rate changes
- Expanding senior citizen/disabled persons' property tax programs
- Value growth limits
- Homestead exemptions