

Property Tax in Washington

**Senate Ways & Means Committee
2008 Interim**





Tax Reform Ideas

- Value growth limits
- Homestead Exemptions
- Levy growth limits
- Tax reductions
- Senior citizen/disabled person program
- Annual Revaluation



Understanding Washington's Property Tax Structure

Property Taxes

- Applied annually to the assessed value of all property unless specifically exempt.
- Both real property & personal property is taxable.
 - Real property is land and the buildings, structures, or improvements that are affixed to the land.
 - Personal property is all other property
- Because motor vehicles and household goods & personal effects are exempt, taxable personal property is personal property used in a trade or business.
- Tax on a parcel of property = Assessed Value x Tax Rate.

Assessed Value

- Assessed value = 100 percent of market value.
- Market value:
 - What a willing buyer would pay to a willing seller
 - Based on highest and best use of the property
- Exceptions:
 - Assessment cycles up to 4 years
 - Open space, farm and agricultural land, and timber land may be assessed based on the current use of the property

Property Tax Rates

- Rate for each taxing district varies each year.
- Assessor determines the rate by dividing the total levy by the total assessed value in the district.
- Tax rate for a parcel of property = sum of rates of all the districts in which the property is situated:
 - There are over 1,700 taxing districts.
 - Overlapping taxing districts form over 3,000 tax code areas.
- Total state and local average rate for 2007 is \$10.48 per \$1,000 of assessed value.

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

The equation for a taxpayer is....

$$\mathbf{AV * LR = Levy}$$

However, a local tax jurisdiction calculates the taxes with the following....

$$\mathbf{LR = Levy / AV}$$

3 Limits on Levies

- Constitution: \$10/\$1000 AV
- Statute: \$3.60 (state) and \$5.90 (local)
- I-747 and earlier limits on the regular property tax levy

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” and “Excess” Levies

- Levies under the \$10.00 limit are termed “regular” levies.
- Levies in excess of the \$10.00 limit requiring voter approval are termed “excess” or “special” levies.

2nd Limit:

$$\text{\$3.60 and \text{\$5.90} = \text{\$9.50}}$$

Statutory maximum regular property tax rates keep the combined state and local property taxes under the \$10/\$1000 AV 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/\$1000 AV constitutional limit, and
- the statutory maximum rates (\$3.60-state, \$5.90-local)

are limits on the maximum rate

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 a levy limit work?

- A levy limit places a limit or cap on the growth of the *levy*, thus limiting increases in a district's budget and the amount a district may collect.
- This is sometimes referred to as the *levy lid*
- The limit is on the taxes collected, not the growth in property values.

I-747 (2001)

Revenues from regular property taxes
limited to 101% (1% increase)

Taxing Districts <10,000: 101% limit

Taxing Districts >10,000:

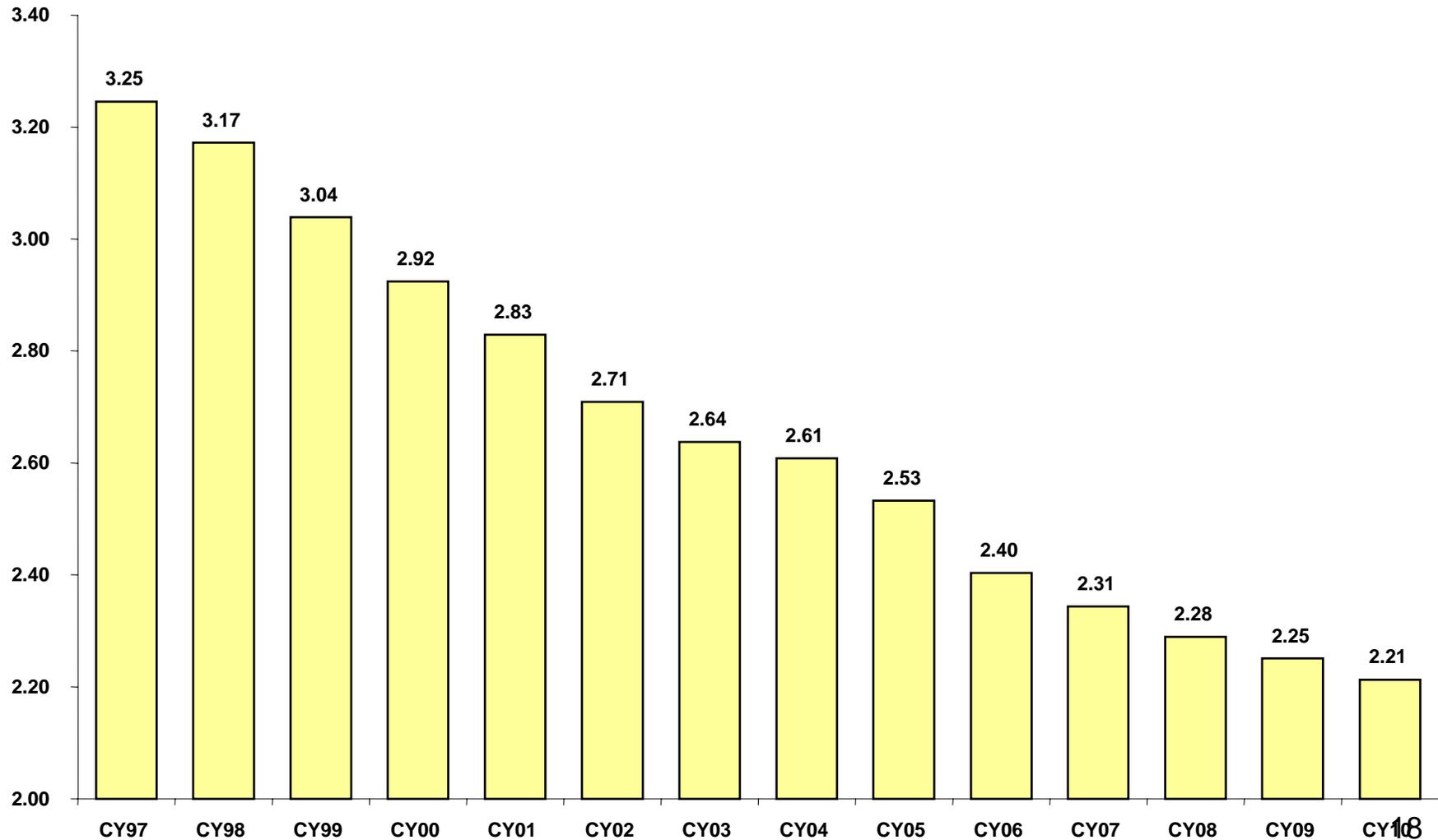
- Increase is limited to the lesser of inflation (IPD) or 1%.
- If inflation is less than 1%, a supermajority of the local legislative authority may make a finding of “substantial need,” which allows the district to raise up to 1%

How does the 1% limit work?

	<u>Value</u>	<u>Levy</u>	<u>Rate</u> <u>(per \$000)</u>
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.





Revaluation Cycles

Revaluation Cycle

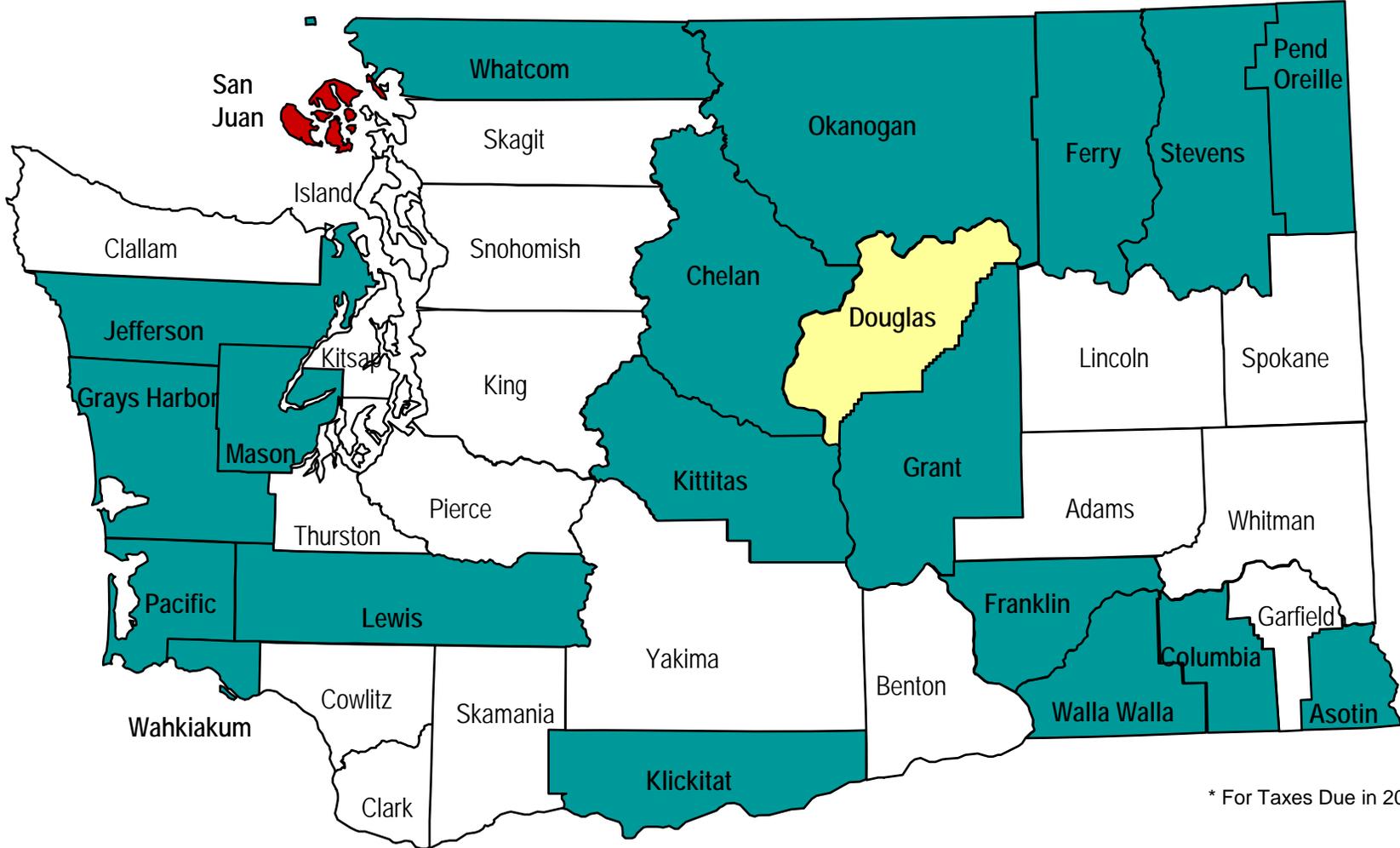
County assessors establish new assessed values on a regular revaluation cycle. The length of revaluation cycles vary by county.

- 19 counties revalue every 4 years
- 1 county revalues every 3-years
- 1 county revalues every 2 years
- 18 counties revalue every year

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

- Annual**
- 2 Year**
- 3 Year**
- 4 Year**



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.



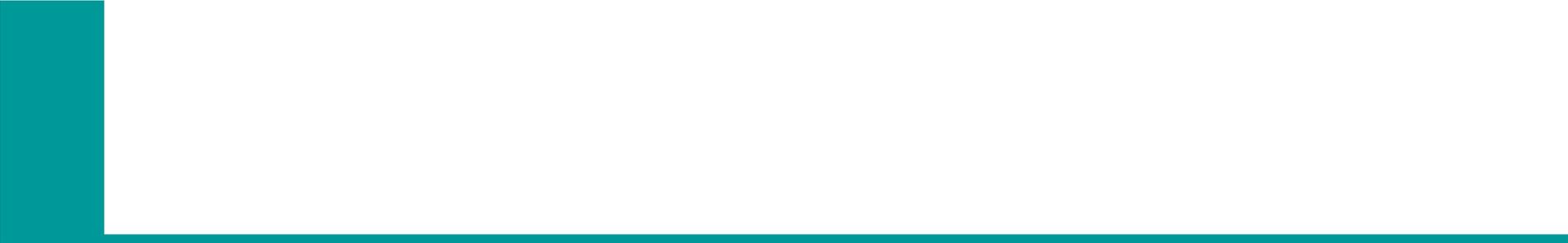
Exceptions: Constitutional Value Limits

- Senior Property Tax Relief Programs

Article VII, section 10

- Current Use Programs

Article VII, section 11



Shifts and Losses





Whenever property values are changed, shifts and/or losses occur.

All savings from value limitations (or exemptions) are “paid for” either by shifting the taxes to other tax payers or by local taxing districts receiving less money.



Major Exemptions

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

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.

Taxes are shifted among taxpayers.

- Taxes are shifted from SLOW growing properties and onto FAST growing properties.
- This occurs within districts, within counties and across the state.



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