WASHINGTON STATE PROPERTY TAX MANUAL

SENATE WAYS AND MEANS COMMITTEE
DECEMBER 1, 2005

FOREWORD

This manual is a compilation of Washington state property tax information intended to serve as a reference document for data on the various legal and procedural aspects of the property tax system.

Information from various sources was used in compiling this manual, including Property Tax Statistics 2005, Tax Statistics 2004, Comparative State and Local Taxes 2002, and Tax Exemptions 2004, all published by the Department of Revenue.

The audience for this manual is anticipated to be persons with some working knowledge of the property tax system and can include members of the Legislature and legislative staff, the Governor's office, executive branch agencies, County Assessors, citizens, businesses, and the media. Additional copies may be obtained from the Senate Ways and Means Committee or on the Internet at **http://www.leg.wa.gov/senate/scs/wm/publications/default.htm**.

Any questions concerning this report should be addressed to the staff of the Senate Ways and Means Committee, 300 John A. Cherberg Building, Olympia, Washington 98504. Telephone: (360) 786-7715.

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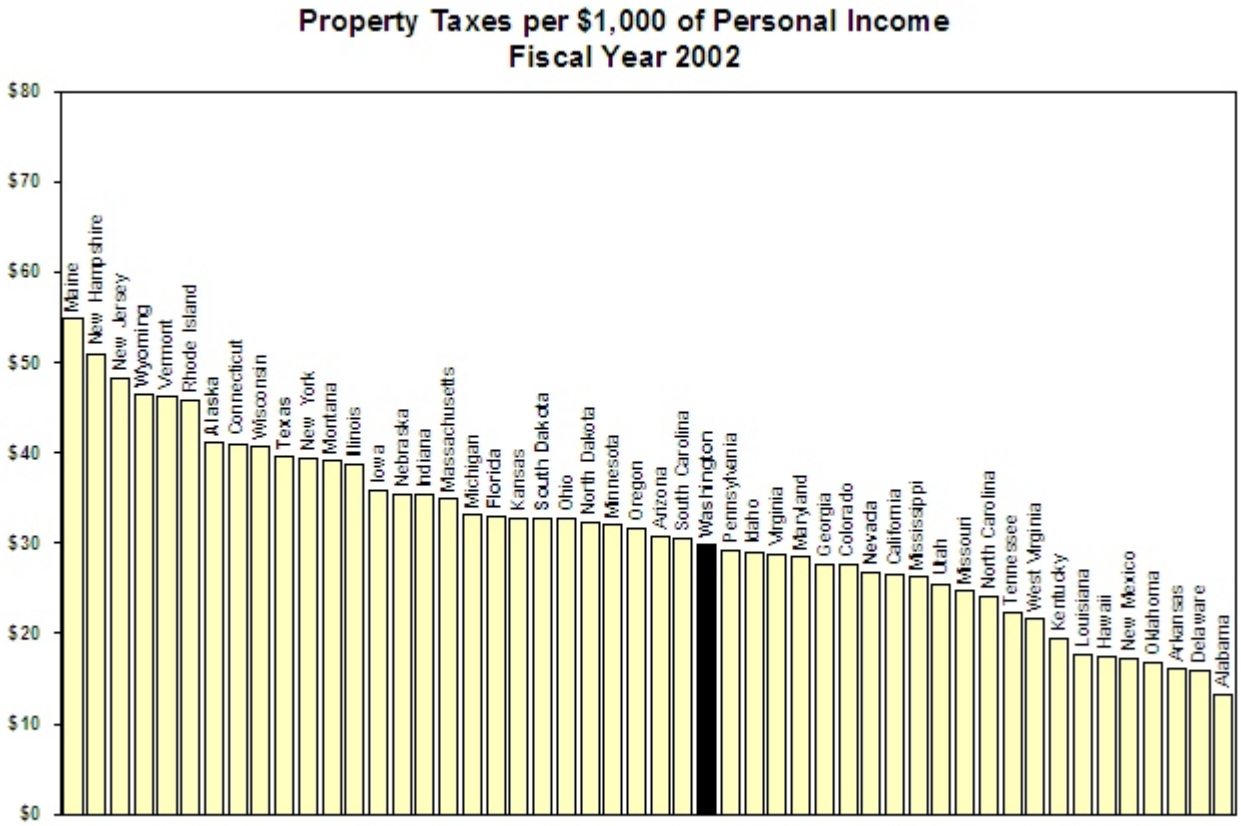
I. THE PROPERTY TAX BURDEN

Property taxes have been a recurring issue. Numerous bills are introduced each session to address a variety of property tax issues. In November 2001, the voters approved Initiative 747 to limit the growth of property taxes. (See "Revenue Limit" on page 6 or page 18.) This section provides a national and historic perspective of the current property tax system.

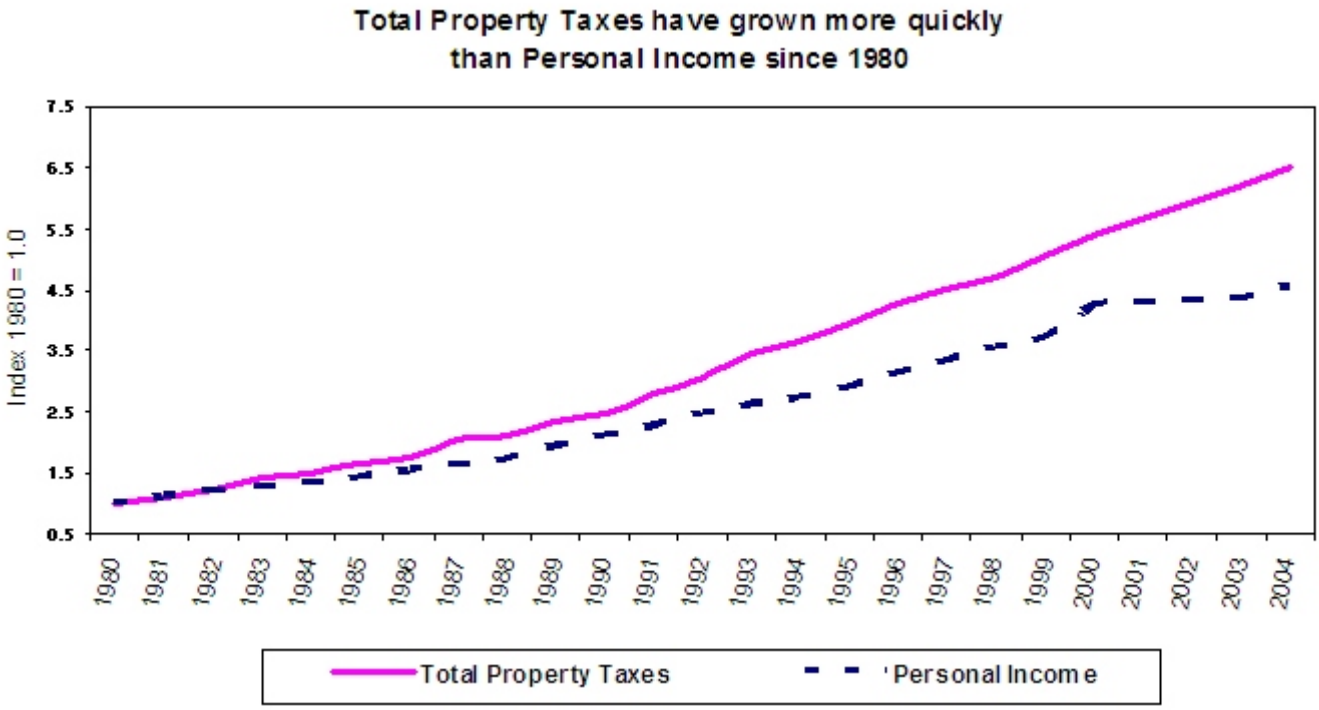
When compared to the other 49 states, more than half of the states have state and local property taxes that are higher than Washington's. For fiscal year 2002, Washington ranked 28th in property taxes at $29.94 per $1,000 of personal income, down from 18th in fiscal year 2000. The national average was $32.07, down from $32.52 in fiscal year 2000. Among the 7 states without a personal income tax, only 1 state, Nevada at $26.78, had lower property taxes than Washington, as can be seen in the following chart. (States without a personal income tax, Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming, are in bold.)



When calculated on a per capita basis, Washington ranked 20th at $954 per person, down from 16th for fiscal year 2000. However, Washington was below the national average of $971.

When state and local property taxes are compared with personal income, a slightly different picture appears. Growth in property taxes since 1980 has been faster than statewide personal income growth.

Property taxes are more than 4 times higher than in 1980, while personal income is only about 3 times higher. This means that property taxes have required a higher percentage of a taxpayer's income each year since 1980 on the average. The following graph illustrates the growth of property taxes and personal income since 1980.



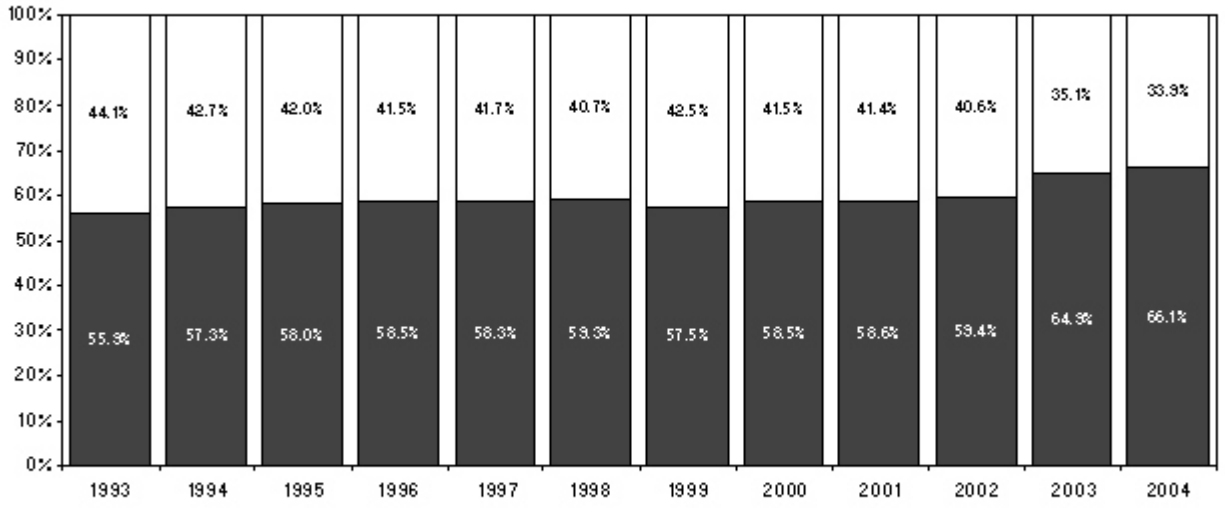
Property tax levies have grown for two primary reasons. First, property values have grown over this time period. Higher values with the same tax rate result in increased revenues, and the revenue limit allowed taxing districts to levy more tax each year. Second, voters have approved "excess" levies, which are not limited by either statutory rate limits or the revenue limit. (See page 15 for a discussion of statutory rate limits and page 18 for a discussion of the revenue limit.)

Another important development in recent years is the change in the distribution of taxes between commercial property and residential property. Prior to 1991, commercial property comprised 48 percent of the assessed valuation in the state (and therefore 48 percent of the property tax liability) while residential property comprised the remaining 52 percent. Beginning in 1991, the tremendous real estate boom, especially in King County, caused this statewide relationship to change. Commercial property now comprises 35 percent of the assessed valuation in the state and residential property comprises the remaining 65 percent. Taxes on commercial property as a whole have decreased by 13 percent while taxes on residential property as a whole have increased by 13 percent.

There are two reasons for this shift of taxes from commercial property to residential property. One reason is that the current booming real estate market has driven the values of residential property up much faster than commercial property while at the same time the recession has resulted in stagnant or

declining values for commercial property. Another reason is that there has been a considerable amount of new residential construction. The combination of these two trends has changed the split between commercial and residential property values and taxes.

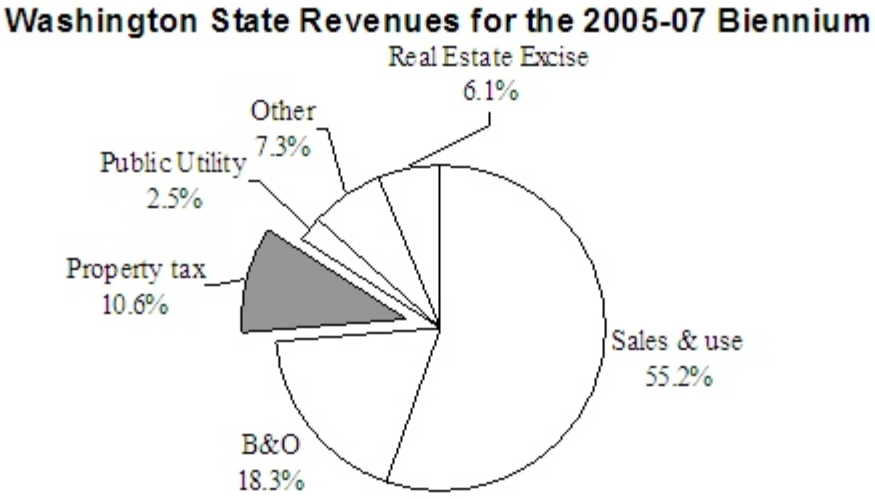
Property Valuation Split
Residential v. Commercial



■ Residential □ Commercial

II. OVERVIEW OF PROPERTY TAXES IN WASHINGTON STATE

The property tax is the single largest source of revenue for local governments. The property tax is the third largest source of revenue to the state general fund and will generate about $2.8 billion for the 2005-07 biennium. (after transfers to the Student Achievement Fund) This comprises 10.6 percent of general fund tax revenues as shown by the following chart.



A. What property is taxable?

The property tax is applied annually to the assessed value of all property except that which is specifically exempted by law. Taxable property includes both real property and personal property. Real property is land and the buildings, structures, or improvements that are affixed to the land. Personal property includes all property that is not real property. Because the Legislature has provided tax exemptions for motor vehicles and household goods and personal effects, taxable personal property is personal property used in a trade or business. Further, the first $3,000 of taxable personal property for heads of households is exempt. This reduces the personal property tax liability of non-corporate businesses. Finally, intangible personal property, such as stocks, bonds, and bank accounts, is exempt from property tax. As a result, taxable personal property tax is generally limited to business equipment and supplies.

B. Who determines the value of property?

Real property lying wholly within individual county boundaries is valued and assessed by the County Assessor. Inter-county, interstate, and foreign utility and transportation companies are valued and assessed by the Department of Revenue. Property assessed by the Department of Revenue is referred to as state-assessed or centrally assessed property. The amount and value of personal property is

reported by April 30th of each year to the County Assessor by persons with taxable personal property.

C. What is the "assessed" value of property?

The property tax is imposed on the assessed value of property. Property is valued at 100 percent of its market value which is the amount of money a willing buyer would pay a willing seller. Certain qualified lands (agricultural, open space, and timber lands) may be valued and assessed on the basis of their current use, which may be less than their highest and best use. Application must be made for current use classification and valuation.

D. 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. Annually, taxing districts, other than the state, must hold a public hearing on revenue sources for the following year. The hearing must include consideration of possible increases in property tax revenues. Any increase must be authorized by a separate ordinance. 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.

E. What are "regular" and "excess" levies?

The state Constitution limits the aggregate property tax that can be levied without a vote of the people to a maximum of 1 percent of the true and fair value of the property (or $10.00 per $1,000 of value). Levies under the 1 percent limit are termed "regular" levies. This limit applies to the total tax on any individual parcel of property, but this limit does not include regular levies by port districts and public utility districts. Port district and public utility district regular levies are each limited separately by statute to 45¢ per $1,000 of assessed value.

Levies in excess of the 1 percent limit require voter approval and are termed "excess" or "special" levies. These levies are approved in terms of total dollars and are generally for one year only but can be for two to six years with respect to school districts and fire protection districts and as many as 30 years with respect to capital or "bond retirement" levies.

F. What are the limits on the regular levies of taxing districts?

The regular levies of individual taxing districts are subject to 1) a statutory limit on the maximum rate that can be imposed; 2) a revenue limit on the total revenue that may be collected by the taxing district; and 3) an aggregate limit on the total combined rate imposed by all taxing districts other than the state.

1. Maximum Rate Limit

The maximum rates are expressed in terms of a dollar value per $1,000 of assessed value. For example, the statutory rate limit for the state portion of the property tax levy is $3.60 per $1,000 of assessed value (adjusted to market value), for counties it is $1.80 per $1,000 of assessed value, and for cities and towns it is $3.375 per $1,000 of assessed value.

2. Revenue Limit

Each year, the regular property tax levies of taxing districts are limited to a percentage of the districts' highest levy of the three preceding years. (To remove the incentive to maintain a high levy, taxing districts other than the state are assumed to have levied the maximum allowed since 1986.) The percentage is the limit factor. The limit factor is equal to the lesser of 101 percent or 100 percent plus the percentage change in the implicit price deflator. (Prior to approval of Initiative 747 in November 2001, the 101 percent figure was 106 percent.) However, a different limit factor applies in 2 instances. For a taxing district with a population of less than 10,000, the limit factor is always 101 percent. A taxing district, other than the state, may provide for the use of a limit factor of up to 101 percent for the year if the implicit price deflator is less than 1 percent. In districts with legislative authorities of four members or less, two-thirds of the members must approve the change. In districts with legislative authorities of more than four members, a majority plus one vote must approve the change.

Added to this is an amount equal to the amount of revenue that new construction, improvements to property, and changes in state-assessed property would have generated at the preceding year's tax rate.

Levies in excess of the district's limit factor require voter approval. If such a levy is approved, it becomes the base for calculation of future levies, unless it is approved for a limited time or purpose.

3. Aggregate $5.90 Rate Limit

The total combined regular property tax levies of all taxing districts, other than the state, port districts, and public utility districts, are subject to an aggregate limit of $5.90 per $1,000 of assessed value. If the cumulative total of these levies exceeds the $5.90 limit, the assessor reduces the levy rates according to a statutory formula.

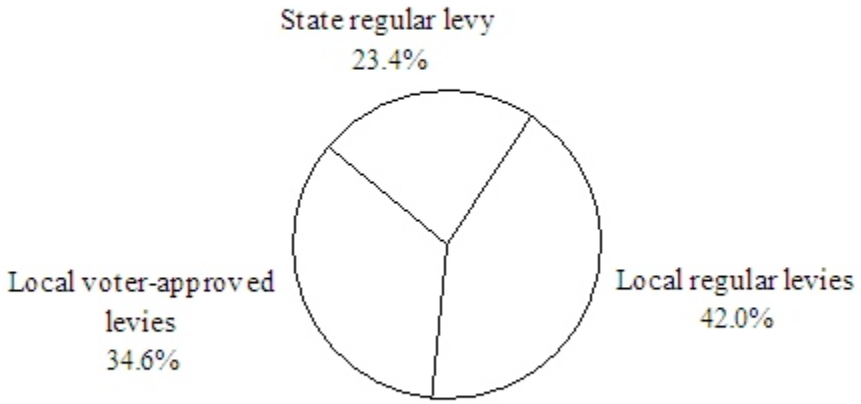
G. Why does the state levy rate vary by county?

The state Constitution requires all taxes on real estate to be uniform within a taxing district. This requires all taxes imposed by any taxing district to be the same on property of the same value. Since the state is a taxing district for the state property tax levy, the state property tax must be the same throughout the state on property of the same value. Because the assessment practices of county assessors do not result in all property being assessed at 100 percent of value, the state levy is "equalized" by county to account for this. As a result, the state levy rate is adjusted for each county. (See Equalization of Assessments, page 11.) For 2005 taxes, the state tax rate was $2.55 while the average equalized state tax rate was $2.78 based on an average assessment ratio of 91.8 percent.

H. How is the total levy rate calculated?

The equalized state levy rate is added to the local rates to determine the total regular levy rate. If the rate exceeds $10, levy rates are reduced according to a statutory formula. Once the regular property tax levy rate is determined, the County Assessor determines the excess levy rate necessary to raise the amount of money approved by the voters in that year and in previous years. The excess levy rate is then added to the regular levy rates to determine the total tax rate. The statewide average tax rate for 2005 taxes was $11.87 per $1,000 of assessed value, down from $12.21 for 2004. Of this amount, $2.78 was the state regular levy, $4.98 was for local regular levies, and $4.11 was for voter-approved excess levies, as shown by the following chart.

Components of the 2005 Statewide Average Tax Levy



I. How is the tax on an individual parcel of property calculated?

The tax due on an individual parcel of property is the total tax rate multiplied by the assessed value of the property. For a parcel of property assessed at $100,000, the tax would be determined as follows:

Value	Tax Rate (per $1,000)	/	1,000	=	Tax Due
$100,000	$11.87	/	1,000	=	$1,187

J. How are property taxes collected?

Property taxes are collected by the treasurer in the county in which the property is located. The County Treasurer is required to notify the taxpayer of the amount of tax owed. The notice must state the value of the real and personal property, the amount of current and delinquent property tax, and the name and amount of tax for each taxing district levying a tax. Excess levies must be separately stated on tax

notices. The County Treasurer sends the tax bill to the "taxpayer" listed on the tax rolls. In cases where the property owner has provided that taxes are to be paid from a reserve account kept by the lending institution, the "taxpayer" is the lending institution. The County Treasurer mails the property tax bills to taxpayers February 14th.

K. When are property taxes due?

Property taxes are due on April 30 each year. If one half of the tax is paid by April 30, then the other half is due on October 31. However, if the first half is not paid on time, the entire tax is delinquent. If the tax is below $50, then all the tax must be paid by April 30.

L. What are the penalties for late payment?

Delinquent property taxes are subject to interest and penalties. Interest is charged at the rate of 12 percent per year (1 percent per month) from the date of delinquency. A penalty of 3 percent is imposed on the amount of tax delinquent on June 1st, and an additional penalty of 8 percent is imposed on the amount of tax delinquent on December 1st.

M. When are taxes distributed to taxing districts?

Taxes collected by the County Treasurer are distributed monthly to the taxing districts levying the tax. Taxes collected under the state levy are paid monthly by the county treasurers to the State Treasurer who deposits the moneys in the state general fund for the support of the common schools.

For a history of the major changes to the property tax, see Appendix A, page 24.

III. VALUATION AND ASSESSMENT

A. General

For property tax purposes, real property is valued at its true and fair value, which is its market value. This value is determined by the market based on the highest and best use of the property. The highest and best use of the property is the most profitable use of the property, which may not necessarily be the current use of the property. It is the use which will yield the highest return on the owner's investment. The highest and best use value is sometimes higher than the current use value. The state Constitution authorizes and current law provides that the true and fair value of farm and agricultural land, standing timber and timberlands, and open space lands may be based on their current use rather than their highest and best use. Valuation at a lower value will reduce the amount of tax on the property.

Real property lying wholly within individual county boundaries is valued and assessed by the County Assessor. Inter-county, interstate, and foreign utility and transportation companies are valued and assessed by the Department of Revenue (state-assessed property). The value of taxable personal property is reported each year by taxpayers to the County Assessor.

There are three common approaches used in valuing real property: the sales approach (comparable sales); the cost approach (replacement cost); and the income approach (capitalized income potential). One, two, or all three methods may be applied to a given parcel. The sales approach is mainly used for residences, the cost approach is used for manufacturing and similar facilities, and the income approach is used principally for commercial property, including apartment houses.

Property taxes are imposed on the assessed value of property. Property is assessed at its true and fair value, unless the property qualifies under a current use valuation program. For tax purposes, all property except new construction is assessed on its value on January 1st of the assessment year and is listed on the tax rolls by May 31st. New construction is assessed on its value on July 31st of the assessment year and is listed on the tax rolls by August 31st. Because various properties are appraised at different times during the year, county assessors use formulas to adjust the appraised values to the valuation date. These values are used for determining property taxes to be collected in the following year.

Notices of valuation changes are mailed to taxpayers. A bank or other lending institution that pays the property tax on behalf of the property owner is required to provide the owner's name and address to the assessor upon the assessor's request. The notice of valuation change must contain a statement of the previous and the new values, with land and improvements listed separately.

County assessors revalue property periodically on a regular revaluation cycle. The length of the revaluation cycle varies by county. The most common length is four years, which is the maximum allowed by statute. Of the thirty-nine counties, nineteen counties revalue every four years. One county, San Juan, revalues every three years, and one county, Douglas, revalues every two years. The remaining eighteen counties revalue every year. The following table specifies the revaluation cycles for the various counties for the 2004 assessment year.

COUNTY REVALUATION CYCLES - 2004 ASSESSMENTS		
ANNUAL REVALUATION	**2-YEAR**	
Adams	Douglas	
Benton		
Clallam		
Clark	**3-YEAR**	
Cowlitz	San Juan	
Garfield (4 year inspection)		
Island	**4-YEAR**	
King	Asotin	Mason
Kitsap	Chelan	Okanogan
Lincoln	Columbia	Pacific
Pierce	Ferry	Pend Oreille
Skagit (5 year inspection)	Franklin	Stevens
Skamania (4 year inspection)	Grant	Wahkiakum
Snohomish	Grays Harbor	Walla Walla
Spokane	Jefferson	Whatcom
Thurston	Kittitas	
Whitman	Klickitat	
Yakima	Lewis	

If a county's revaluation cycle is longer than two years, an equal portion of the county must be revalued during each year of the cycle. Values of individual parcels of property are not changed during the intervening years of the revaluation cycle. As a result, 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 is a change in value representing four years of value growth.

Counties on revaluation cycles longer than one year must physically inspect each parcel of property at the time it is revalued. If a county revalues property annually, physical inspection of each parcel of property is required only once every six years, and values are adjusted annually based on statistical market value data.

A combination of delayed value changes due to revaluation cycles and volatile real estate markets can generate substantial changes in assessed values from one year to the next. In addition, the revaluation of property can cause taxes to shift among taxpayers. For example, if a county revalues one-fourth of its property every year (4-year cycle), taxes will shift to the property that was most recently revalued because the value of that parcel will represent a greater percentage of the tax base (in a rising market).

B. Equalization of Assessments

As mentioned previously, the Constitution requires all taxes on real estate to be uniform within a taxing district. This requires all taxes imposed by any taxing district to be the same on property of the same value. Since the state is a taxing district with respect to the state property tax levy, the state property tax must be the same throughout the state on property of the same value. Because the various assessment practices of county assessors do not result in all property being appraised at 100 percent of market value, the state levy is "equalized" on a county by county basis to provide for uniform taxation throughout the state.

By the first Monday in September of each year, the Department of Revenue compares the appraised value of selected properties in the counties to the fair market value of those properties, as determined by the Department from real estate excise tax affidavits, to determine the real property ratio. 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 appraised value to market value would be 90 percent, determined as follows:

Appraised Value	/	Market Value	=	Assessment Ratio
$90,000	/	$100,000	=	90%

The Department also determines the ratio for taxable personal property. The combination of these two ratios is known as the indicated ratio for the county. For 2005 taxes, the average indicated ratio was 91.8 percent.

During the months of September and October, the Department is required to equalize the values of the counties so that each county pays its proportion of state property taxes according to the ratio the valuation of the property in each county bears to the correct total valuation of all property in the state. In equalizing values, the Department is required to raise or lower the valuation of real and personal property in the county so that the value is equal, as far as possible, to the correct value of the property on January 1st of the assessment year. Values are equalized using the indicated ratios computed by the Department.

Within three days after the equalization results are certified, the Department transmits a record of the proceedings to each county assessor and specifies the dollar amount of state taxes to be levied and collected from that county. Upon receipt, the County Assessor determines the required tax rate to be levied on the assessed value in the county in order to generate the required dollar amount.

C. Current Use Programs

The state Constitution authorizes agricultural, timber, and open space land to be valued on the basis of their current use rather than fair market value. Current use valuation reduces the taxable value against which taxing districts levy their taxes. When values are lowered, the tax rate of taxing districts that are not levying at their maximum statutory rate increases to compensate for the lower value. Because of the higher rate, taxpayers who do not benefit from the valuation reduction pay a higher tax. This higher

tax is a shift of tax from the property valued at current use to property valued at highest and best use. To the extent that the tax rate of a taxing district is already at its statutory maximum and therefore cannot increase to compensate for the loss in value, the taxing district collects less revenue than it otherwise would have collected.

Two programs currently implement this constitutional exception to fair market value: the "open space" program and the "forest land" program. There are three categories of land under the open space program: 1) open space lands, 2) farm and agricultural lands, and 3) timber lands. There is one category of land under the forest land program: designated forest land. It should be noted that standing timber is exempt from property taxes and is instead subject to a yield tax on harvest.

A brief summary of the two current use programs follows. For a more comprehensive discussion of the current use programs, see Appendix B, page 26.

1. Open Space Program

Open space land is any land designated as such by an official comprehensive land use plan and any land area, the preservation of which in its present use would:

- Conserve and enhance natural or scenic resources;
- Protect streams or water supply;
- Promote conservation of soils, wetlands, beaches, or tidal marshes;
- Enhance the value to the public of abutting or neighboring parks, forests, wildlife preserves, nature reservations or sanctuaries, or other open space;
- Enhance recreation opportunities;
- Preserve historic sites;
- Preserve visual quality along highway, road, and street corridors or scenic vistas; or
- Retain in its natural state tracts of land not less than one acre situated in an urban area and open to public use on such conditions as may be reasonably required by the legislative body granting the open space classification.

Open space land is valued based on the use to which the property is currently applied rather than other potential uses. The value must be at least the minimum value per acre of classified farm and agricultural land. Farm and agricultural lands must be devoted primarily to commercial agricultural purposes. To qualify for classification as farm and agricultural land, the land must meet income tests for 3 of the previous 5 years. The value for farm and agricultural land is determined by discounting the "net cash rental" of comparable farm lands growing crops typical to the area. Timber land is land of 5 or more acres devoted primarily to the growing and harvesting of timber. Timber land is valued under the forest land program (see below) and is based on the value of the bare land for growing and harvesting timber.

Property may be removed from open space classification by the owner giving notice to withdraw. Land is removed from open space classification by the assessor if it no longer is used for the purpose under which it was granted open space classification.

When property is removed from open space classification, an additional tax equal to the tax benefit received over the most recent seven years, plus interest, must be paid. Sale or transfer to a new owner triggers removal from the open space program unless the transfer occurs due to inheritance. The additional tax must be paid unless the new owner signs an agreement to continue in the program.

2. Forest Land Program

Land which is used to grow and harvest timber but which is more valuable for other uses may be designated as forest land upon application to the County Assessor by the landowner. To qualify, the land must be 20 acres or more and be used primarily for growing and harvesting timber. The valuation of designated forest land is set by statute and is based on the value of the bare land for growing and harvesting timber. The values vary based on the grade and operability of the land and are adjusted annually by the Department of Revenue.

Land is removed from designation at the request of the owner or by sale or transfer to an ownership making the land exempt from tax. The county assessor may remove land from designation by a determination that the land is no longer primarily used for growing and harvesting timber.

Upon removal, designated forest land may be subject to a compensating tax equal to the tax benefit received in the most recent year multiplied by the number of years the land was designated, not to exceed nine.

IV. UNIFORMITY

Article 7, section 1 of the state Constitution provides that all taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax and all real estate shall constitute one class. This means that taxes must be the same on property of the same value. Tax uniformity requires both an equal tax rate and equality in valuing the property taxed.

Because of the difficulty for county assessors to value all of the property in the county every year, some assessors revalue only part of the county every year. The most common revaluation cycle is the four-year cycle under which one-fourth of the properties in the county are revalued every year. If the assessor revalues less than all of the county in a year, it will have an effect on uniformity. Many of the legal challenges under the uniformity clause have been to the revaluation cycle used by county assessors. However, the state Supreme Court has sustained the four-year revaluation cycle against a uniformity challenge under Article 7, section 1 when it is administered in a systematic and nondiscriminatory manner.

In *Sator v. Department of Revenue*, 89 Wn. 2d 338 (1977), the court, in rejecting a challenge to the four-year revaluation cycle, stated that incidental inequalities may result from the 4-year revaluation cycle, but it does not violate the uniformity clause because it is conducted in an orderly manner and pursuant to a regular plan, and it is not done in an arbitrary, capricious, or intentionally discriminatory manner. Also, the court in *Sator* stated that there is nothing in the Constitution that requires each class of property, real and personal, to be assessed at 100 percent of true or fair value. The only requirement is that each person within the class be treated uniformly.

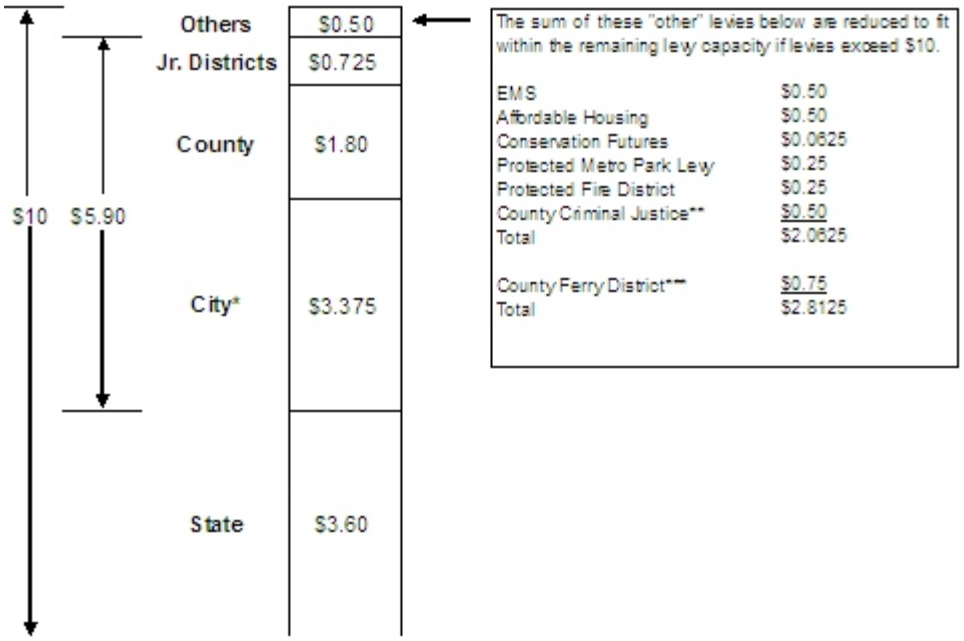
The most recent case involving the uniformity clause was *Belas v. Kiga*, 135 Wn.2d 913 (1998). Under Referendum 47, approved by the voters in November 1997, a limitation was placed on adding to the tax rolls large valuation increases in real property, beginning with taxes payable in 1999. Each year, the current appraised (market) value was to be compared to the assessed (taxable) value of the property for the previous year. The new assessed value was limited to the greater of (1) the previous assessed value plus an increase of 15 percent or (2) the previous assessed value plus 25 percent of the difference between the previous assessed value and the appraised value.

In invalidating the value-averaging provisions, the court stated that Referendum 47 intentionally created a different assessment ratio for property which is appreciating at a rate in excess of 15 percent than it does for property which is not appreciating as rapidly. This difference in assessment ratio caused a lack of uniformity in the tax burden. The court held that this scheme violated the uniformity requirement of the Constitution because all real property is one class for tax purposes. Uniformity requires an equal tax rate and equality in valuing the property taxed.

While conceding that the court has allowed systematic, nondiscriminatory cyclical revaluation for practical reasons, the court stated that it has consistently enforced the mandates of uniformity required by Article 7. The court reiterated that the four-year revaluation cycle is constitutionally acceptable if done in a systematic, nondiscriminatory manner.

V. 1 PERCENT LIMIT

Article 7, section 2 of the state Constitution limits the 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, or $10 per $1,000 of value. Taxes imposed under the 1 percent limit are termed "regular" levies. The limitation on the cumulative rate of regular property taxes is restricted even further by statute. The following table shows the authorized levies under the 1 percent limit.



Maximum Regular Property Tax Levy Rates

* The maximum authorized tax rate for cities is $3.60 in a city that had a fire department before the Law Enforcement Officers and Fire Fighters (LEOFF) pension system was established and in cities that have been annexed by a library district or a fire district. In those cities, only 50¢ remains for junior taxing districts to share rather than 72.5¢. In unincorporated areas, there is no city levy but a county road levy of $2.25 is authorized. In these areas, $1.85 remains for junior taxing districts to share rather than 72.5¢.
** In counties 90,000 in population and below
***A county ferry district may be formed in King County for passenger-only ferry service and may levy a $0.75 property tax in the top $0.50, making the total authorized equal to $2.5625.

The state levy is limited to $3.60 per $1,000 of assessed value for the support of the common schools, equalized to reflect assessment at less than market value. (See Equalization of Assessments, page 11.) The levies by the cities, counties, road districts, and junior taxing districts are limited to $5.90 per $1,000 of assessed value. If the combined rates of these districts exceed $5.90, the rates of these taxing districts are reduced according to statutorily set priorities until the combined rate is within the $5.90 rate limit. The following table specifies the proration priorities under the $5.90 limit.

PROPERTY TAX PRORATION ORDER - $5.90 LIMIT		
	TAXING DISTRICT[1]	**COMMENTS**
First	Park & Recreation Service Area Park & Recreation District Cultural Arts, Stadium District City Transportation Authority (Monorail)	60¢ 6-year voter-approved regular 60¢ 6-year voter-approved regular 25¢ 6-year voter-approved regular $1.50 regular
Second	Flood Control Zone District	50¢
Third	Public Hospital (25¢) Unprotected Metropolitan Park (25¢) Cemetery (11.25¢) All other junior districts except those in the Fourth & Fifth priorities	
Fourth	Metropolitan Park District created after 1/1/2002	1st 50¢
Fifth	Fire District (2nd/3rd 50¢) Regional Fire Protection Service Authority (2nd/3rd 50¢)	$1.50 total authorized $1.50 total authorized
Sixth	Fire District (1st 50¢) Regional Fire Protection Service Authority (1st 50¢) Library Metropolitan Park District created before 1/1/2002 (1st 50¢) Public hospital (1st 50¢)	$1.50 total authorized $1.50 total authorized 50¢ 75¢ total authorized 75¢ total authorized
Seventh	County County road City	$1.80 $2.25 $3.375
[1] **These categories are listed in order of reduction. The first category is the lowest priority for levies. Districts in a category are reduced pro rata.**		

Total state and local levies are limited to $9.50. Outside this $9.50 statutory rate limit but subject to the 1 percent (or $10 per $1,000 of assessed value) limit are: 1) voter-approved regular property taxes for up to 50 cents per $1,000 of assessed valuation for emergency medical service (EMS) purposes by a number of different taxing districts; 2) regular property taxes of up to 6.25 cents per $1,000 of assessed valuation by counties to acquire conservation futures; 3) voter-approved regular property taxes for up to ten years of up to 50 cents per $1,000 of assessed valuation for affordable housing; 4) 25 cents of a metropolitan park district levy (in a district with a population of over 150,000) that has been approved by the voters; 5) regular property taxes of up to 75 cents per $1,000 of assessed valuation by county ferry districts (King County only); 6) voter-approved regular property taxes for up to six years of up to 50 cents per $1,000 of assessed valuation for criminal justice in counties under 90,000 in population; and 7) 25 cents of a fire protection district levy. These additional levies total $1.565 in counties over 90,000 in population and $2.0625 in all other counties, except the total is $2.8125 in King County.

As can be seen from the chart on page 15, if all of these taxing districts imposed the levies at their maximum rates, the total rate would exceed $10 per $1,000 of assessed value. If the combined rate of all levies that are imposed exceeds $10 per $1,000 of assessed value, the levies over the $9.50 limit are reduced first. If the levies are still over $10 (because of an equalized state rate over $3.60), the levies subject to the $5.90 limit are reduced according to statutorily set priorities. The following table shows these priorities.

PROPERTY TAX PRORATION ORDER - 1% LIMIT (After making the revenue limit calculation and prorating under the $5.90 limit)		
	TAXING DISTRICT[1]	**COMMENTS**
First	Protected Fire Protection District	25¢ of 2nd/3rd 50¢
Second	County Criminal Justice (up to 90,000 in population)	50¢ 6-year voter-approved regular
Third	County Ferry District	75¢ (only authorized in King County)
Fourth	Protected Metropolitan Park	25¢ not subject to $5.90 limit for 6 years with voter approval
Fifth	Conservation futures Affordable housing Emergency medical services (over 30¢)	6.25¢ regular 50¢ 10-year voter-approved regular 50¢ 6-yr, 10-yr, or permanent voter-approved regular
Sixth	Emergency medical services	1st 30¢
Seventh	Park & Recreation Service Area Park & Recreation District Cultural Arts, Stadium District City Transportation Authority (Monorail)	60¢ 6-year voter-approved regular 60¢ 6-year voter-approved regular 25¢ 6-year voter-approved regular $1.50 regular
Eighth	Flood Control Zone District	50¢
Ninth	Public Hospital (25¢) Unprotected Metropolitan Park (25¢) Cemetery (11.25¢) All other junior districts except those in the Tenth & Eleventh priorities	
Tenth	Metropolitan Park District created after 1/1/2002	1st 50¢
Eleventh	Fire Protection District (2nd/3rd 50¢) Regional Fire Protection Service Authority (2nd/3rd 50¢)	$1.50 total authorized $1.50 total authorized
Twelfth	Fire Protection District (1st 50¢) Regional Fire Protection Service Authority (1st 50¢) Library Metropolitan Park District created before 1/1/2002 (1st 50¢) Public hospital (1st 50¢)	$1.50 total authorized $1.50 total authorized 50¢ 75¢ total authorized 75¢ total authorized
Thirteenth	County County road City	$1.80 $2.25 $3.375
Fourteenth	State school levy	Local rate
[1] These categories are listed in order of reduction. The first category is the lowest priority for levies. Districts in a category are reduced pro rata.		

The 1 percent limit may be exceeded if approved by 60 percent of the voters voting on the proposition provided the "yes" vote at least equals 24 percent of the number of votes cast in the last general election. For levies for capital purposes, the number of voters voting must at least equal 40 percent of the number of voters voting in the taxing district in the last general election. Voter-approved property taxes are termed "excess" or "special" levies. These levies are approved in terms of total dollars and are generally for one year only but can be for two to six years with respect to school districts and fire districts and as many as 30 years with respect to bond retirement levies.

VI. REVENUE LIMIT (101% Limit)

Each year, the regular property tax levies of taxing districts are limited to a percentage increase over the districts' highest levy of the three preceding years. (To remove the incentive to maintain a high levy, taxing districts other than the state are assumed to have levied the maximum allowed since 1986.) The percentage increase is the limit factor. Added to this is an amount equal to the amount of revenue that new construction, improvements to property, and changes in state-assessed property would have generated at the preceding year's tax rate.

The limit factor equals the lesser of 101 percent or 100 percent plus the percentage change in the implicit price deflator for personal consumption expenditures for the United States as published for the most recent 12-month period by the Bureau of Economic Analysis of the federal Department of Commerce in September of the year before taxes are payable. However, a different limit factor applies to:

- A taxing district with a population of less than 10,000 in the calendar year prior to the assessment year. The limit factor for these districts is 101 percent.

- A taxing district, other than the state, that provides for the use of a limit factor of up to 101 percent for the year if the implicit price deflator is less than one percent. In districts with legislative authorities of four members or less, two-thirds of the members must approve the change. In districts with legislative authorities of more than four members, a majority plus one vote must approve the change.

The revenue limit applies to the regular (non-voter-approved) levies of each property taxing district. The limit does not apply to excess (voter-approved) levies such as local school maintenance and operation levies and levies to retire bond issues.

Any levy by a taxing district in excess of the taxing district's limit factor requires voter approval. A ballot proposition can authorize increases for up to six years for cities and counties and one year for all other districts. If such a levy is approved, it becomes the base for calculation of future levies, unless approved for only a limited time or purpose and the ballot measure for the limited time or purpose does not specify that it will be used as a base after expiration of the limited time or satisfaction of the purpose. These levies are subject to the 1 percent limitation.

When assessed values rise faster than the revenue limit, the effect of the limit is to lower the tax rate of the district. As values rise, a lower rate will generate the same amount of taxes. If a taxing district imposed a tax at the same rate as the previous year, it would generate more revenues than the previous year. A 101 percent limit reduces the district’s tax rate to a rate that would generate only 1 percent more revenue. If assessed values are growing slower than 1 percent per year, a taxing district’s tax rate must increase to generate 1 percent more revenues than the previous year. When the district reaches its statutory rate limit, the tax rate cannot increase and the taxing district may collect less revenue. The limit has no effect at these times.

The revenue limit does not limit the growth in assessed value of a parcel of property nor does it limit the growth in property taxes on a parcel of property.

OPERATION OF THE REVENUE LIMIT

Taxing District	Year 1	Year 2	Change
Revenue Limit (1%)	$1,000,000	$1,000,000 x 1.01 = $1,010,000	1.0%
Total Assessed Value (AV)	$100,000,000	$107,500,000	7.5%
Tax Rate (per $1,000 AV)	$10.00	$9.40	-6.0%

Residence A	Year 1	Year 2	Change
Assessed Value (AV)	$100,000	$110,000	10.0%
Tax Due (AV x Tax Rate)	$1,000	$1,033	3.3%

Residence B	Year 1	Year 2	Change
Assessed Value (AV)	$100,000	$105,000	5.0%
Tax Due (AV x Tax Rate)	$1,000	$987	-1.3%

This example illustrates the operation of a revenue limit with a limit factor of 101 percent. In the first year, the taxing district's revenue limit is $1 million. With a total assessed value in the district of $100 million, the tax rate would equal $10 per $1,000 of assessed value. This would result in a tax of $1,000 on a residence assessed at $100,000. In the second year, the taxing district's revenue is limited to 101 percent of the previous year (or $1,010,000). Assuming that the total assessed value in the district has grown to $107.5 million, a tax rate of $9.40 would generate this amount of tax revenue. However, even though the taxing district's revenue grows by only 1 percent, the effect on individual parcels of property is different. Multiplying the new tax rate by the new valuation of Residence A that grows in value by 10 percent results in a 3.3 percent increase in tax, while multiplying the new tax rate by the new valuation of Residence B that grows in value by 5 percent results in a 1.3 percent <u>decrease</u> in tax.

VII. PROPERTY TAX EXEMPTIONS

Article 7, section 1 of the state Constitution exempts all property of the United States and of the state, counties, school districts, and other municipal corporations. The Legislature is authorized (with certain restrictions) to exempt other property by general law. Major property tax exemptions that have been enacted by the Legislature include intangible personal property (money, mortgages, savings accounts, stocks, bonds, etc.), business inventories, household goods and personal effects, motor vehicles, churches and their grounds, computer software, nonprofit hospitals, agricultural products, and private schools and colleges. In addition, Article 7, section 10 of the state Constitution authorizes residential property tax relief for retired property owners. The parameters of the program are set by the Legislature and are currently based on age and income. (See Senior Citizens, page 21.)

Tax exemptions lower the taxable value against which taxing districts levy their taxes. When exemptions are enacted, the tax rate of taxing districts that are not levying at their maximum statutory rate increase to compensate for the loss in value. Because of the higher rate, taxpayers who do not benefit from the exemption pay a higher tax. This higher tax is a shift of tax from the exempt taxpayer to the non-exempt taxpayer. To the extent that the tax rate of a taxing district cannot increase to compensate for the exemption, the taxing district generates less revenue than it otherwise would have.

The following table shows the tax savings to taxpayers resulting from the major property tax exemptions for the 2005-07 biennium, in millions. It should be noted that repeal of an exemption would not necessarily result in increased revenues by the amounts listed. For example, intangible property could be moved outside the state.

Exemption	State Taxes	Local	Total
Intangible property (e.g. cash)	$4,585	$17,325	$21,910
Motor vehicles, travel trailers, campers	$264	$997	$1,261
Business inventories	$211	$804	$1,015
Household goods/personal effects	$171	$647	$818
Senior citizens	$25	$126	$151
Churches	$23	$90	$113
Private schools and colleges	$20	$76	$96
Agricultural products	$16	$62	$78
Nonprofit hospitals	$15	$56	$71
All other	$920	$3,811	$4,731
Total	$6,235	$23,938	$30,173

VIII. SENIOR CITIZENS

In 1966, the voters approved Article 7, section 10 of the state Constitution which authorized the Legislature to grant to retired property owners relief from the property tax on their principal residences. In 1967, the Legislature first granted property tax relief to senior citizens. Persons 65 years of age or older were entitled to property tax relief in the amount of $50 if their incomes were $3,000 or less per year. Under current law, persons at least 60 years of age and persons retired by reason of disability are entitled to some form of property tax relief on their principal residences if their incomes are $35,000 or less per year. For a history of the senior citizen property tax relief program, see Appendix C, page 31.

A. Summary

Persons are allowed to **defer** payment of their property taxes if they are 60 years of age or older or retired because of disability if their disposable income is $40,000 or less. The deferral program generally applies to 1 acre of land but is increased to up to 5 acres of land if zoning requires this larger parcel size. An election to defer taxes is made in the year the taxes are due.

Additionally, if the person is at least 61 years of age in the year of application, retired due to disability, or a veteran of the armed forces of the United States with 100 percent service connected disability, the person is entitled to both a freeze on the value of the residence and a partial property **tax exemption**, if disposable income is $35,000 or less. The valuation limit and exemption apply to the residence and up to 1 acre of land on which it is situated. Property tax relief is available for taxes payable in the year following the year of application, and thereafter.

The exemption and deferral programs apply to a residence that is occupied by the claimant at the time of filing. However, the exemption and deferral are still available if the residence is temporarily unoccupied or occupied by someone financially dependent on the claimant for support because the person is confined to a hospital, nursing home, boarding home, or adult family home. In addition, the residence may be rented to pay for hospital, nursing home, boarding home, or adult family home costs.

B. Disposable Income

Qualification for the senior citizen tax relief program is based on disposable income. Disposable income is the disposable income of the person claiming the exemption, the person's spouse, and any other person residing in the residence who has an ownership interest in the residence. If the person was retired for less than the entire year, but for at least two months, then an annual disposable income is calculated only from the retirement income. In addition, if a person's spouse dies during the year and the person's income is reduced for at least 2 months, or if substantial changes occur in disposable income that are likely to continue for an indefinite period, then annual disposable income is calculated from the retirement income after the occurrence.

Disposable income includes federal adjusted gross income plus the following if not already included: capital gains, deductions for loss, depreciation, pensions and annuities, military pay and

benefits (other than attendant care and medical-aid payments), veterans benefits (other than attendant care and medical-aid payments), social security and railroad retirement benefits, dividends, and interest on state and municipal bonds.

Excluded from disposable income are payments for prescription drugs, for the treatment or care of either spouse in the home or in a nursing home, boarding home, or adult family home, and health care insurance premiums for Medicare. Also excluded from disposable income are capital gains from the sale of a principal residence if the gains are not subject to federal income tax under the $250,000 exclusion for sales of a principal residence, but only to the extent the money is reinvested in a new principal residence.

C. Disability

For the exemption program, the definition of disability is tied to the social security definition of disability in 42 U.S.C. Sec. 423 (d)(1)(A). Disability means the inability to engage in substantial gainful activity by reason of physical or mental impairment. Generally, under the federal definition individuals can earn up to $830 per month from employment, or $1,380 per month if the person is blind, and still be considered disabled. The person can have additional income from investments and still qualify for the program as long as total income for the year is no greater than $35,000.

D. Deferrals

A person who is at least 60 years of age or is retired from regular employment because of disability and whose disposable income is $40,000 or less may defer payment of all property taxes and special benefit assessments imposed on the residence. An eligible person may defer any amounts due after taking any exemption to which the person may be entitled. An eligible person electing to defer taxes for any year must file a declaration to defer at least 30 days before the tax or assessment is due. Amounts deferred may accumulate up to 80 percent of the homeowner's equity and become a lien on the property in favor of the state. Upon death, change in use, or eventual sale of the property, the full amount of the deferred taxes and special benefit assessments is due, along with interest at 8 percent per year.

E. Valuation Limit - “Freeze”

A valuation freeze is available for a person at least 61 years of age in the year of application, retired due to disability, or a veteran of the armed forces of the United States with 100 percent service connected disability, if the person's disposable income is $35,000 or less. Values are frozen as of January 1, 1995, or January 1 of the year the person first qualified for the program. The valuation can never exceed the market value. Failure to qualify for only 1 year because of high income does not change this valuation upon re-qualification. This valuation freeze does not transfer to a replacement residence. Subsequent improvements to the residence are added at market value.

A valuation freeze results in a taxable value that it less than it otherwise would be. In essence, this is an exemption of the increase in value of the property over the value of the property in the year of retirement.

F. Exemptions

A person at least 61 years of age in the year of application, retired due to disability, or a veteran of the armed forces of the United States with 100 percent service connected disability, with a disposable income of $35,000 or less is completely exempt from paying excess property tax levies. Qualified persons with incomes of $30,000 or less also qualify for partial tax relief from regular property tax levies. Regular property tax levies do not require voter approval to be imposed.

The qualifying income limits and the exemptions associated with those incomes are summarized in the following table.

Income	Excess Levies	Regular Levies
$30,001 to $35,000	Exempt	No exemption
$25,001 to $30,000	Exempt	$50,000 or 35% of value exempt ($70,000 maximum)
$25,000 or less	Exempt	$60,000 or 60% of value exempt

G. Timing

The senior citizen property tax exemption program involves a two-year period. A person may make an initial claim with the County Assessor in the year in which the person reaches age 61. The income determination is based on an estimate of the income for that year. (This income is reported to the federal Internal Revenue Service on the tax return that is filed in the following year.) The exemption is effective for taxes due in the year following the year in which the claim is made. The following table illustrates this process.

Timing of Senior Citizen Property Tax Relief	
Calendar Year	**Activity**
2005	Income is received Apply for exemption to County Assessor during 2005 assessment year, using estimated calendar year 2005 income May <u>defer</u> taxes payable in 2005.
2006	Taxes payable in 2006 are <u>reduced</u> File tax return for calendar year 2005 income with Internal Revenue Service

A renewal application must be filed every four years, but the County Assessor may require a renewal application following an amendment of the income requirements by the Legislature. Also, any person receiving an exemption is required to notify the County Assessor of any change in status affecting the person's entitlement to the exemption.

APPENDIX A: MAJOR CHANGES IN THE PROPERTY TAX

1889 State Constitution adopted. Property to be taxed in proportion to its value. The Legislature must provide a uniform rate of assessment and taxation according to its value in money. The Legislature may grant exemptions.

1899 Amendment 3 (approved 1900). Personal property tax exemption of $300 per household.

1925 Exemption enacted for certain intangible personal property (mortgages, notes, savings, etc.).

1929 Amendment 14 (approved 1930). All taxes on the same class of property to be uniform, and real estate is one class. (Current uniformity clause.) A yield tax on reforestation lands and mines is allowed.

1931 Timber on reforestation lands exempt from property tax but subject to a yield tax. Reforestation land statutorily valued at $1-2 per acre.

1932 Taxes limited to 40 mills (4¢) per dollar of assessed value. Assessment at 50% of true and fair value required. (This is equivalent to a limit of 2% of true and fair value.) This was re-adopted by the voters every 2 years from 1934 to 1942.

1935 Exemption for all household goods and personal effects enacted.

1937 Exemption for motor vehicles enacted. (Motor vehicle excise tax enacted.)

1943 Amendment 17 (approved 1944). Taxes limited to 40 mills (4¢) per dollar of assessed value. Assessment at 50% of true and fair value. (This is equivalent to a limit of 2% of true and fair value.) Levies in excess of limit authorized if approved by 60% of the voters at an election at which the number voting equals at least 40% of those voting in the last general election.

1955 Four-year revaluation cycle adopted.

1965 Amendment 47 (approved 1966). Property tax relief authorized for residential property of retired persons. (For a history of this program, see Appendix C, page 31.)

1967 Amendment 53 (approved 1968). Current use valuation authorized for open space, agricultural, and timber lands.

1970 Current use valuation program for open space, agricultural, and timber lands enacted.

1971 Amendment 59 (approved 1972). Taxes limited to 1% of true and fair value. 40% voter turnout requirement for operating levies changed to requirement that the "yes" vote constitute 60% of a number equal to 40% of the number of votes cast in the last general election (i.e. 24% of total votes cast). Timber on all lands exempt from property tax but subject to a yield tax. New forest land valuation program enacted providing current use

valuation of the land. Regular property tax levies of local taxing districts limited to 106% of prior levies (effective with 1974 collections).

1972 Residential improvements up to 30% of value exempt for 3 years.

1973 Assessment levels statutorily increased from 50% to 100% for 1975 collections.

1974 Exemption enacted for business inventories, effective 1984, with a business and occupation tax credit equal to 10% of the property taxes paid on business inventories in 1974 increasing to 100% of the property taxes paid on business inventories in 1983.

1976 Amendment 64. Two-year excess levies for school districts authorized.

1979 State levy subject to the 106% limit.

1982 Physical inspection requirement on revaluation extended to 6 years if the assessor statistically updates values annually.

1983 Privately owned timber on public lands subject to property tax. Credit against timber excise (yield) tax authorized for property taxes paid on timber.

1988 Amendment 81. Personal property tax exemption for heads of households increased from $300 to $3,000.

1986 Amendment 79. School district levies for construction, modernization, or remodeling of school facilities may be for up to 6 years.

1995 State levy reduced by 4.7% for 1996 collections only.

1997 State levy reduction of 4.7% extended to 1997 and thereafter.
Large valuation increases averaged onto the tax rolls. (Held unconstitutional 1998.)
106% limit changed to lesser of 106% or 100% plus implicit price deflator.
Amendment 90. Four-year excess levies for school districts authorized.

2000 Exemption for motor vehicles enacted after accidental repeal by Initiative 695.

2001 I-747. Revenue limit changed to lesser of 101% or 100% plus implicit price deflator.

2002 Amendment 95. Fire district excess levies increased to 4 years for maintenance and operation and 6 years for construction, modernization, or remodeling of fire facilities.

2003 Cities and county authority to exceed revenue limit by voter approval increased to 6 years from 1 year.

APPENDIX B: CURRENT USE PROGRAMS

The state Constitution authorizes agricultural, timber, and open space land to be valued on the basis of their current use rather than fair market value. Two programs currently implement this constitutional exception to fair market value: the "open space" program and the "forest land" program. There are three categories of land under the open space program: 1) open space lands, 2) farm and agricultural lands, and 3) timber lands. There is only one category of land under the forest land program: designated forest land.

A. Open Space Program

Open space land is any land designated as such by an official comprehensive land use plan and any land area, the preservation of which in its present use would:

- Conserve and enhance natural or scenic resources;
- Protect streams or water supply;
- Promote conservation of soils, wetlands, beaches, or tidal marshes;
- Enhance the value to the public of abutting or neighboring parks, forests, wildlife preserves, nature reservations or sanctuaries, or other open space;
- Enhance recreation opportunities;
- Preserve historic sites;
- Preserve visual quality along highway, road, and street corridors or scenic vistas; or
- Retain in its natural state tracts of land not less than one acre situated in an urban area and open to public use on such conditions as may be reasonably required by the legislative body granting the open space classification.

Open space land is valued based on the use to which the property is currently applied rather than other potential uses. The value must be at least the minimum value per acre of classified farm and agricultural land.

Land eligible for current use taxation as farm and agricultural land is land devoted primarily to commercial agricultural purposes that is 1) greater than 20 acres, 2) between 5 and 20 acres and produces gross farm income greater than $200 per acre for three of five years, or 3) less than 5 acres and produces $1,500 in farm gross income for three of five years.

The income test for farm land less than 20 acres is deferred for 5 years when the land is reclassified into farm and agricultural land from timber land or farm and agricultural conservation land under the open space program or from the forest land categories under the forest land program.

The value for farm and agricultural land is determined by discounting the “net cash rental” of comparable farm lands growing crops typical to the area. Net cash rental is the average rent paid in cash or its equivalent. The discount rate is the rate of interest charged on long-term farm loans plus a component for property taxes.

Land under farm dwellings is assessed at farmland values. This treatment applies only to farms over

20 acres when use of the dwelling is integral to farm operation. The current use value of land under farm dwellings is set at the average farm and agricultural land value plus the value of land improvements for septic, water, and power to serve the residence.

In addition, open space land includes farm and agricultural conservation land which are those lands formerly classified as farm and agricultural lands that no longer meet the income test or are not being actively farmed.

Timber land is land of 5 or more acres devoted primarily to the growing and harvesting of timber. Timber land is valued under the forest land program (see page 28) and is based on the value of the bare land for growing and harvesting timber.

Applications for classification as farm and agricultural land are made to the County Assessor. A denial by the assessor can be appealed to the county Board of Equalization. Applications for open space or timber land are made to the county legislative authority. Appeals of county legislative authority decisions are made to the Superior Court.

Property may be removed from open space classification by the owner giving notice to withdraw. Land is removed from open space classification by the assessor if it no longer is used for the purpose under which it was granted open space classification.

When property is removed from open space classification, an additional tax plus interest must be paid. The additional tax represents the tax benefit received over the most recent seven years plus interest on the taxes from the time they would have been paid if the land were not assessed at current use. The interest rate is the rate payable on delinquent property taxes, which is 12 percent per year. In addition, a penalty equal to 20 percent of the tax and interest is applied. The penalty may be avoided if the property remains in the program for at least 10 years and a two-year waiting period after notice of withdrawal is satisfied. The additional tax is not imposed when land under farm dwellings is removed from classification. The additional tax is not paid if the land is removed because of:

- A transfer to a government entity in exchange for other land;
- A transfer through the exercise of eminent domain or the threat of eminent domain;
- Official action which disallows the present use of such land;
- Transfer to a governmental entity or nonprofit historic preservation or nonprofit nature conservancy corporation for the purpose of conserving open space land; or
- A change in use because of a natural disaster;
- A transfer to a church;
- Enactment of a statutory exemption from the property tax.
- Creation, sale, or transfer of forestry riparian easements or of fee interests or conservation easements for the riparian open space program
- Sale or transfer within 2 years of the death of the owner of a 50 percent interest if classified since 1993.

Certain transfers between classifications are allowed without payment of additional taxes. Open

space land may not be transferred into another classification, except that the farm and agricultural conservation land category of open space land may be transferred to farm and agricultural land if the land had been previously classified as farm and agricultural land. Farm and agricultural land may be transferred into any other category of open space land or forest land. Timber land may be transferred into any other category of open space land or forest land.

Sale or transfer to a new owner triggers removal from the open space program unless the transfer occurs due to inheritance. The additional tax must be paid unless the new owner signs an agreement to continue in the program.

B. Forest Land Program

Land which is used to grow and harvest timber but which is more valuable for other uses may be designated as forest land by the assessor upon application to the County Assessor by the landowner. To qualify, the land must be 20 acres or more and be used primarily for growing and harvesting timber. The valuation of designated forest land is set by statute and is based on the value of the bare land for growing and harvesting timber. The values vary based on the grade and operability of the land and are adjusted annually by the Department of Revenue.

Land is removed from designation:

- At the request of the owner;
- By sale or transfer to an ownership making the land exempt from tax;
- By sale or transfer of the land to a new owner, unless the new owner signs a notice of classification continuance; and
- By a determination that the land is no longer primarily used for growing and harvesting timber.

Upon removal from designation, the forest land may be subject to a compensating tax. The tax is equal to the tax benefit in the most recent year multiplied by the number of years the land was designated, not to exceed nine. Interest is due only if the tax is not paid within 30 days after notification of the tax. The compensating tax is distributed to taxing districts in the same manner as other taxes imposed in the year in which the compensating tax is due.

The compensating tax is not imposed if the removal resulted from the following:

- A transfer to a government entity in exchange for other forest land in Washington;
- A taking by or transfer under threat of eminent domain,
- Official action which disallows the present use of such land;
- Sale or transfer of fee title to the Parks and Recreation Commission for park purposes.
- A donation of fee title, development rights, or the right to harvest timber, to a government agency or nonprofit historic preservation or nature conservancy corporation for the purpose of limiting the future use of the land;
- The sale or transfer to a governmental entity or nonprofit nature conservancy corporation for conservation purposes of land recommended for state natural area preserve purposes by the

natural heritage council. However, if the land is later used for any other purpose, the compensating tax is imposed upon the current owner;

- In King County, the sale or transfer to a governmental entity or nonprofit historic preservation or nonprofit nature conservancy corporation for the purpose of conserving open space land.
- Creation, sale, or transfer of forestry riparian easements or of fee interests or conservation easements for the riparian open space program; or
- Sale or transfer within 2 years of the death of the owner of a 50 percent interest in the land if the land was classified since 1993.

Designated forest land may be transferred into any category of open space land without payment of compensating taxes.

C. Transfers Among Classifications Summarized

Transfers without payment of back taxes can be made between all categories of current use classifications except for transfers out of open space. However, land classified as farm and agricultural conservation land within open space may be transferred to the farm and agricultural land category.

D. Back Tax Payment Exceptions Compared Between Programs

The back tax exceptions are slightly different for the open space program and the forest land program. In the open space program, an exception to the payment of back taxes is allowed for a sale or transfer to a governmental entity or nonprofit historic preservation or nonprofit nature conservancy corporation for the purpose of conserving open space land. However, in the forest land category, the similar exception is much more restrictive in counties other than in King County. The forest land exception is restricted to a sale or transfer to a governmental entity or nonprofit nature conservancy corporation for conservation purposes of land recommended for state natural area preserve purposes by the Natural Heritage Council. The forest land program has an exception for transfers to the Parks and Recreation Commission for park purposes, which is not available in the open space program. The open space program has three exceptions that are not available in the forest land program: change in use due to a natural disaster, transfer of the land to a church exempt from tax, and enactment of a property tax exemption for the property.

E. Comparison of "Open Space Timber" and "Forest" Land

The open space program for timber land and the forest land program are basically the same. They differ in the minimum acreage requirements and the application process. Application is made to the County Assessor for forest land and to the county legislative authority for open space timber land. A timber management plan must be filed in each case, and the reasons for denial of the application are the same.

When land is removed from classification, back taxes are due. For open space timber land, the tax is equal to the tax benefit received over the most recent seven years plus interest on the taxes from the time they would have been paid if the land were not assessed at current use. In addition, a penalty equal to 20 percent of the back taxes and interest may be applied. For forest land under the forest land program,

the tax is equal to the tax benefit in the most recent year multiplied by the number of years the land was classified or designated, not to exceed nine. Interest is due only if the tax is not paid within 30 days after notification of the tax.

APPENDIX C: HISTORY OF THE SENIOR CITIZEN PROPERTY TAX EXEMPTION

1966 Constitution amended to allow property tax relief to retired homeowners.

1967 Senior citizen exemption set at $50, must live in residence for 5 years or 1 year if a 10-year resident, be 65 if male and 62 if female, and have combined income of ≤ $3,000.

1971 $50 senior citizen exemption replaced by exemption from special levies: Income of ≤ $4,000 = 100% exemption; income from $4,001 to $6,000 = 50% exemption. Must live in residence 2 years or 1 year if a 3-year resident. Exemption limited to 1 acre.

1972 Residence must only be occupied on January 1st if a 3-year resident. Mobile homes added. Only 2/3 of social security income counted.

1973 Only 2/3 of federal civil service retirement and railroad retirement pensions counted.

1974 For special levies, income ≤ $5,000 = 100% exempt; $5,001 to $6,000 = 50% exempt; for regular levies, incomes ≤ $4,000 exempt on first $5,000 of residential value.

1975 Senior citizens with income ≤ $8,000 may <u>defer</u> taxes beginning in 1976. Income for deferral program indexed to CPI after 1976.

1977 Senior citizen exemption income limits increased by $2,000.

1979 Households with incomes ≤ $11,000 exempt from all special levies; those with incomes ≤ $7,000 exempt from regular levies on first $15,000 value of residence. Eligibility for occupying residence for 2 years and 3-year resident requirement removed. Life estates added. Surviving spouse qualifies if 57 years old. Confinement to a nursing home does not disqualify.

1980 Disposable income defined. 1/3 exclusion for social security is eliminated, but income levels are increased by $3,000 to $14,000 for special levies and to $10,000 for regular levies; leases for life added.

1983 For 1984, maximum income increased to $15,000, regular levy residential value exemption increased to $20,000; starting in 1985, two-step regular levy exemption depending upon income: If income is $9,001 to $12,000, exemption = $20,000 or 30% of valuation, not to exceed $40,000; if income is ≤ $9,000, exemption = $25,000 or 50% of valuation. Nursing home care costs and military & veteran benefit payments for attendant-care medical-aid not counted. One-time application instituted.

1984 Eligibility for the deferral program tied to eligibility for senior citizen exemption program.

1987 For 1989, maximum income increased to $18,000; Regular levy valuation exemption amounts increased: if income is $12,001 to $14,000, exemption = $24,000 or 30% of valuation, not to exceed $40,000; if income is ≤ $12,000, exemption = $28,000 or 50% of valuation.

1991 For 1991, eligible income level for deferral increased to $30,000. For 1992, maximum income for exemption increased to $26,000; Regular levy valuation exemption amounts increased: if income is $15,001 to $18,000, exemption = $30,000 or 30% of valuation, not to exceed $50,000; if income is ≤ $15,000, exemption = $34,000 or 50% of valuation. Capital gains from the sale of the residence and in-home care expenses excluded from income determination.

1992 Income verification required. Renewal applications required every 4 years and may be required by assessors upon change in income limits. Disposable income of person widowed in preceding year based on retirement income after death of spouse.

1993 Exemption not lost if the residence is rented for the purposes of paying hospital or nursing home costs.

1995 For 1996, eligible income for exemption increased to $28,000 and prescription drug costs are deductible. Use of current year income instead of preceding year income. Valuation is frozen at the assessed value on January 1, 1995, or January 1 of the year the person first qualifies. Eligible income for deferral program is increased to $34,000 and taxes on up to 5 acres may be deferred if zoning requires larger size.

1998 For 1999, maximum income for exemption increased to $30,000; Regular levy valuation exemption amounts increased: if income is $18,001 to $24,000, exemption = $40,000 or 35% of valuation, not to exceed $60,000; if income is ≤ $18,000, exemption = $50,000 or 60% of valuation. Vetoed was an extension of the exemption program to 5 acres if zoning required a larger size, a deduction for health care insurance payments, and an exclusion of veterans' benefits for disabilities related to military duty.

2004 Maximum income for exemption increased to $35,000; Regular levy valuation exemption amounts increased: if income is $25,001 to $30,000, exemption = $50,000 or 35% of valuation, not to exceed $70,000; if income is ≤ $25,000, exemption = $60,000 or 60% of valuation. Eligible income for deferral program is increased to $40,000. Persons may reside in an adult family home or a boarding home that provides specialized care without losing property tax relief. Boarding home or adult family home costs and medicare insurance premiums may be deducted from income. Disability tied to federal social security definition.

2005 Exemption extended to veterans of any age with 100% service connected disability.