
HOUSE BILL 2178

State of Washington 52nd Legislature 1991 Regular Session

By Representative O'Brien.

Read first time March 7, 1991. Referred to Committee on Revenue.

1 AN ACT Relating to valuation for property tax purposes; amending
2 RCW 84.36.381 and 84.36.383; adding new sections to chapter 84.36 RCW;
3 creating a new section; providing an effective date; providing a
4 contingent effective date; and declaring an emergency.

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

6 NEW SECTION. **Sec. 1.** It is the intent of this act to provide
7 property tax relief for homeowners whose home values are increasing at
8 a rapid rate. This rapid increase in home values often has the effect
9 of increasing property taxes without an accompanying increase in a
10 homeowner's ability to pay. This act provides for a limitation on the
11 rate of increase of the assessed values of owner-occupied real property
12 so that the effect of rapidly rising property taxes is spread over a
13 period of years.

14 The legislature finds that inflation has significant detrimental
15 effects on the senior citizen property tax relief program. Inflation

1 increases income without increasing real buying power. Inflation also
2 raises the values of homes, and thus the taxes on those homes. This
3 act increases the assessed value exemption tied to home value and the
4 income levels are adjusted to reflect the increase in inflation.
5 Because the income of most senior citizens does not keep pace with
6 inflation, it is the legislature's intent that inflationary increases
7 in income will not result in program disqualification. Additionally,
8 the legislature finds that in addition to nursing home expenses, in-
9 home care and treatment expenses of senior citizens should not be
10 included in income for purposes of the senior citizen property tax
11 relief program.

12 NEW SECTION. **Sec. 2.** For purposes of sections 3 through 9 of
13 this act, unless the context requires otherwise:

14 (1) "Change of ownership" means a transfer of a present interest in
15 real property, including a transfer of the beneficial use of real
16 property.

17 (a) Except as provided in (c) of this subsection, a change of
18 ownership of a present interest in real property shall also include,
19 but not be limited to:

20 (i) Contracting to convey the title to or ownership of real
21 property upon the fulfillment of one or more stated conditions where
22 the right to possession of the property is transferred currently.

23 (ii) The creation, transfer, or termination of a joint tenancy
24 interest.

25 (iii) The creation, transfer, or termination of a tenancy-in-common
26 interest.

27 (iv) The vesting of a right of possession or enjoyment of a
28 remainder or reversionary interest that occurs upon the termination of
29 a life estate or other similar precedent property interest.

1 (v) An interest that vests in persons other than the trustor where
2 a revocable trust becomes irrevocable.

3 (vi) The transfer of stock of a cooperative housing corporation,
4 vested with legal title to real property, that conveys to the
5 transferee the exclusive right to occupancy and possession of such
6 property, or a portion of the property. The term "cooperative housing
7 corporation" has the meaning as set forth in subsection (3) of this
8 section.

9 (b) The term "change of ownership" does not include:

10 (i) A transfer between coowners that results in a change in the
11 method of holding title to the real property transferred without
12 changing the proportional interests of the coowners in the real
13 property, such as a partition of a tenancy-in-common.

14 (ii) A transfer for the purpose of merely perfecting title to the
15 real property.

16 (iii) The creation, assignment, termination, or reconveyance of a
17 security interest in real property; or the substitution of a trustee
18 under a security instrument.

19 (iv) A transfer of real property by the trustor, or by the
20 trustor's spouse, or by both, into a trust for so long as the
21 transferor is the sole present beneficiary of the trust, or the trust
22 is revocable; or any transfer of real property by a trustee of such
23 trust back to the trustor.

24 (v) A transfer of real property by an instrument whose terms
25 reserve to the transferor an estate for years or an estate for life.
26 However, the termination of such an estate for years or life estate
27 shall constitute a change of ownership.

28 (vi) A transfer of real property between or among the same parties
29 for the purpose of correcting or reforming a deed to express the true

1 intention of the parties, if the original relationship between the
2 grantor and grantee is not changed.

3 (c) The term "change of ownership" also does not include an
4 interspousal transfer of real property, including, but not limited to:

5 (i) Transfers to a trustee for the beneficial use of a spouse, or
6 the surviving spouse of a deceased transferor, or by a trustee of such
7 trust to the spouse of the trustor;

8 (ii) Transfers that take effect upon the death of a spouse;

9 (iii) Transfers to a spouse or former spouse in connection with a
10 property settlement agreement or decree of dissolution of marriage or
11 legal separation; and

12 (iv) The creation, transfer, or termination, solely between
13 spouses, of any coowner's interest.

14 (2) "Owner-occupied" means residential property occupied as a
15 principal residence in this state by a natural person or persons having
16 a present possessory ownership interest in the property. For this
17 purpose, a principal residence is that residential property located in
18 this state that is occupied by such person or persons the greatest
19 amount of time during the calendar year. Owner-occupied includes
20 residential property that is held in trust, provided that at least one
21 of the current beneficiaries of the trust occupies the property as a
22 principal residence, and residential real property occupied as a
23 principal residence, the title to which is held by a housing
24 cooperative as that term is defined in subsection (3) of this section.
25 The confinement of a person to a hospital or nursing home will not
26 cause the person to fail to satisfy the occupancy requirement imposed
27 herein so long as the property is not rented during such period of
28 confinement.

29 (3) "Residential property" means a single family dwelling unit,
30 regardless of whether such unit shares a common wall with one or more

1 other units, including the land upon which such dwelling stands, and
2 that is owned in its entirety either by a natural person or persons, a
3 housing cooperative, or a trust. For purposes of sections 3 through 9
4 of this act, the term "housing cooperative" means an association,
5 corporation, or partnership that holds the title to residential
6 property if the person claiming the benefits of sections 3 through 9 of
7 this act can establish that his or her share represents the specific
8 unit or portion of such structure in which he or she resides. The term
9 also includes a single family dwelling situated upon lands the fee of
10 which is vested in the United States or an instrumentality of the
11 United States including an Indian tribe or in the state of Washington,
12 and notwithstanding the provisions of RCW 84.04.080, 84.04.090 or
13 84.40.250, such a residence shall be deemed real property.

14 The term residential property also includes a mobile home that has
15 substantially lost its identity as a mobile unit by virtue of its being
16 fixed in location upon land owned or leased by the owner of the mobile
17 home and placed upon a foundation (posts or blocks) with fixed pipe,
18 connections with sewer, water, or other utilities; provided that a
19 mobile home located on land leased by the owner of the mobile home
20 shall be subject, for tax billing, payment, and collection purposes,
21 only to the personal property provisions of chapter 84.56 RCW and RCW
22 84.60.040.

23 The term residential property does not include a dwelling unit
24 primarily used in the conduct of a commercial enterprise or a dwelling
25 unit located upon real property that is primarily used in the conduct
26 of a commercial enterprise. Property will be considered primarily used
27 in the conduct of a commercial enterprise if more than one-half of the
28 total square footage of the property is devoted to commercial use.

29 (4) "Remodel" or "remodeling" means an improvement to owner-
30 occupied residential property for which a building permit was issued,

1 or should have been issued, under chapter 19.27, 19.27A, or 19.28 RCW
2 or other law providing for building permits.

3 NEW SECTION. **Sec. 3.** (1) Subject to the provisions of
4 sections 4, 5, 6, and 7 of this act, the value of owner-occupied
5 residential property for purposes of property tax assessment shall be
6 the lesser of the following values at the time of valuation:

7 (a) True and fair market value as established by the county
8 assessor in accordance with applicable law; or

9 (b) After the year 1991, the most recent assessed value of the
10 property increased on January 1, each year thereafter by six percent or
11 the increase in the consumer price index as determined annually by the
12 United States department of labor, compounded annually.

13 (2) The limitation contained in subsection (1)(b) of this section
14 shall only apply for the purpose of the valuation for individual
15 property tax assessments upon which individual tax payments are made.

16 (3) All owner-occupied residential property that meets all the
17 qualifications of sections 2 and 5 through 9 this act shall be listed
18 on the county assessment rolls by the assessor at each of the values
19 described in subsection (1) (a) and (b) of this section.

20 NEW SECTION. **Sec. 4.** All owner-occupied residential property
21 that meets all the qualifications of sections 2, 3, and 5 through 9 of
22 this act, shall be valued and assessed as provided in section 3 of this
23 act, unless and until the property is no longer owner-occupied
24 residential property, or a change of ownership has occurred.

25 NEW SECTION. **Sec. 5.** (1) Upon a change of ownership involving
26 owner-occupied residential property, the property shall be revalued by
27 the assessor with reference to its true and fair market value as of

1 January 1 of the year following the date the change of ownership
2 occurs. Where the change of ownership occurs as the result of a sale,
3 taxes shall be collected in accordance with subsection (3) of this
4 section.

5 (2) When an interest of fifty percent or more in owner-occupied
6 residential property changes ownership, the entire property shall be
7 revalued. Changes of ownership during an assessment year shall be
8 cumulated for the purposes of determining the percentage interests
9 transferred. Where the change of ownership occurs as the result of a
10 sale, taxes shall be collected in accordance with subsection (3) of
11 this section.

12 (3) If owner-occupied residential property is sold, the county
13 treasurer shall collect all taxes on the excess of the true and fair
14 market valuation over the six percent valuation of the property,
15 compounded annually, which would have been paid had the property not
16 qualified for the limitation under section 3 of this act. The taxes
17 assessed under this subsection shall be prorated evenly between the
18 buyer and the seller.

19 NEW SECTION. **Sec. 6.** The value of all new construction or
20 remodeling of owner-occupied residential property shall be added to the
21 assessment rolls in accordance with RCW 36.21.080 and all new
22 construction or the remodeled portion of the property shall be valued
23 and assessed at true and fair market value. Except that the combined
24 value of the market value of the remodeled portion of owner-occupied
25 residential property added to the most recent assessed value for the
26 property prior to the remodel shall be the new valuation base for
27 applying section 3 of this act.

1 NEW SECTION. **Sec. 7.** (1) An owner-occupant of residential
2 property may apply to the county assessor in the county where the
3 property is located to have his or her real property assessed according
4 to the provisions of sections 2 through 6, 8, and 9 of this act.
5 Application shall be made on forms prepared by the department of
6 revenue and available at the office of the county assessor. The
7 application shall be submitted to the county assessor for determination
8 of qualification under sections 2 through 6, 8, and 9 of this act. A
9 taxpayer who submits an application shall certify that he or she is the
10 owner and occupant of a qualifying residence. After the taxpayer
11 submits the initial application, and the assessor determines that the
12 taxpayer qualifies for the assessed value limitations of sections 2
13 through 6, 8, and 9 of this act, the assessor shall, at the time a
14 notice of change of value is mailed to a taxpayer pursuant to RCW
15 84.40.045, require the taxpayer to recertify that he or she is an owner
16 and occupant of a qualifying residence in order to continue to qualify
17 for the assessed value limitation provisions of sections 2 through 6,
18 8, and 9 of this act.

19 (2) If, on the basis of the application submitted by the taxpayer,
20 the assessor determines that the taxpayer does not qualify for the
21 assessed value limitation provisions of sections 2 through 6, 8, and 9
22 of this act, the assessor shall so notify the taxpayer in writing. The
23 notice shall inform the taxpayer of the reasons for the failure to
24 qualify and of his or her right to appeal the assessor's determination
25 to the county board of equalization within thirty days of the mailing
26 of the notice to the taxpayer.

27 NEW SECTION. **Sec. 8.** (1) A loss of revenue to a local taxing
28 district that results from the implementation of sections 2 through 7

1 and 9 of this act shall be reimbursed to the taxing district out of the
2 state general fund.

3 (2) The method used to calculate the amount to be reimbursed to
4 taxing districts shall be as follows, for each county:

5 (a) Determine the assessed value for all taxable property,
6 including newly constructed and remodeled real property, without
7 applying the six percent compounded value limit provided for in section
8 3 of this act.

9 (b) Determine the assessed value for all taxable property,
10 including newly constructed and remodeled real property, applying the
11 six percent compounded value limit provided for in section 3 of this
12 act.

13 (c) Calculate the property tax levy rates and levies, in accordance
14 with all regular property tax levy limitations provided by law, using
15 the assessed value determined in accordance with (a) of this
16 subsection.

17 (d) Recalculate the property tax levy rates and levies, in
18 accordance with all regular property tax levy limitations provided by
19 law, using the assessed value determined in accordance with (b) of this
20 subsection.

21 (e) The difference between the levy amounts determined in
22 accordance with (d) and (c) of this subsection is the amount to be
23 reimbursed to taxing districts, provided that the reimbursement amount
24 for each taxing district shall not, in any event, exceed the amount
25 which could have been levied if the six percent compounded value limit
26 provided for in section 3 of this act had not been applied.

27 (3) The county assessor of each county shall provide the department
28 of revenue with all information necessary to make the calculations in
29 subsection (2) of this section and the department shall determine the
30 amount to be reimbursed to taxing districts.

1 (4) The reimbursement amount shall be distributed to taxing
2 districts in two payments to be made on or before May 31 and November
3 30 of each year. Fifty-five percent of the reimbursement amount shall
4 be distributed in the first payment, and forty-five percent of the
5 reimbursement amount shall be distributed in the second payment.

6 NEW SECTION. **Sec. 9.** (1) In determining the amount of
7 property taxes to be collected by each county for the purposes of the
8 state levy, the department of revenue shall calculate the dollar amount
9 owed by each county based upon the equalized true and fair value, as
10 determined in accordance with RCW 84.48.075 and 84.48.080. The dollar
11 amount owed shall be certified to each county assessor by the
12 department.

13 (2) Each county assessor shall calculate the levy rate necessary to
14 collect the dollar amount certified in accordance with subsection (1)
15 of this section. The calculation shall be based upon the assessed
16 value of all property in the county as such assessed value may be
17 limited in accordance with section 3 of this act. After the proper
18 levy rate is calculated, the collection process shall proceed as is
19 otherwise required by law.

20 **Sec. 10.** RCW 84.36.381 and 1987 c 301 s 1 are each amended to read
21 as follows:

22 A person shall be exempt from any legal obligation to pay all or a
23 portion of the amount of excess and regular real property taxes due and
24 payable in the year following the year in which a claim is filed, and
25 thereafter, in accordance with the following:

26 (1) The property taxes must have been imposed upon a residence
27 which was occupied by the person claiming the exemption as a principal
28 place of residence as of January 1st of the year for which the

1 exemption is claimed: PROVIDED, That any person who sells, transfers,
2 or is displaced from his or her residence may transfer his or her
3 exemption status to a replacement residence, but no claimant shall
4 receive an exemption on more than one residence in any year: PROVIDED
5 FURTHER, That confinement of the person to a hospital or nursing home
6 shall not disqualify the claim of exemption if the residence is
7 temporarily unoccupied or if the residence is occupied by a spouse
8 and/or a person financially dependent on the claimant for support;

9 (2) The person claiming the exemption must have owned, at the time
10 of filing, in fee, as a life estate, or by contract purchase, the
11 residence on which the property taxes have been imposed or if the
12 person claiming the exemption lives in a cooperative housing
13 association, corporation, or partnership, such person must own a share
14 therein representing the unit or portion of the structure in which he
15 or she resides. For purposes of this subsection, a residence owned by
16 a marital community or owned by cotenants shall be deemed to be owned
17 by each spouse or cotenant, and any lease for life shall be deemed a
18 life estate;

19 (3) The person claiming the exemption must have been sixty-one
20 years of age or older on January 1st of the year in which the exemption
21 claim is filed, or must have been, at the time of filing, retired from
22 regular gainful employment by reason of physical disability: PROVIDED,
23 That any surviving spouse of a person who was receiving an exemption at
24 the time of the person's death shall qualify if the surviving spouse is
25 fifty-seven years of age or older and otherwise meets the requirements
26 of this section;

27 (4) The amount that the person shall be exempt from an obligation
28 to pay shall be calculated on the basis of combined disposable income,
29 as defined in RCW 84.36.383. If the person claiming the exemption was
30 retired for two months or more of the preceding year, the combined

1 disposable income of such person shall be calculated by multiplying the
2 average monthly combined disposable income of such person during the
3 months such person was retired by twelve.

4 (5) (a) A person who otherwise qualifies under this section and has
5 a combined disposable income of (~~eighteen~~) twenty-two thousand
6 dollars or less shall be exempt from all excess property taxes; and

7 (b) (i) A person who otherwise qualifies under this section and has
8 a combined disposable income of (~~fourteen~~) eighteen thousand dollars
9 or less but greater than (~~twelve~~) fifteen thousand dollars shall be
10 exempt from all regular property taxes on the greater of
11 (~~twenty-four~~) thirty thousand dollars or thirty percent of the
12 valuation of his or her residence, but not to exceed (~~forty~~) fifty
13 thousand dollars of the valuation of his or her residence; or

14 (ii) A person who otherwise qualifies under this section and has a
15 combined disposable income of (~~twelve~~) fifteen thousand dollars or
16 less shall be exempt from all regular property taxes on the greater of
17 (~~twenty-eight~~) thirty-four thousand dollars or fifty percent of the
18 valuation of his or her residence.

19 **Sec. 11.** RCW 84.36.383 and 1989 c 379 s 6 are each amended to read
20 as follows:

21 As used in RCW 84.36.381 through 84.36.389, except where the
22 context clearly indicates a different meaning:

23 (1) The term "residence" shall mean a single family dwelling unit
24 whether such unit be separate or part of a multiunit dwelling,
25 including the land on which such dwelling stands not to exceed one
26 acre. The term shall also include a share ownership in a cooperative
27 housing association, corporation, or partnership if the person claiming
28 exemption can establish that his or her share represents the specific
29 unit or portion of such structure in which he or she resides. The term

1 shall also include a single family dwelling situated upon lands the fee
2 of which is vested in the United States or any instrumentality thereof
3 including an Indian tribe or in the state of Washington, and
4 notwithstanding the provisions of RCW 84.04.080, 84.04.090 or
5 84.40.250, such a residence shall be deemed real property.

6 (2) The term "real property" shall also include a mobile home which
7 has substantially lost its identity as a mobile unit by virtue of its
8 being fixed in location upon land owned or leased by the owner of the
9 mobile home and placed on a foundation (posts or blocks) with fixed
10 pipe, connections with sewer, water, or other utilities: PROVIDED,
11 That a mobile home located on land leased by the owner of the mobile
12 home shall be subject, for tax billing, payment, and collection
13 purposes, only to the personal property provisions of chapter 84.56 RCW
14 and RCW 84.60.040.

15 (3) The term "preceding calendar year" shall mean the calendar year
16 preceding the year in which the claim for exemption is to be made.

17 (4) "Department" shall mean the state department of revenue.

18 (5) "Combined disposable income" means the disposable income of the
19 person claiming the exemption, plus the disposable income of his or her
20 spouse, and the disposable income of each cotenant occupying the
21 residence for the preceding calendar year, less amounts paid by the
22 person claiming the exemption or his or her spouse during the previous
23 year for the treatment or care of either person received in the home or
24 in a nursing home.

25 (6) "Disposable income" means adjusted gross income as defined in
26 the federal internal revenue code, as amended prior to January 1, 1989,
27 or such subsequent date as the director may provide by rule consistent
28 with the purpose of this section, plus all of the following items to
29 the extent they are not included in or have been deducted from adjusted
30 gross income:

- 1 (a) Capital gains;
- 2 (b) Amounts deducted for loss;
- 3 (c) Amounts deducted for depreciation;
- 4 (d) Pension and annuity receipts;
- 5 (e) Military pay and benefits other than attendant-care and
- 6 medical-aid payments;
- 7 (f) Veterans benefits other than attendant-care and medical-aid
- 8 payments;
- 9 (g) Federal social security act and railroad retirement benefits;
- 10 (h) Dividend receipts; and
- 11 (i) Interest received on state and municipal bonds.
- 12 (7) "Cotenant" means a person who resides with the person claiming
- 13 the exemption and who has an ownership interest in the residence.

14 NEW SECTION. **Sec. 12.** Sections 1 through 9 of this act shall
15 take effect for taxes payable in 1992 and thereafter, if the proposed
16 amendment to the state Constitution authorizing the limitations on
17 taxation provided for in this act is approved and ratified by the
18 voters at a general election held in November 1991. If the proposed
19 amendment is not so approved and ratified, those sections of this act
20 are void in their entirety.

21 NEW SECTION. **Sec. 13.** Sections 2 through 9 of this act are
22 each added to chapter 84.36 RCW.

23 NEW SECTION. **Sec. 14.** Sections 10 and 11 of this act are
24 necessary for the immediate preservation of the public peace, health,
25 or safety, or support of the state government and its existing public
26 institutions, and shall take effect July 1, 1991.