HOUSE BILL REPORT
HB 2213

As Reported By House Committee On:
Finance

Title: An act relating to property tax reform.

Brief Description: Enacting the taxpayer protection act of 1996.

Sponsors: Representatives Chandler, Carrell, B. Thomas, Mastin, Sheldon, Romero, Hymes, Dellwo, Koster, Johnson, Thompson, Backlund, Hargrove and Benton.

Brief History:
Committee Activity:
Finance: 1/11/96, 1/25/96 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Boldt, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mulliken; Schoesler and Van Luven.

Minority Report: Do not pass. Signed by 1 member: Representative Sheldon.

Staff: Rick Peterson (786-7150).

Background:

Property Tax Deferrals. Property subject to tax is assessed at its true and fair market value, unless the property qualifies under a special tax-relief program.

Homeowner property tax relief is provided for senior citizens and persons retired due to disability. To qualify for partial tax exemption, a person must be age 61 in the year of application, or retired from employment because of a physical disability, own his or her principal residence, and have an income below $28,000. Eligible persons of age 60 with incomes less than $34,000 may defer taxes.

Disposable income is defined as the sum of federally defined adjusted gross income and the following, if not already included: capital gains, deductions for loss, depreciation, pensions and annuities, military pay and benefits, veterans benefits, social security and federal railroad retirement benefits, dividends and interest income. The income of a spouse and co-tenants with an ownership interest in the residence is included in disposable income. Disposable income does not include amounts paid for nursing home care or in-home treatment or care of the claimant or spouse.

Taxes that are deferred become a lien against the property and accrue interest at 8 percent per year. If deferred taxes are not repaid within three years after the claimant ceases to own and live in the residence, the lien will be foreclosed and the residence sold to recover the taxes.

These property tax deferrals and exemptions apply only to the principal residence and the land on which it stands, not to exceed one acre for the partial exemption program, and not to exceed five acres for the deferral program.

Revaluation of Property. Property subject to property tax is assessed at its true and fair value. True and fair value is the same as market value, unless the property is eligible for a special valuation program. For example, most agricultural, open space, and timber lands are valued by considering only their current uses, rather than their market values. The values are set as of January 1. These values are used for calculating property bills to be collected in the following year.

County assessors establish new assessed values on a regular revaluation cycle. The length of revaluation cycles varies by county. The most common length is four years, which is the maximum allowed by statute. Of the 39 counties, 19 revalue every four years. San Juan revalues every three years. Two counties, Franklin and Douglas, revalue every two years. Seventeen counties revalue every year.

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. Individual property values are not changed during the intervening years of the revaluation cycle. The change in value for an individual property follows a stair step pattern. For example, for an individual property in a four-year revaluation cycle there is no change in value for three years. Then, in one year, there is a change representing four years of value growth.

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

Property Tax Notices and Disclosures. Property taxes are collected by the county treasurer in which the property is located. The county treasurer is required to notify the taxpayer of the amount of tax owed. The following information is required: the value of the real and personal property, the amount of current and delinquent property tax, and the name and amount for each district levying a tax.

The treasurer sends the tax bill to the property owner or the institution paying the tax in cases where the owner has taxes paid from an account kept by that institution.

Property Tax Appeals. County boards of equalization provide the first level of appeal for property owners who dispute their assessed value. Appeals of the decisions of county boards of equalization are taken to the state Board of Tax Appeals.

County boards of equalization ensure all parcels of property are valued correctly by ruling on appeals of property owners who believe their property has been incorrectly assessed and by examining the county assessment roll and "equalizing" the property values. The board is required to equalize each property value to its true and fair market value. In some cases, the board may set a value higher than the value listed by the assessor.

Property Tax Due Dates. Property taxes are due April 30 each year. If one half the tax is paid by April 30, the other half is due October 31. However, if the first half property tax payment is not made on time, the entire tax is delinquent and interest is charged at the rate of 12 percent per year (1 percent per month). If the tax bill is below $30, all the tax must be paid by April 30.

Until 1897, property taxpayers made only one payment for taxes so there was no distinction between the first and second half-payment. After 1897, taxpayers were allowed to make two payments, but if late on the first payment interest was due on the entire tax bill. In 1931, the Legislature changed the law and charged interest only on the first half-payment when it was late. In 1949, the Legislature again changed the law and applied interest to the entire tax bill if the first half payment was late.

Summary of Substitute Bill:

Property Tax Deferrals. A property tax deferral program is created for homeowners of all ages. A homeowner may choose to defer the amount of property tax that exceeds 6 percent of disposable income, not to exceed $2,500 per year. The application process, administration, and repayment of these new deferrals are the same as for the current senior citizen and disabled persons program.

Revaluation of Property. Properties must be revalued annually. An appropriation, with a blank amount, is provided for the purpose of assisting counties in complying with this requirement.

Property Tax Notices and Disclosures. A copy of the tax bill must be sent to the property owner when a bank or other party pays the tax on behalf of the property owner. The information required on the property tax bills is expanded. Tax bills must also include the property's legal description, the tax rate charged by each district, and the percentage increase in tax separately for regular and excess levies.

Property Tax Appeals. A board of equalization cannot raise the valuation of any property that is the subject of an appeal filed by a property owner.

Property Tax Due Dates. The tax bill is separated into a first half payment due April 30 and a second half-payment due October 31. If the first half-payment is not made on time, only that portion of the tax is delinquent rather than the entire tax bill.

Substitute Bill Compared to Original Bill: The substitute bill corrects a drafting error in the original bill. The bill requires annual revaluation of property. The original bill failed to remove language from current law that authorizes two-year revaluation cycles. The substitute bill removes this language.

Appropriation: An appropriation section is provided, but the amount is blank.

Fiscal Note: Requested on January 4, 1996.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: The deferral program will allow taxpayers to defer taxes when unforeseen circumstances like job loss or a massive valuation increase make it impossible to pay their taxes. This will allow them to keep their homes until they are back on their feet. The annual revaluation of properties will eliminate the big increases in valuation that occur under current four-year revaluation cycles. It will soften the impact of increases in assessed value. The additional information on the property tax bills provides the taxpayers with needed facts about property tax.

Testimony Against: This bill will make our current complicated property tax system even more complicated. The 106 percent limit needs to be lowered. The bill does not limit increases in tax bills for individual property. The deferral program may result in the state foreclosing on homeowners. The requirement for annual revaluations by county assessors should be phased in over four years. The bill does not address the fundamental problem with the current property tax system. Property tax should be increased on the land value and decreased on the building value.

Testified: Representative Gary Chandler, prime sponsor of the bill; Representative Michael Carrell, sponsor of the bill; Paul Telford, Capitol Chapter United We Stand America; Will Rice, Department of Revenue; Hamlet Hilpert, People for Fair Taxes in Washington; and Vic Overstreet, The Institute of Common Sense.