

SENATE BILL REPORT

SJR 8207

As of February 9, 1995

Brief Description: Amending the Constitution to change the definition of true and fair value of real property.

Sponsors: Senators Owen, Haugen, McCaslin, Hargrove, Rasmussen and Hochstatter.

Brief History:

Committee Activity: Ways & Means: 2/1/95.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Terry Wilson (786-7715)

Background: For property tax purposes, real property is valued at its highest and best use, which is true and fair value or market 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.

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.

Because different methods are used to value commercial property and residential property, the tax burden tends to shift to residential property in booming residential real estate markets.

Summary of Bill: For property tax purposes, the true and fair value of real property is the fair market value of the property on January 1, 1996, for existing property and the date of completion for newly constructed property. If a change in ownership occurs, the true and fair value is the fair market value of the property on the date of the change. This value may be adjusted each year to reflect inflation, not exceeding a 5 percent increase. The value is reduced to reflect substantial damage, destruction, or other factors causing a decline in value.

The amendment applies to taxes payable in 1997 and thereafter.

Appropriation: None.

Fiscal Note: Requested on January 20, 1995.

Effective Date: The amendment is effective 30 days after approval by the voters.

Testimony For: People are frustrated that taxes keep going up because other people will pay more for property. Tax should be based on the price paid for the property by the owners. Inflationary increases are okay. People should not be afraid of being taxed out of their homes. This is a fairness issue.

Testimony Against: Value limits shift taxes to others.

Testified: Senator Owen, prime sponsor (pro); Will Rice, Department of Revenue (con).