Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Housing Committee

E2SSB 5045

Brief Description: Incentivizing rental of accessory dwelling units to low-income households.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kuderer, Dhingra, Holy, Hunt, Liias, Nguyen, Nobles, Randall, Rolfes, Shewmake, Wellman and Wilson, C.).

Brief Summary of Engrossed Second Substitute Bill

- Allows a county with a population of 1.5 million or more to provide a property tax exemption for accessory dwelling units rented to low-income households, if certain conditions are met.

Hearing Date: 3/14/23

Staff: Audrey Vasek (786-7383).

Background:

Property Tax.
All real and personal property is subject to a tax each year based on its highest and best use, unless a specific exemption is provided by law.

Property Tax Exemption for Improvements to Single-Family Dwellings.
Any physical improvement to a single-family dwelling, including construction of an attached or detached accessory dwelling unit (ADU), qualifies for a three-year exemption from property tax on the value of the improvement. However, the amount of the exemption cannot exceed 30 percent of the value of the original structure. To claim the exemption, the taxpayer must file notice with the county assessor before the physical improvement is completed, using forms prescribed by the Department of Revenue. The exemption may not be claimed more than once

in a five-year period.

Tax Preferences.
State law creates a range of tax preferences including tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Property Tax Exemption for ADUs Rented to Low-Income Households.
A county legislative authority for a county with a population of 1.5 million or more may choose to exempt from taxation the value of an ADU if all the following conditions are met:
- The ADU is maintained as a rental property for low-income households whose adjusted income is at or below 60 percent of the median household income for the county.
- The rent charged to a tenant does not exceed 30 percent of the tenant's monthly income.
- The ADU is not occupied by a person under the age of 60 who is an immediate family member of the taxpayer.
- The taxpayer files notice of intent to participate in the exemption program using forms prescribed by the county assessor.
- The improvement represents 30 percent or less of the value of the original structure.

An exemption may continue for as long as the ADU is leased to a low-income household.

A county legislative authority that provides an exemption may:
- allow the exemption for ADUs that are attached or detached, or both;
- collect a fee from the taxpayer to cover the costs of administering the exemption;
- designate administrative officials or agents to verify that participating taxpayers and low-income households are in compliance with the exemption requirements; and
- determine what property tax and penalties are due, if any, in cases of noncompliance.

Tax Preference Performance Statement and Expiration.
A TPPS specifies that the exemption is intended to encourage homeowners to rent ADUs to low-income households and increase the overall availability of affordable housing. The JLARC must review the tax preference and complete a final report by December 1, 2029, that includes:
- the costs and benefits associated with exempting from taxation the value of an ADU;
- an evaluation of the housing needs information that is required to be included in the housing element of a county's comprehensive plan under the Growth Management Act, as calculated and provided by the Department of Commerce;
- a summary of the estimated total statewide costs and benefits attributed to exempting from taxation the value of an ADU; and

- an evaluation of the impacts of the exemption program on low-income households.

The exemption applies to taxes levied for collection beginning in 2024. The exemption expires January 1, 2034.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.