Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

SB 6030

Brief Description: Amending the county population threshold for counties that may exempt from taxation the value of accessory dwelling units to incentivize rental to low-income households.

Sponsors: Senators Braun, Kuderer, Liias, Mullet, Wellman and Wilson, J..

Brief Summary of Bill

- Removes the county population restriction for the property tax exemption for accessory dwelling units rented to low-income households.

Hearing Date: 2/20/24

Staff: Tracey Taylor (786-7152).

Background:

Property Tax—Regular Levies.
All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue is limited as follows:
- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent plus the value of new construction.

The state collects two regular property tax levies for common schools. The revenue growth limit applies to both levies. Participants in the senior citizens, individuals with disabilities, and

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qualifying veterans property tax exemption program receive a partial exemption from the original state levy and a full exemption from the additional state levy.

The Washington Constitution also limits regular levies to a maximum of 1 percent of the property's value, which is equal to $10 per $1,000 of assessed value. There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- The state levy rate is limited to $3.60 per $1,000 of assessed value.
- County general levies are limited to $1.80 per $1,000 of assessed value.
- County road levies are limited to $2.25 per $1,000 of assessed value.
- City levies are limited to $3.375 per $1,000 of assessed value.

For property tax purposes, the state, counties, and cities are collectively referred to as senior taxing districts. Junior taxing districts—a term that includes fire, hospital, flood control zone, and most other special purpose districts—each have specific rate limits as well.

Property Tax Exemption for Accessory Dwelling Units 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 accessory dwelling unit (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 Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. 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:

The restriction for the ADU property tax exemption for rentals to low-income households applying it solely to a county with a population of 1.5 million or more is removed for taxes levied for collection in 2025 and thereafter.

The TPPS and JLARC review from the enactment of the original exemption applies to this act.

Appropriation: None.

Fiscal Note: Available.

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