FINAL BILL REPORT
E2SSB 5045

C 335 L 23
Synopsis as Enacted

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.).

Senate Committee on Housing
Senate Committee on Ways & Means
House Committee on Housing
House Committee on Finance

Background: 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.

Examples of property tax exemptions include exemptions for churches, nonprofit hospitals, affordable housing, and certain improvements to single-family residences. If a single-family residence is improved by remodeling, adding new rooms, decks, patios, or other improvements, the owner may apply for a three-year exemption from property taxes on the value of the physical improvement. To qualify for the exemption, the value of the improvements must be 30 percent or less of the value of the original structure. The exemption may not be claimed more than once in a five-year period. New construction of an accessory dwelling unit (ADU) qualifies as a physical improvement for this three-year exemption.

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 ten years unless an alternative expiration date is provided.

Summary: A county legislative authority for a county with a population of 1,500,000, or

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more, may choose to exempt an ADU from property tax if the ADU is maintained as a rental property for low-income households whose adjusted income is at or below 60 percent of median household income for the county. Rent charged to a tenant may not exceed more than 30 percent of the tenant's monthly income. An ADU does not qualify for a property tax exemption if it is occupied by a person under the age of sixty that is an immediate family member of the taxpayer. The taxpayer must file notice of intention to participate in the exemption program. The exemption can continue for as long as the ADU is leased to a low-income household.

A county legislative authority that has opted to exempt ADUs may:

- allow the exemption for dwelling units that are attached to or within a single-family dwelling or are detached units on the same real property, or both;
- collect a fee to cover the costs of administering the program;
- designate agents to verify compliance; and
- determine penalties, if any, in cases of noncompliance.

A TPPS identifies the exemption as one intended to encourage homeowners to rent ADUs to low-income households. 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 inventory analysis of existing and projected housing needs completed 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 program on low-income households.

The exemption applies to taxes levied for collection in 2024 and thereafter, and expires January 1, 2034. A county that provides property tax exemptions for ADUs rented to low-income households must establish policies to assist and support tenants upon expiration of an exemption.

Votes on Final Passage:

Senate	43	5	
House	59	38	(House amended)
Senate	40	7	(Senate concurred)

Effective: July 23, 2023