SENATE BILL REPORT
SB 5495

As of January 24, 2023

Title: An act relating to property tax rebates for homeowners and renters.

Brief Description: Concerning property tax rebates for homeowners and renters.

Sponsors: Senators Kuderer, Frame, Lovelett, Lovick, Nguyen, Saldaña, Shewmake, Stanford, Valdez and Wilson, C..

Brief History:
Committee Activity: Ways & Means: 1/24/23.

Brief Summary of Bill

- Creates a primary residence property tax exemption and renter's credit.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Alia Kennedy (786-7405)

Background: Property Tax. All real and personal property in the state is subject to property tax each year based on its value, unless a specific exemption is provided by law. The Washington Constitution limits regular property tax levies to a maximum of 1 percent of the property's value. Excess levies are not subject to this constitutional limit and require voter approval. There are statutory rate maximums for individual taxing districts and aggregate rate maximums to keep the total tax rate of regular property taxes within the constitutional limit.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. In 2017, the Legislature created a second state levy. For taxes levied for collection in calendar years 2018, 2020, and 2021, the combined rate for both state levies is $2.70 per $1,000 of assessed value. For taxes levied for collection in calendar year 2019, the combined rate for

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both state levies is $2.40 per $1,000 assessed value. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both levies and the rate is calculated based on the total levy amount.

All regular levies, except the state levies, are subject to a statutory revenue growth limit. If the taxing authority has a population of 10,000 or more, the revenue growth limit is the lesser of inflation or 1 percent plus the valuation of new construction. If the taxing authority has a population of less than 10,000, the revenue growth limit is 1 percent plus the value of new construction.

Tax Preference Performance Requirements. State law provides 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. 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 that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee 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 or the tax preference is explicitly exempted from the expiration requirements.

Summary of Bill: Primary Residence Property Tax Exemption. Beginning January 1, 2027, a primary residence property tax exemption is allowed in the form of a refund of state property taxes paid in the prior calendar year, up to $250,000 of assessed value on a claimant's residence. A primary residence property tax exemption may not result in a refund that exceeds the amount of state property taxes otherwise due on that residence.

Residence is defined as a single-family dwelling unit whether such unit is separate or part of a multi-unit dwelling, including the land on which such a dwelling stands. Residence includes:

- a single-family dwelling situated upon lands the fee of which is vested in or held in trust by the United States or any of its instrumentalities;
- a federally recognized Indian tribe, the state of Washington or any of its political subdivisions, or a municipal corporation;
- a single-family dwelling consisting of a manufactured/mobile home or park model that has substantially lost its identity as a mobile unit by virtue of its being fixed in location and placed on a foundation with fixed pipe connections with sewer, water, or other utilities;
- a single-family dwelling consisting of a floating home which must be occupied by the property owner as their principal place of residence; and
- an accessory dwelling unit that provides complete independent living facilities for one or more persons, including permanent provisions for living, sleeping, eating, cooking, and sanitation.

The primary residence property tax exemption is in addition to the senior citizen property tax relief program.

Beginning January 31, 2028, and by January 31st each year thereafter, the amount of homestead exemption must be increased from the prior year's exemption amount by the percentage growth in the state levy for the prior calendar year.

Claimants must apply annually to DOR by the last day of the calendar year for which the primary residence property tax exemption is claimed. Applications must contain a signature attesting that the property for which the primary residence property tax exemption sought is the claimant's principal place of residence. All signatures on an application must be made under penalty of perjury.

Notice of the primary residence property tax exemption and where to obtain further information must be included with property tax statements and revaluation notices for residential property. The Department of Revenue (DOR) and each county assessor and county treasurer must publicize the qualifications and manner of making claims for the primary residence property tax exemption.

All property taxes due on the qualified residence must be paid in full for the year in which the application is submitted. If the claimant is delinquent on any property taxes, DOR must send the claimant's primary residence property tax exemption to the county treasurer in which the claimant's qualified residence is located to be applied to the claimant's delinquent property taxes.

No claimant may receive the primary residence property tax exemption on more than one qualified residence in any calendar year.

<u>Renter's Credit.</u> Beginning January 1, 2027, a renter's credit is available to qualifying tenants. The renter's credit is a refund of 2 percent of gross rent paid in the prior calendar year on a tenant's principal place of residence. Residence has the same definition as that provided for the primary residence property tax exemption. Claimants must apply annually to DOR by the last day of the calendar year for which the refund is claimed. Claimants must provide a copy of each applicable rental or lease agreement. Applications must contain a signature attesting to the amount of gross rent paid and the rental property or properties for which the renter's credit is sought was the claimant's principal place of residence in the immediately preceding calendar year. All signatures on an application must be made under penalty of perjury. Where multiple individuals contribute to the payment of rent, DOR must make separate refunds to each claimant in an amount equal to the claimant's pro rata share. DOR may adjust the gross rent paid to a reasonable rental amount for purposes of rent constituting property taxes paid. Any redetermination of gross rent under this subsection is subject to the appeal. A renter's credit may not result in a refund that exceeds the amount that would be exempt if the claimant were eligible for a primary

residence property tax exemption. The residence for which a renter's credit is claimed must be subject to property taxation for the year for which the renter's credit is claimed.

DOR must provide information about the renter's credit on its website, including qualifications and manner of making claims for the credit. Subject to funds appropriated for this specific purpose, DOR must conduct public awareness and outreach efforts for the renter's credit. DOR must annually adjust the maximum renter’s credit to be equivalent to the maximum allowed for a primary residence property tax exemption.

The bill allows claimants to file late applications for up to six months after the deadline, provides an appeal process for claimants denied a refund, and provides a mechanism for DOR to impose penalties if a claimant fraudulently receives a refund. Subject to appropriation, DOR must develop and maintain a centralized computer system for the filing and processing of applications and issuance of refund payments.

Other Provisions. The primary residence property tax exemption and renter's credit are subject to appropriation.

The Legislature may limit eligibility of the primary residence property tax exemption and renter's credit to low-income households if a proposed constitutional amendment specifically authorizing a primary residence property tax exemption and renter's credit is approved by the voters in the next general election.

A claimant may not receive both a primary residence property tax exemption and renter's credit in the same year, except for claims in which a single-family dwelling owned by the claimant but located on leased land. In such cases, the combined refund may not exceed the allowable amount for a primary residence property tax exemption.

DOR must provide claimants a paper application upon request.

A person may not claim a primary residence property tax exemption or renter's credit on behalf of a deceased individual.

The primary residence property tax exemption and renter's credit are not subject to tax preference performance review or automatic ten-year expiration.

Appropriation: None.

Fiscal Note: Requested on January 20, 2024.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on January 1, 2024.

Staff Summary of Public Testimony: PRO: The primary residence property tax exemption and renter's credit should and can be part of comprehensive tax reform. The policies paired together make incredible progress toward righting the wrong that is the state's upside-down regressive tax structure. The Tax Structure Work Group hears from taxpayers and tax administrators on the feasibility of these proposals. County assessors have expressed concern for administering this program at the local level which is why the bill is structured as a rebate. The proposal limits the burden on landlords to provide proof each year as part of an application for the renter's credit. The constitutional amendment differs from the other Senate proposal in that it repeals the uniformity clause. The uniformity clause is a relic of the past. A person's primary residence is not just property, it is not just an asset, it is their home. The uniformity clause forces lawmakers to treat a person's home the same a large skyscraper commercial property. The uniformity clause prevents the Legislature from disincentivizing certain types of property ownership. Repealing uniformity will allow lawmakers to narrowly tailor the exemption so that it reaches those who need it most. DOR has the capacity and resources to administer a centralized rebate program. County assessors are limited in their capacity to communicate information through the annual property tax statement. Funding for this purpose would be necessary to cover postage and printing costs.

OTHER: Both Senate proposals create an equitable renter's credit and gives Washingtonians flexibility on how to create a more progressive property tax code. The Senate proposals should include a repeal of the $10 limit on state and local property tax levies. The costs from both proposals should be shifted to high-value homes and commercial properties to ensure funding for schools and other state priorities remains stable and adequate. Eligibility for a primary residence property tax exemption and renter's credit should be limited to low- and moderate-income households to better balance the state's tax code. Clarification is needed as to how delinquent property taxes impact a person's ability to receive a property tax exemption. County assessors are extremely limited in their ability to add information to the annual property tax statements.

Persons Testifying: PRO: Steven Drew, WA Association of Assessors; Senator Frame, SDC.

OTHER: Andy Nicholas, Washington State Budget and Policy Center; Jeff Gadman, WA State Association of County Treasurers.

Persons Signed In To Testify But Not Testifying: No one.