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## Finance Committee

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### ESB 5454

**Brief Description:** Creating a property tax exemption for homes damaged by natural disasters.

**Sponsors:** Senators Schoesler, Brown, Frockt, Honeyford, Padden, Rolfes, Van De Wege, Wagoner, Warnick and Wilson, J..

**Brief Summary of Engrossed Bill**

- Provides a three-year property tax exemption on the value of home improvements made to a single-family dwelling damaged by certain natural disasters.

**Hearing Date:** 3/22/21

**Staff:** Nick Tucker (786-7383).

**Background:**

Property Tax.

All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for each property and calculates property taxes. The property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of the property. In addition, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed \$5.90 per \$1,000 of assessed valuation.

Destroyed Property.

If real or personal property is destroyed in whole or in part in a calendar year, or if it is in an area

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declared to be a disaster area, the assessed value may be reduced for that assessment year to the true and fair market value that remains after the destruction. The loss must be greater than 20 percent. Under certain conditions, the taxes collected during the year may be abated proportionately.

#### Tax Preference Performance Statement.

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 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 10 years unless an alternative expiration date is provided.

#### **Summary of Engrossed Bill:**

Beginning with taxes levied for collection in 2022, physical improvements to a single-family dwelling damaged by a natural disaster are exempt from property tax for three years following the completion of the improvement.

To qualify for the exemption, the dwelling must be:

- located in an area that has been declared a disaster area by the Governor or the county legislative authority;
- reduced in value by more than 20 percent as a result of a natural disaster that occurred on or after August 31, 2020; and
- held by the same persons who owned the property at the time that it was reduced in value as a result of a natural disaster, or their relatives.

An area that has been declared a disaster area by the Governor includes areas within the scope of the Governor's request to the President of the United States for a major disaster declaration.

The amount of the exemption is determined by deducting the value of the property after it was damaged from the value of the property before it was damaged.

To obtain the exemption, a taxpayer must file an application with the county assessor before beginning construction of the improvement. However, if a taxpayer began construction before the effective date of the bill, the taxpayer may apply for the exemption until October 1, 2021.

County assessors may not approve any application for exemption received after June 30, 2026.

The value of the improvements must be considered as new construction as though the property was not exempt under this chapter.

The Department of Revenue may adopt any rules necessary to administer the property tax exemption.

The bill is exempt from tax preference performance review and automatic expiration.

**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on March 18, 2021.

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