

SENATE BILL REPORT

SB 5387

As of January 23, 2023

Title: An act relating to homeowner and renter tax relief.

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

Sponsors: Senators Wilson, L. and Dozier.

Brief History:

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

Brief Summary of Bill

- Creates a homestead property tax exemption and renter's credit, subject to approval by the voters of a constitutional amendment.

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.

State Constitution. The Washington State Constitution requires that state and local property taxes be uniform within each class of property. Real property constitutes a single class of property under the Constitution. Uniformity requires both an equal rate of tax and equality in valuing the property. Under the Constitution, the Legislature may by general laws exempt property from taxation. Based on the uniformity requirement, differential treatment of different types of real property is disallowed.

To amend Washington's Constitution, the Legislature must first approve the proposed amendment with a two-thirds vote. Then, the approved proposal must be placed on the ballot at the next state general election. It becomes law if approved by a majority of the electors.

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: Homestead Property Tax Exemption Exemption. Beginning with taxes levied for collection in 2025, the first \$250,000 of value of a residence is exempt from state property taxes. The amount of the homestead exemption for a residence may not result in a tax reduction that exceeds the amount of state property taxes that would otherwise be levied 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; and
- a single-family dwelling consisting of a floating home which must be occupied by the property owner as their principal place of residence.

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

For taxes levied for collection in calendar year 2026, and each subsequent 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.

The homestead exemption must be claimed and renewed on forms developed by the Department of Revenue (DOR) or by the county assessor and approved by DOR. Each county assessor must make declaration and renewal declaration forms available at the assessor's office, on the assessor's official website, and by mail or email upon request.

The resulting revenue loss from the exemption is prohibited from being shifted onto other property owners through an increase in the state property tax rate.

Renter's Credit. Beginning January 1, 2025, 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 homestead exemption.

Claimants must apply annually to DOR by the last day of the calendar year for which the refund is claimed. Claimants must provide proof of gross rent paid for the prior year and a copy of each applicable rental or lease agreement. Applications must contain a signature attesting that 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.

DOR must provide claimants a paper application upon request.

DOR may make a single refund payment when multiple individuals contribute to rent, unless the application for the renter's credit provides sufficient information for DOR to split the refund payment among multiple individuals. 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 homestead 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. A claimant may not receive both a homestead exemption and renter's credit in the same year, except for claims in which a single-family dwelling is owned by the claimant but located on leased land. In such cases, the combined refund may not exceed the allowable amount for a homestead exemption.

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 by the homestead 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 filing and processing applications and issuance of refund payments.

Other Provisions. The homestead exemption and renter's credit are not subject to tax preference performance review or automatic 10-year expiration.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill takes effect on January 1, 2024, if a proposed constitutional amendment specifically authorizing a homestead exemption and renter's credit is approved by the voters in the next general election.