STATE OF WASHINGTON

DEPARTMENT OF REVENUE

Research Report 2008-1

SUMMARY OF NOVEMBER 2007 TAX LEGISLATION

Washington State Department of Revenue
Legislation & Policy and Research Divisions
April 2008

This report summarizes two revenue and tax bills approved during the First Special Session of the 2007 Legislature. The material was compiled from information developed by the Research Division and the Legislation & Policy Division for preparation of fiscal notes on these bills. The summary is not intended to cover technical details or provide a legal interpretation of the bills. Instead, its primary purposes are to alert agency personnel of the changes, to assist in developing implementation programs, and to serve as a resource for historical tax research.

HB 2416 **Limitation on increase in regular property tax levies (Chapter 1, Laws of 2007, 1st Special Session)**

In November 2001 the voters adopted Initiative 747, which limited the degree to which total property tax receipts from regular (non-voter-approved) levies could increase from one year to the next. This limitation replaced several earlier limits and reduced the allowable rate of increase to the rate of inflation or 1 percent, whichever is less.

In June 2006 the King County Superior Court determined I-747 violated the State Constitution's prohibition against amending current law by reference. In November 2007 the State Supreme Court upheld the lower court's decision. That same month the Legislature met in special session and adopted HB 2416, which reinstates the 1 percent levy limit established by I-747.

The provisions of the bill are retroactive to taxes levied for collection in calendar year 2002. The retroactivity allows districts to maintain any banked capacity (unused levy authority) accumulated under I-747 since 2002 but avoids the larger amount of banked capacity that may have resulted from the Court's decision to overturn I-747.

Absent legislation, the state and local taxing districts would almost always have been able to increase their regular property tax levies by more than what would have been allowed under I-747. Therefore, this legislation reduces property tax revenues. The estimated reduction in state property tax collections is $35,089,000 for the remainder of this biennium and $96,913,000 for the 2009-2011 Biennium. The estimated reduction in local regular property tax collections is $73,491 for the remainder of this biennium and $236,369 for the 2009-2011 Biennium.

HB 2416 was effective November 29, 2007.

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SSB 6178 **Deferral of property tax for certain homeowners (Chapter 2, Laws of 2007, 1st Special Session)**

This bill creates a new property tax deferral program for households with a combined disposable income of $57,000 or less. This new deferral program is similar to the existing property tax deferral program for senior citizens and disabled persons, except that the new program has no age or disability requirement.

Under the new deferral program, eligible homeowners of any age may defer one-half of the property taxes and special assessments imposed on the homeowner's primary residence, if the first half taxes and assessments are paid by the April 30 due date. To qualify, the homeowner must have owned the residence for at least five years. The total amount of taxes deferred under this program may not exceed 40 percent of the homeowner's equity value in the property.

Deferred property taxes and special assessments become a lien in favor of the state upon the claimant's residence. These liens accrue interest based on the average of the federal short-term interest rate as defined in 26 U.S.C Sec 1274(d) plus two percentage points. The state must reimburse local taxing districts for the lost property tax revenue.

The bill requires a review of the program by the Joint Legislative Audit and Review Committee (JLARC) and a report to the Legislature by December 1, 2011. The Department of Revenue and county assessors are directed to provide the JLARC with data necessary for its evaluation.

It is difficult to estimate the participation rate in the new deferral program. The Department has projected that approximately 5,500 eligible households might choose to defer their second half taxes starting in 2008. In addition to the costs of administering the program, the potential impact on the state general fund may exceed $5,000,000 for reimbursement to local jurisdictions during the first year. The annual reimbursement cost will rise to $6,400,000 for each year of the next biennium and to $7,900,000 per year by the 2011-13 Biennium.

SSB 6178 became effective November 29, 2007. It applies to taxes due and payable after April 30, 2008.