A Citizens' Guide to Washington State Property Taxes

Washington Research Council
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Introduction

In *A Citizens' Guide to Washington State Property Taxes*, the Washington Research Council examines the characteristics of the property tax system in this state. We trace the history of the tax, review principles of equity and uniformity, and consider the level and distribution of the tax burden. Finally, we review the various limitations and exemptions associated with the property tax.

The review is timely. Vying in national polls with the federal income tax for the dubious distinction of being the "worst tax," the property tax is again the target of public and legislative attention. In the 1996 legislative session, several efforts at property tax relief or reform were advanced, and efforts to reduce property taxes through the initiative process were being mounted in the spring.

This publication is designed both to place today's debate in historical perspective and to inform the discussion with current facts and tax policy principles.

Over time reliance on the property tax has diminished. Before the Great Depression, the property tax provided more than 90 percent of the funding for state and local government in Washington; today, it yields less than 20 percent. Even as the relative importance of the tax declined, it remained controversial, often the target of taxpayer revolt. And with each adopted reform, a little more complexity was introduced. We now have the one percent limit, the 106 percent limit, regular levies, excess levies, exemptions, deferrals and more.

Generally the reforms have remained consistent with fundamental tax principles enshrined in the state's governing documents: Property "shall be taxed in proportion to its value," "all taxes shall be uniform on the same class of property," and "all real estate shall constitute one class." To ensure the equity of the tax system, reformers have also acted at various times to improve assessment practices, ultimately adopting 100 percent valuation as the standard.

In the following pages, we consider the effects of these reforms on today's property tax policies. As well, we attempt to build a framework for thoughtful evaluation of alternative proposals as they emerge for public consideration.

For additional information, or to arrange for a presentation on tax policy, please call the Washington Research Council at (206) 467-7088 or 1-800-294-7088 (statewide).

Overview

Washington's state and local governments levied $4.01 billion in property taxes for payment in 1995, an increase of 7.8 percent over the $3.72 billion for 1994. The 1995 taxes represented $739 per state resident and slightly more than 3 percent of combined personal incomes.

In the first years following statehood, the property tax was the principal state tax. The state constitution originally included the paragraph:

> **Annual State Tax -** All property in the state, not exempt under the laws of the United States, or under this Constitution, shall be taxed in proportion to its value, to be ascertained as provided by law. The Legislature shall provide by law for an annual tax sufficient, with other sources of revenue to defray the estimated ordinary expenses of the state for each fiscal year. And for the purpose of paying the state debt, if there be any, the Legislature shall provide for levying a tax annually, sufficient to pay the annual interest and principal of such debt within twenty years from the final passage of the law creating the debt.

Until the 1930s most state and local revenue came from taxes on property. In 1927, for example, property taxes accounted for more than 90 percent of state and local revenue in Washington. Like many other states, Washington adopted major new taxes during the Great Depression in order to reduce reliance on the property tax. By 1993 property taxes were only 18 percent of state and local revenues.

In 1929, $78 million in taxes were levied on property owners. This amounted to 6.8 percent of the $1.14 billion personal income for state residents. By 1932 the amount levied had been reduced slightly to $73 million. State personal income, however, had fallen by a much greater percentage to $625 million, and the burden of the levy had increased to 11.7 percent of personal income.

Property tax delinquencies soared during the Great Depression, reaching 30 percent of the current tax roll in 1932 and 1933, while falling property values further strained the system. In 1932 the voters approved an initiative to limit property taxes to 40 mills, that is four cents for each dollar of assessed valuation. (At that time property was typically assessed at only a fraction of its true value.) In 1933 the Legislature imposed a temporary tax on business gross receipts. After voters in 1934 rejected a graduated income tax, the 1935 Legislature enacted the Revenue Act, which imposed a number of taxes including a permanent B&O tax and a 2 percent sales tax. In addition, the Revenue Act granted further property tax relief by exempting all household goods and personal effects from the property tax.

Figure 1 shows the property taxes due, from 1929 through 1995, in relation to state personal income. From the 1932 peak of $117 per $1,000 of personal income, the levies fell to a low of $13 per $1,000 in 1944. The 40 mill limit was placed in the state constitution in 1944. This same constitutional amendment also mandated that property be assessed at 50 percent of true and fair value. From the 1944 low, taxes began a slow but steady climb. After 1966 the rate of increase accelerated, in part because of special school levies tied to the baby boom. The postwar peak of $42 per $1,000 of personal income was reached in 1971.

The early seventies saw the state's second wave of property tax reform. In 1971 the *106 percent limit*, capping the annual increase in regular property taxes at 6 percent, was introduced. In 1972 the state constitution was amended to limit regular property taxes to one percent of true value.

The tax burden declined to $23 per $1,000 of personal income in 1980. From that low it increased steadily, reaching $31 in 1995.

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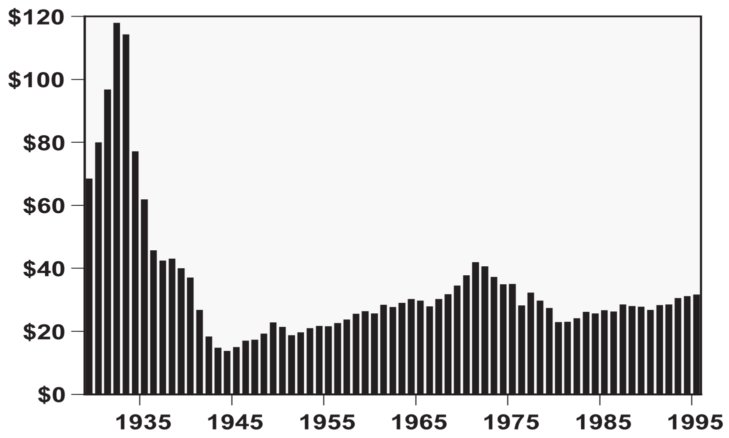
figure 1

Property Taxes levied per $1,000 of Washington personal income



Source: State of Washington, Department of Revenue, *Property Tax Statistics*, various years, and *Tax Statistics*, various years. WRC calculations.

What is Property?

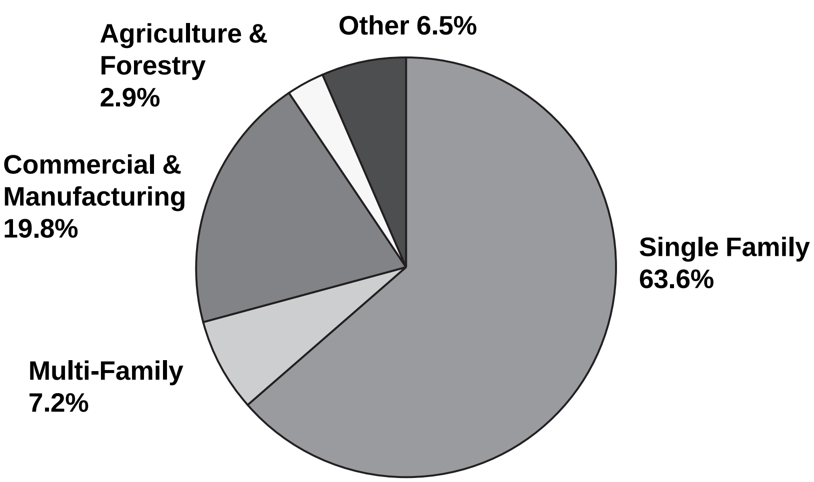
Property, as defined in the state constitution, includes everything that can be owned. The 14th Amendment added this definition to the constitution in 1930 and also enabled the Legislature to define separate classes of property. Within each class tax rates must be equal. Different classes, however, can be taxed at different rates.

Property is divided into two broad types. Real property, in general, consists of land and everything that is permanently affixed to it. All else is personal property. The constitution requires that real property be a single class. By statute, business and household personal properties are separate classes, and household personal property is exempt from taxation.

In 1995, 8 percent of the assessed value subject to the property tax was personal property while the remaining 92 percent was real. Almost all of the taxable personal property belonged to businesses, mostly machinery and equipment. Figure 2 shows the breakdown of real property. Single family homes represented almost 64 percent of the assessed value of real property. Multi-family homes represented more than 7 percent; commercial and manufacturing uses, 20 percent; all else, 7 percent.

figure 2

distribution of taxable real property in 1995



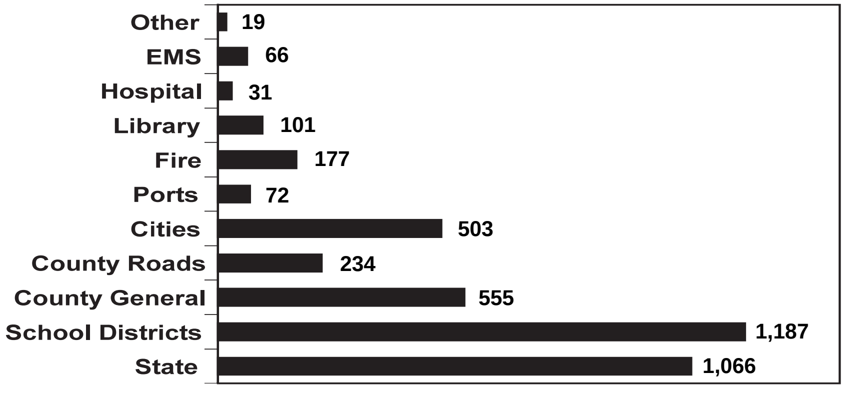
Source: Estimated by D.O.R. *Property Taxes.*

Who imposes the property tax?

The Washington landscape is overlaid by more than 1,700 separate districts that, in addition to the state itself, have the power to levy property taxes. These include 39 counties, 270 cities and towns, 296 school districts, 413 fire districts, 16 library districts, 76 ports and 128 emergency medical service (EMS) districts.

Figure 3 breaks down the $4 billion in property taxes due in 1995 by the type of taxing district. The state general fund receives the largest single share of property tax levies, 27 percent, although in aggregate the 30 percent share of school districts is larger. Fourteen percent went to counties for general purposes, while 6 percent went to counties for roads. Cities and towns took 13 percent, and all other districts, 12 percent.

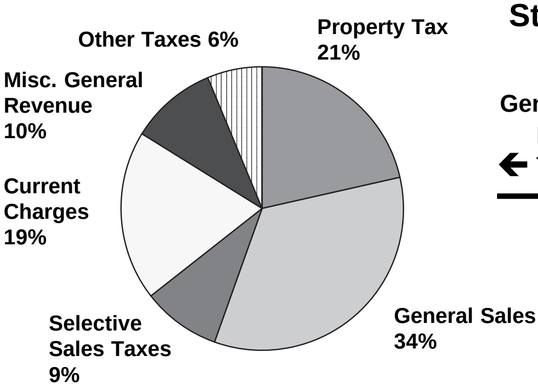
figure 3
levies due in 1995 by type of district
(dollars in millions)



Source: D.O.R., *Property Tax Statistics, 1995.*

Washington state government does not compile comprehensive statistics on local government taxation and spending. The Bureau of the Census's annual survey of government finances, however, provides a picture of state and local government finances. The most recent data available cover fiscal 1993. That year, the Bureau reports, state and local government general revenue totaled $21.9 billion in Washington. Of that money, $3.8 billion came from the federal government. The state figure 4

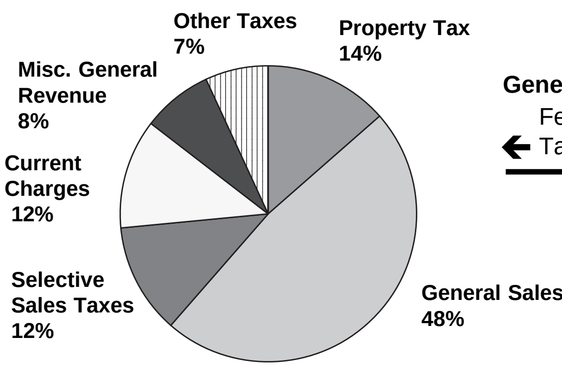
breakdown of Washington state & local general revenue



State & Local Together

(dollars in billion)

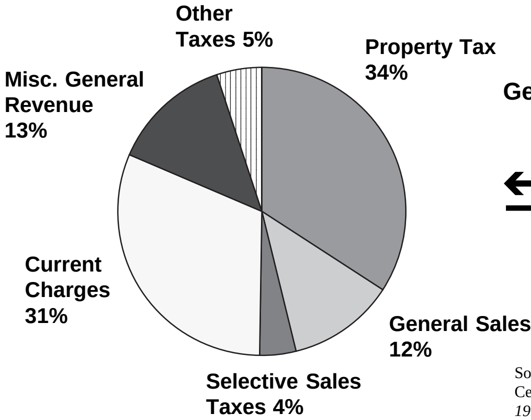
General Revenue	**$21.9**
Federal Grants	3.8
← Taxes & Fees	18.1



State

(dollars in billion)

General Revenue	**$14.6**
Federal Grants	3.5
← Taxes & Fees	11.1



Local

(dollars in billion)

General Revenue	**$12.4**
Federal Grants	.4
State Grants	5.0
← Taxes & Fees	7.0

Source: U.S. Department of Commerce, Bureau of the Census, *Annual Survey of Government Finances, FY 1993*. WRC Calculations.

itself collected $11.1 billion in taxes and fees, while local governments collected $6.9 billion. Additionally, the state transferred $4.9 billion (net) to local governments. Much of this money went to school districts.

Figure 4 summarizes the sources of revenues for Washington governments. Property taxes provided the second largest share of the taxes and fees collected by the combined governments, after general sales taxes. The Census Bureau includes the state's business and occupation tax in the general sales tax category. It accounts for a bit over one-fifth of the total state and local general sales tax revenue.

For the state alone, the property tax represents a smaller fraction of collections, 14 percent; general sales taxes generates a much larger share of the state's revenue. For local governments, the property tax is the largest source, 34 percent. Second, at 31 percent, comes the category of current charges, which includes user fees for such services as hospital care, sewerage, garbage collection, ports and airports.

Figure 5 compares Washington's property taxes to those of the other 49 states and the District of Columbia for the 1993 fiscal year. In taxes per $1,000 of personal income, Washington ranked 25th. In taxes per capita, Washington ranked 22nd. While in taxes as a share of own source general revenues, the state ranked 26th.

The one percent limit

In 1972 Washington state voters amended the state constitution to establish *the one percent limit* on levies: "the aggregate of all tax levies upon real and personal property by the state and all taxing districts now existing or hereafter created shall not in any year exceed one percentum of the true and fair value of that property in money." The one percent limit is subject to four exceptions. First, it does not apply to the levies of ports and public utility districts. Second, the limit may be exceeded if a three-fifths majority of the district's voters approve. Generally voter approval for levies in excess of the limit must be renewed each year. Levies to fund school operations may span two years, however, and levies for school construction, six years. Third, when voters of a district, by three-fifths majority, approve the issue of general obligation bonds to fund capital investments, levies to pay interest and principal are not subject to the limit. Fourth, a court of last resort can order levies over the limit to prevent impairment of contractual obligations.

With few exceptions, taxes levied within the one percent levy limit

Figure 5

Property Taxes (FY 93)

	Per $1,000 PI		Per Capita		Share of State & Local Taxes & Fees	
	Amount	Rank	Amount	Rank	Percent	Rank
New Hampshire	$65.45	1	$1,409.55	2	45.1%	1
Dist. of Col.	61.06	2	1,747.26	1	32.9	3
Vermont	54.18	3	1,010.41	7	31.5	4
New Jersey	52.74	4	1,366.18	3	34.0	2
Alaska	51.53	5	1,124.76	6	10.2	47
Michigan	50.12	6	981.78	8	28.9	8
New York	49.47	7	1,188.41	5	25.0	17
Wisconsin	48.49	8	918.59	10	26.8	12
Maine	48.44	9	878.03	14	28.9	9
Rhode Island	47.76	10	967.36	9	30.6	6
Wyoming	47.72	11	890.42	13	21.6	24
Montana	47.67	12	765.26	19	26.9	10
Connecticut	47.25	13	1,283.84	4	30.8	5
Oregon	45.61	14	836.63	15	25.6	15
Iowa	42.91	15	777.05	18	24.1	19
Illinois	42.22	16	913.02	12	29.8	7
Texas	41.41	17	749.16	20	26.6	13
Minnesota	41.23	18	836.52	16	21.1	28
Arizona	41.16	19	700.69	24	24.5	18
Nebraska	41.11	20	787.25	17	25.6	14
South Dakota	39.64	21	681.14	27	26.9	11
Massachusetts	38.80	22	913.80	11	25.2	16
Florida	38.59	23	748.79	21	24.1	20
Kansas	36.46	24	696.45	25	23.0	21
Washington	**35.45**	**25**	**739.13**	**22**	**21.5**	**26**
Colorado	34.30	26	685.64	26	21.2	27
Indiana	34.28	27	624.19	31	21.9	23
Ohio	33.02	28	620.97	32	20.9	29
North Dakota	32.99	29	564.14	34	17.9	34
Georgia	32.34	30	585.01	33	19.9	31
Virginia	31.85	31	654.76	29	22.0	22
Maryland	31.58	32	725.60	23	21.6	25
South Carolina	31.56	33	504.73	37	18.9	33
California	31.16	34	666.17	28	19.3	32
Pennsylvania	31.05	35	636.81	30	20.6	30
Utah	30.51	36	460.58	39	16.8	36
Idaho	29.64	37	479.39	38	16.9	35
Mississippi	27.91	38	388.05	42	16.5	37
North Carolina	24.20	39	424.67	40	15.6	39
Nevada	24.18	40	508.40	36	15.5	40
Hawaii	23.28	41	514.61	35	12.3	43
Tennessee	21.34	42	370.60	43	15.2	41
West Virginia	20.86	43	321.96	45	12.7	42
Missouri	20.73	44	389.80	41	16.5	38
Kentucky	18.80	45	306.17	46	11.8	44
Oklahoma	17.84	46	291.59	47	11.1	46
Louisiana	17.33	47	273.71	48	9.6	48
Arkansas	16.93	48	260.53	49	11.5	45
Delaware	16.64	49	346.57	44	9.2	49
New Mexico	15.63	50	237.51	50	7.1	51
Alabama	11.24	51	183.21	51	7.3	50
United States	**$36.72**		**$731.01**		**22.4%**	

Source: U.S. Department of Commerce, Bureau of the Census, *Annual Survey of Government Finances, FY 1993.* WRC Calculations.

are termed *regular* levies, while those outside of the one percent limit are *excess* or *special* levies.

The constitutional one percent limit is implemented through a complex web of state statutes. Property must be assessed at 100 percent of true value, and tax rates must be stated in terms of dollars per $1,000 of value. The one percent limit thus limits regular taxes to $10 per $1,000. Statutes cap the rate of regular property tax for each type of district. Of the $10 limit, $3.60 is reserved for the state and an additional $0.50 is available for three special purposes: open space preservation; emergency medical services; and affordable housing. The remaining $5.90 is available to local districts.

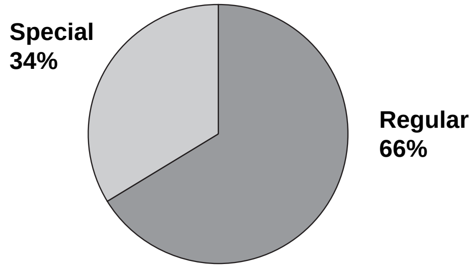
Counties, road districts and cities are termed senior districts and get first call on the $5.90: Counties are allocated $1.80; cities receive $3.60 (if, however, library or fire protection services are provided by separate districts rather than by the city itself, the city will receive less than $3.60.); county road districts, which build and maintain roads outside of city limits, get $2.25.

The remainder of the districts, or junior districts, also have statutory limits on their tax rates. The maximum tax rates for all of the districts within which a specific property lies may well sum to more than $5.90. In the event that the districts in aggregate levy more than $5.90, the money is distributed according to a priority list set by law.

Although they are exempt from the one percent constitutional limit, the levies of ports and public utility districts are limited by statute, and levies within these limits are classified as regular levies by the Department of Revenue.

Figure 6 shows the breakdown of 1995 levies. The Department of

figure 6
breakdown of levies due in 1995



Source: D.O.R., *Property Tax Statistics, 1995.*

Revenue classifies $2.7 billion, or 66 percent, as regular levies and $1.4 billion, or 34 percent, as special levies. The statewide average tax rate of $13.53 per $1,000 of assessed valuation divides into $8.91 for regular levies and $4.62 for special levies.

The statutes require that voters approve the regular emergency medical service and parks levies; these represent about $72 million. Thus, 36 percent of the levies due in 1995 were approved by voters.

Uniformity in taxation

Uniformity of taxation has long been recognized as an important principle of equity in property taxation. Uniformity embodies the fundamental notion of fairness that taxpayers in essentially the same circumstances should pay essentially the same taxes. It also provides protection against the majority attempting to pass the cost of government onto a minority. As Alexander Hamilton warned, "Whenever a discretionary power is lodged in any set of men over the property of their neighbors, they will abuse it."

When the 1853 Organic Act established the government of Washington Territory, the U. S. Congress imposed a strong requirement for equality in taxation. Congress was particularly worried that the Territory's residents would try to shift the burden on taxation onto nonresidents. "Nor shall the lands and other property of nonresidents be taxed higher than the lands and other property of residents. . . . And all taxes shall be equal and uniform; and no distinctions shall be made in the assessments between different kinds of property, but the assessments shall be according to the value thereof."

The original state constitution adopted in 1889 required strict uniformity in taxation, and it remains an important constitutional principle today: "All taxes shall be uniform on the same class of property within the territorial limits of the authority levying the tax . . . . All real estate shall constitute one class . . . ."

Assessments

The constitution stipulates that the tax is to be levied against "the true and fair value" of property. Assessment is the process by which this value is specified. For most property in the state—in 1994 almost 97 percent—the assessments are made by a county assessor. The remaining property, public utilities that operate between counties and privately owned railroad cars, is assessed by the state.

The tax on a particular property is calculated by multiplying its assessed value by a tax rate. The 1889 state constitution recognized that to be effective, uniformity must apply to both assessments and tax rates. "The Legislature shall provide by law a uniform and equal rate of assessment and taxation on all property in the state, according to its value in money, and shall prescribe such regulations by general law as shall secure a just valuation for taxation of all property, so that every person and corporation shall pay a tax in proportion to his, her, or its property." Through every subsequent amendment, uniform assessment has remained a constitutional requirement.

Uniform assessments are necessary for an equitable system of property taxes. In 1944 the state constitution was amended to require that property be assessed at 50 percent of its true value. Local assessors ignored this constitutional requirement, however. Assessment at 25 percent seems to have been common, and for many properties, the assessed value was an even smaller percentage of true value. With the 40 mill rate cap, taxes were effectively limited to one percent of true and fair value.

In the early 1950s, with the imposition of the real estate excise tax, the state began to receive accurate data on the sales price of real property. These data revealed serious inequities among taxpayers in the ratios of assessed value to market value. In 1955 the Legislature found "gross inequality and non-uniformity in valuation of real property for tax purposes throughout the state. . . . Such non-uniformity . . . is of such flagrant and widespread occurrence as to constitute a grave emergency adversely affecting . . . the welfare of all the people." Frequent reassessments help assure that property owners are treated uniformly. To improve fairness, the 1955 Revaluation Act required that no property should go more than four years without its value being reassessed.

The inequities in assessments, however, persisted. Many counties failed to comply with the 1955 act, and, in at least one case, the county assessor was not applying the same assessment ratio to all property. In 1969, to force uniformity, the state Department of Revenue ordered county assessors to adopt the constitutional 50 percent standard, beginning with the 1970 assessment year.

The passage of the 55th amendment, which limited regular taxes to one percent of true and fair value, also removed the constitutional 50 percent standard. The next year, the 1973 Legislature mandated that property be assessed at 100 percent beginning with the 1975 assessments. Reformers, under the banner of "truth in taxation," had long advocated 100 percent valuation as the easiest way for taxpayers to understand the relationship between property value and property taxes.

Today, the majority of counties revalue on a four year cycle, but about one-third revalue annually. King County, which represents 39 percent of the assessed value within the state, reassesses on a two year cycle.

By May 31 of each year, the county assessor should complete a listing with his assessment of the January 1 values of the existing property in his county. For new construction, the listing deadline is August 31. Taxpayer appeals of assessments must be filed with the county board of equalization by July or by the thirtieth day following the mailing of a notice of revaluation, whichever is later.

By November 30 districts must certify their levies for the year to the county assessor. The assessor then calculates and certifies the taxes due on each property and, by the following January 15, delivers the roll of taxes due to the county treasurer.

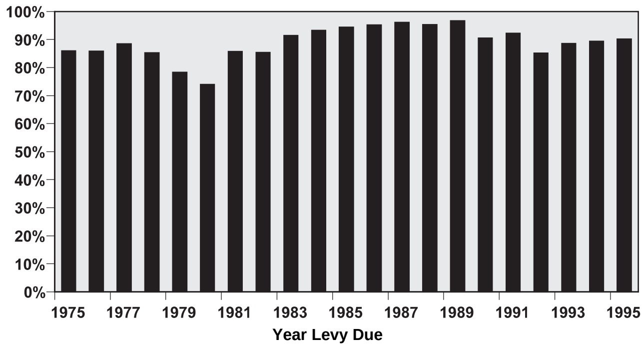
The treasurer mails tax bills after February 15. The first half of the tax is due by April 30; the second half by October 31.

The taxes due in any particular year are based upon the preceding year’s assessment; this can be a source of confusion. To clarify, the taxes due in 1996 are the taxes levied on 1995 assessed values, while those levied on 1996 values are due in 1997. Throughout this discussion, taxes are identified with the year in which they are due.

Each year the state Department of Revenue estimates county by county the average relationship between the assessed value and the true and fair value of property. These estimates are used to assure that differences in county assessment practices do not lead to inequities in the distribution of the burden of the state portion of the property tax. For the 1994 assessment, the ratio of assessed to true values ran from a low of 0.73 in Asotin County to 0.99 in Island County. The average for the state was 0.90.

Figure 7 shows how the overall ratio for the state has varied over the years since the assessment ratio was raised from 50 percent to 100 percent. Two troughs are clearly evident. In the late 1970s assessed values lagged behind as inflation in the general level of prices pushed up the true value of property; as a result the ratio fell. With the abatement

figure 7
assessed value as a percentage of true value



Source: D.O.R., *Tax Statistics*, various years.

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of general inflation in the 1980s, assessments moved much closer to true values, and the ratio rose, reaching 97 percent for the assessment year 1988. Subsequently, a number of areas in the state, most notably King County, experienced real estate booms. Assessed values lagged behind true and fair values.

The assessed value for taxes due in 1996, $314 billion, was more than twice the $143 billion for 1985. Construction of new property and revaluation of existing property account for virtually all of this change. Figure 8 shows by year the percentage change in statewide assessed

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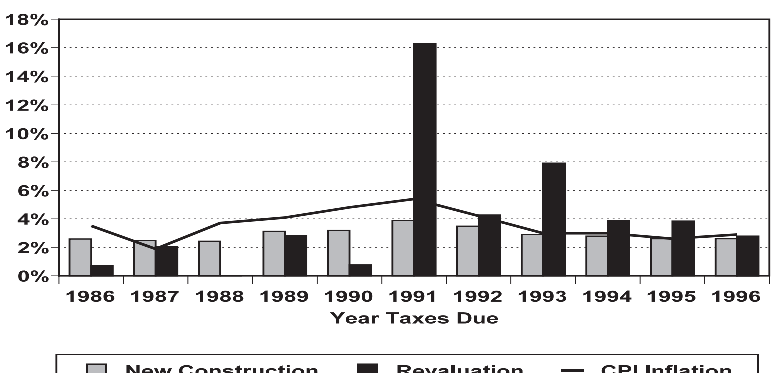
figure 8
percentage increase in assessed value

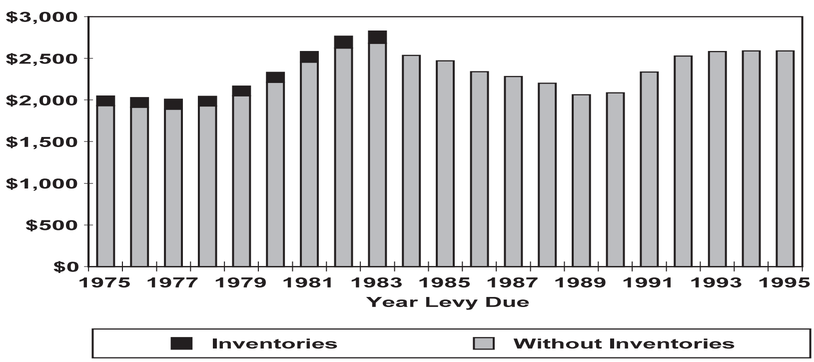


Source: D.O.R., *Tax Statistics*, various years.

value. During the second half of the 1980s, new construction represented the larger share of the increase in assessed value. Revaluations ran significantly behind the rate of increase in the general level of consumer prices as measured by the Consumer Price Index (CPI). In the 1990s revaluations exceeded both new construction and CPI inflation.

The 16 percent increase in assessed value due to revaluation for taxes due in 1991 (reassessments conducted in 1990) is primarily the effect of the King County real estate boom. King County reassesses every other year. The county's 1990 reassessment increased the value of existing real property by more than 38 percent!

figure 9
property tax base per $1,000 personal income



Note: Inventories were removed from the tax base in 1984.
Source: D.O.R., *Property Tax Statistics*, various years.

In Figure 9 the ratios of true to assessed values have been used to calculate the property tax base relative to state personal income from 1975 to 1995. Business inventories were exempted from the property tax in 1984. The base grew from 1977 to 1983, fell from 1983 to 1990, rose sharply from 1990 to 1992, and has been flat since that time.

Current Use Assessment

In 1968 voters approved Amendment 53 to the state constitution creating an exception to the general requirement that all real property be treated as a single class. Under this amendment it became possible for the Legislature to allow agricultural lands, timberlands, and other open spaces to be assessed according to their value in their current uses. In 1970 the Legislature established a program for current use assessment. In 1973 the program was extensively expanded.

The Legislature has found that certain uses of lands bring special public benefits and that owners should not be forced to withdraw property from these uses simply to pay the property taxes. "To assure the use and enjoyment of natural resources and scenic beauty for the economic and social well-being of the state and its citizens . . . assessment practices must be so designed as to permit the continued availability of open space lands for these purposes."

In 1995, 11.2 million acres of land, with an assessed value of $2.7 billion, were enrolled in the program. All but 100,000 acres were agricultural land.

When property is removed from current use assessment, the owner must pay a tax equal to the current use tax reduction enjoyed over the proceeding ten years, plus interest.

The 106 Limit

Spending decisions generally determine the property tax levy of local governments. The 1971 Legislature, however, imposed an annual limit on the increases in local governments' revenues from property taxes. The 1979 Legislature extended this limit to the state levy.

The 106 percent limit restricts the total property tax revenue that any taxing district can raise. It does not restrict the taxes levied against a particular property. It applies to *regular*, but not *special* levies. The cap on a district's total revenue in any year is equal to 106 percent of the highest amount levied in the preceding three years plus the previous year's tax rate applied to the value of new construction and improvements. Property tax collections shall not exceed the cap; local governments are not required to levy to the maximum.

Even with the cap, individual taxpayers may be affected quite differently, as the following illustration demonstrates.

Consider a simple district which has a tax rate of $5 per $1,000 of assessed value and encompasses just three vacant lots, each worth $1,000. The total annual tax revenue for the district would be $15; each owner would pay $5. Imagine that one year, call it year 1, the market value of one of the lots—lot A—doubles, while the values of the other two lots—B and C—are unchanged. The owner of lot B, however, constructs a house worth $1,000. For year 2, the district's assessor will revalue both A and B from $1,000 to $2,000. But since in any year the taxes paid on a property depend upon the previous year's assessment, taxes paid in year 2 will still be just $5 for each property. In year 3 the increased assessments would first affect taxes. Without the 106 percent limit, the annual taxes on both A and B would jump directly to $10 and the district's total revenue would be $25. With the 106 percent limit the increase is spread out over a number of years, as shown in Figure 10.

Year 3 taxes are limited to 106 percent of year 2 taxes, or $15.90,

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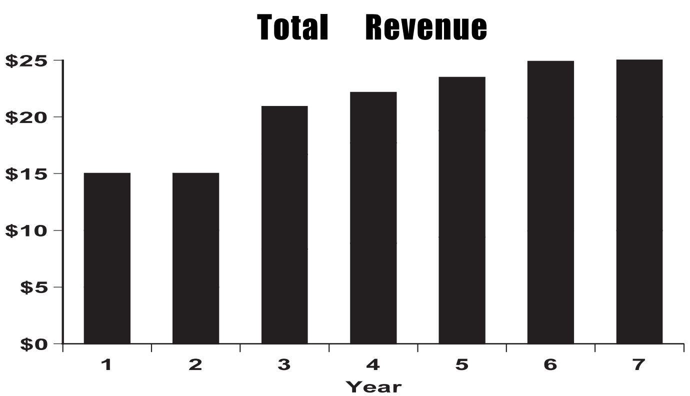
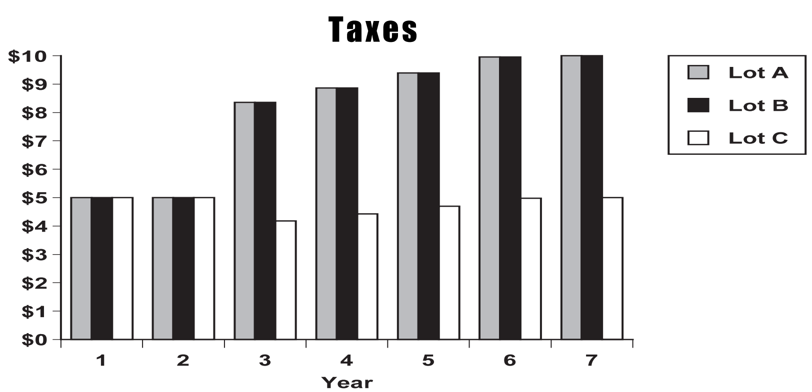
figure 10
The 106 Percent Limit In Action





plus the tax of $5 per $1,000 applied to the value of the new construction, an additional $5. Thus the 106 limit means that the district can only collect $20.90 in total revenue in year 3. To achieve that revenue with a tax base of $5,000 requires a tax rate of $4.18 per $1,000. Owners A and B each pays $8.36, while B pays $4.18.

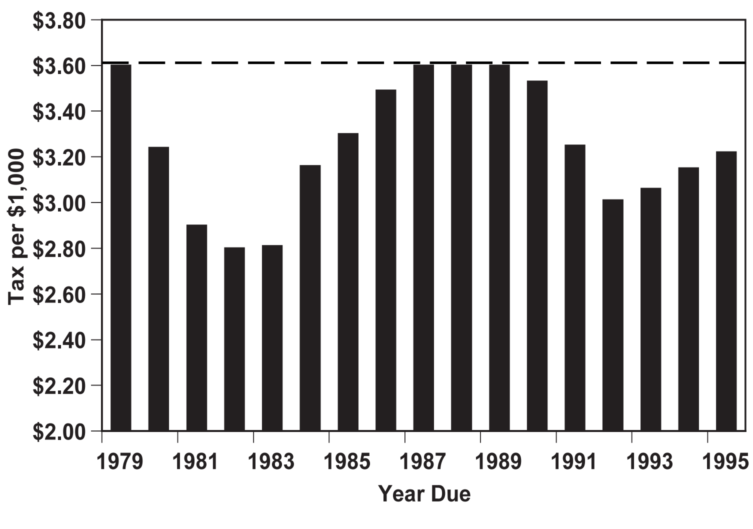
The important thing to recognize is that the 106 percent limit applies to the total tax received by the district, not the tax paid by any one property owner. In this example, the taxes paid by A and B rose by 67.2 percent, while the tax paid by B fell by 16.4 percent.

The next year the taxes for each owner would be 6 percent higher, $8.86 for A and B, and $4.43 for C. Not until year 7 would taxes reach $5 per $1,000 of assessed value. In the real world, though, property values are likely to change again before the full adjustment is reached.

Figure 11 shows the state property tax rate over the period 1979-95. From 1979 to 1982 and again from 1989 to 1992 property values increased by more than 6 percent a year. As a result the state tax rate fell. In both cases, growth in property values slowed. Tax rates rose back towards the statutory rate of $3.60 per $1,000 in 1982.

figure 11

the state property tax rate



Source: D.O.R., *Tax Statistics*, various years.

Exemptions

A number of exemptions to the property tax have been established either constitutionally or through statute. Every exemption, by reducing the tax base, increases the tax rate other property owners must pay if a district is to raise a fixed sum of money.

Although the Organic Act required that all property be taxed equally within Washington Territory, it did explicitly exempt federal property from the tax. The first Legislative Assembly chose to exempt churches, cemeteries and non-profit libraries. These exemptions continue today and are estimated to reduce revenue from the property tax by $86 million annually.

The initial state constitution exempted the property of the federal, state and local governments. The constitution also gave the Legislature the power to exempt other property. In 1988 the state constitution was amended to allow the taxation of federal property. Such taxation, however, is currently prohibited by federal law.

The Department of Revenue lists over eighty separate exemptions from the property tax; according to DOR, annual savings to property owners from these exemptions total $9.6 billion at current tax rates. Figure 12 summarizes these savings by broad categories of exemption.

In the private property category, the largest is the exemption for retired senior and disabled homeowners with low incomes. This exemption was allowed by Amendment 47 to the state constitution, approved in 1966. The Department of Revenue estimates the value of this exemption to be $72 million annually.

figure 12

annual fiscal impacts of property tax exemptions

	State	Local
Public Property	$476.7 million	$1.8 billion
Non Profit Organizations	$53.7 million	$172.9 million
Private Property	$14.7 million	$78.5 million
Personal Property	$1.6 billion	$5.4 billion
Property Tax Deferral	$1.8 million	—
Current Use Assessment	$17.4 million	$62.6 million

Source: State of Washington Department of Revenue, *Tax Exemptions 1996*, Annual numbers calculated as 1/2 of the department's estimate for the 1995-1997 biennium.

The largest personal property exemption is that for intangible financial assets such as cash, bank deposits, loans and securities. This exemption became possible with the approval in 1930 of Amendment 14 to the state constitution and was implemented in 1931. There are several justifications to exempting intangibles. In many cases these financial assets are paper claims to physical assets which are already subject to the property tax; thus the exemption simply avoids double taxation. Furthermore, financial assets are difficult for assessors to find if owners do not voluntarily reveal their existence or if they move them out of state. For this reason, a tax on intangibles is likely to be inequitably applied. The estimated annual value of this exemption is $6.3 billion.

Household personal property has been exempt from the property tax since 1871. The annual value of this exemption for 1996-97 is $202 million.

In 1974, as a competitive response to the elimination of inventory taxes in adjacent states, business inventories were exempted from the property tax. This exemption was phased in over ten years. The estimated annual value of the exemption is $415 million.

Property tax relief for low income seniors

There are three separate mechanisms through which low income homeowners who are seniors or who are retired as a result of a disability can gain property tax relief: an exemption, an assessed value freeze, and a deferral of tax due.

Homeowners who are over the age of 60 or who are disabled and retired are exempt from excess levies if their household income falls below $28,000, and they are exempt from the regular levy on a portion of the assessed value of their home if household income is less than $18,000. For households with incomes below $15,000, the exemption is the greater of $34,000 or 50 percent of assessed value. For households with incomes between $15,000 and $18,000, the exemption is the greater of $30,000 or 30 percent of assessed value to a maximum of $50,000.

More than 130,000 applicants were approved for exemptions from taxes due in 1995 under this program. The average relief per applicant totalled $560, reducing state and local tax collections by $73 million.

For senior or retired disabled homeowners with incomes below

$28,000, a reassessment cannot increase the property value by more than the general rate of inflation since the last reassessment.

Homeowners above the age of 59 with household income below $34,000 can defer payment of taxes. The state charges 8 percent interest on the amount owed. These deferred taxes are due when the home is eventually sold, or when the property ceases to be the permanent residence of the homeowner or a surviving spouse.

Property Taxes and the Common Schools

By law, the state must provide sufficient aid to local school districts to fund basic education. As a result, public schools spending accounts for almost one-half of general fund-state spending.

Prior to 1975, though, property owners paid a *local* regular school levy. The state funded more than half of school operating budgets from general revenues, and the aid to local schools was “equalized” to offset differences in per student tax base between school districts.

In 1975 the local regular school levy was replaced by the regular state levy, and state aid to school districts was increased to offset tax revenue loss. To ensure that taxpayers of different counties be treated equitably, the Department of Revenue estimates by county the ratio of assessed to true value; DOR then varies the rate to be applied by the county. The state tax is levied at the rate of $3.60 per $1,000 of true and fair value—it's the only component of the regular levy that is levied against true value rather than assessed values. The state property tax is often called the state school levy. The revenues, however, are paid directly into the general fund, not into an account dedicated to school funding. In any event, the revenue from the state levy equals only one quarter of the Legislature’s appropriation for public schools.

Local school districts are allowed to raise additional moneys for uses that enrich their programs beyond the basic level. These excess levies for maintenance and operations require the approval of a 60 percent majority of the voters, and the dollar amount that any district can obtain is capped. The intention is to limit a school district's special levy to 20 percent of the basic education allocation that it receives from the state. Certain districts are allowed to raise a higher percentage, however, through a grandfather clause.

Property Tax Relief Nationally

In 1978 California voters approved Proposition 13, which wrote property tax relief into the state constitution. The tax rate was capped at 1 percent. Assessed values were rolled back to the 1975-76 levels and increases were limited to 2 percent annually, but with the provision that property would be reassessed at true value whenever it changed hands.

In 1990 Massachusetts voters passed Proposition 2 1/2. This both limited the tax rate to 2 1/2 percent and limited the annual increase in a jurisdictions levy to 2 1/2 percent.

While Propositions 13 and 2 1/2 were the most visible property relief measures since the Great Depression, they were, in reality, fairly late events in a wave of property tax reforms that swept the nation in the 1970s. Washington participated prominently in these reforms.

Every state adopted either a homeowner exemption or a circuit breaker. Circuit breakers are state operated property tax relief programs that provide rebates or income tax refunds to low income homeowners and renters. Homeowner exemptions, on the other hand, exempt a portion of a home's assessed value from the tax and are not means tested. Some states target homestead exemptions specifically at the elderly and disabled; other states make exemptions available to all homeowners.

Washington's system of senior and disabled relief has been described as a mixture of a circuit breaker and homestead exemption.

A number of states also adopted tax rate caps and limits on the growth in property tax collections before California and Massachusetts did. Washington's one percent limit on tax rates and 106 limit on the growth of revenue are prominent examples.

More recently the trend has moved away from focusing on property taxes in isolation and towards controlling overall taxing and spending. Here again Washington has been a leader. In 1979 voters approved Initiative 62 which limited the growth in state tax revenues to the rate of growth in personal income. This did not, however, prove to be an effective constraint. In 1993 voters approved a tougher measure, Initiative 601, limiting the growth in state spending to the sum of inflation and population growth.

Initiative 601 does not constrain local spending, and it is this spending that the property tax primarily funds.

Notes