



BRIEFLY

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Property Tax Relief in the Supplemental Budgets

The next several days should bring resolution in the legislature on a supplemental budget. Property tax relief is a piece of the puzzle.

In the wake of Initiative 695, providing property tax relief in order to head off a second-stage tax revolt has been a priority for many legislators this session. Each of the three major supplemental budget proposals before the legislature includes relief in some form.

The governor started the action in his supplemental budget. He proposed relief in three forms: an across the board reduction in the state property tax levy, an exemption from the state property tax for the principal residence of low-income senior and disabled taxpayers, and a limit on the extent that the taxes on any specific property could increase in any single year.

Variations on these themes live on in the House Republicans' and Democrats' supplemental budget proposals, although the Senate Democrats' supplemental budget takes a different approach to property tax relief.

House Republicans: House Republicans' supplemental budget includes two proposals. First, the state property tax rate would be cut by 10 percent in 2001. (The governor recommended a smaller, 6.2 percent cut.) The property tax cut is contained in HB 3146.

Second, House Republicans would exempt from the state property tax the principal residence of senior (61 or older) and disabled taxpayers with incomes below \$30,000. The exemption would take the form of a tax credit equaling the taxes that would otherwise be due. This would prevent the cost of the exemption from being shifted onto other property owners.

This proposal is identical to the governor's proposed senior/disabled tax exemption. It is contained in HB 2551, which was originally introduced at the governor's request.

The estimated costs of the House Republicans' two proposals are \$89 million in the current biennium, and \$337 million in 2001-03.

House Democrats: The House Democrats' supplemental includes two property tax proposals. First, a constitutional amendment would allow the legislature to "provide property tax relief by allowing property valuation increases to be spread over time."

The voters approved a system of property value smoothing as part of R-47. But the system has never been applied, because the state Supreme Court ruled that smoothing violated the state constitution's requirement that property taxes be uniform. According to House Appropriations Committee staff, the House Democrats' proposed constitutional amendment (HJR 4221) would allow the property tax smoothing provisions of R-47 to kick in without further legislative action.



Small increases in assessed value, those less than 15 percent, would be passed through immediately. Moderate sized increases (between 15 percent and 60 percent) would be phased-in with the annual increase limited to 15 percent. For large increases (over 60 percent) the annual increases in assessed value would be limited to one-quarter of the difference between market value and assessed value.

(The governor's smoothing system (in HR 3109) differs slightly from the R-49 system. And his proposed constitutional amendment, HJR 4218, is narrower than the House Democrats' amendment.)

The House Democrats' second property tax proposal is a senior/disabled homeowner tax credit that is virtually identical to the House Republicans' credit. The House Democrats' tax credit is contained in HB 3150.

HB 3150 also broadens slightly the criteria for eligibility for the state's various senior and disabled property-tax-exemption programs. Moreover, HB 3150 also includes a mechanism that would guarantee that there would be no shift of property taxes onto other property owners as a result of the property tax smoothing.

The estimated revenue reductions as a result the House Democrats' property tax relief are \$20 million for the current biennium and \$100 million for 2001-2003.

Senate Democrats: The Senate Democrats have proposed a constitutional amendment to establish a homestead tax credit of \$200 against the state tax due on owner-occupied homes. (The proposal is described in detail in our e-Report *Preserve Property Tax Uniformity to Maintain Washington's Economic Competitiveness*.)

This proposal (SJR 8212) passed the Senate and is now before the House. Estimated revenue reduction in the current biennium is \$152 million. The estimated reduction for 2001-03 is \$585 million.

Discussion: The House and Senate have already passed and sent to the governor one major property tax bill, SSB 6115, which exempts motor vehicles from the property tax. Additional property tax legislation is likely in the last days of the session.

As the Research Council has often observed, uniformity is one of the strengths of the state's current tax system. By allowing different effective tax rates on household and business real property, the Senate Democrats' plan would introduce a split property tax roll and threaten the state's business climate.

The more modest proposals of the House Republicans and Democrats preserve uniformity and leave more money on the table to mitigate the effects of I-695. They may thus provide the basis for a bipartisan compromise in the House.



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