Washington Research Council

e-POLICY brief

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Uniformity in Property Taxation Should be Retained

BRIEFLY

The legislature is considering a proposal to give homeowners a property tax credit.

Establishment of the credit would require amending the state constitution since it now requires all real property be assessed and taxed uniformly.

Elimination of the constitutional requirement for uniformity will result in a further shift of the tax burden onto business. This would negatively affect the state's competitiveness.

Uniform taxation of real property is one of the strengths of the state's fiscal system. It should be preserved.

Last week, the Senate overwhelmingly (43-5) passed a resolution calling for a public vote this fall on changing the state constitutional requirement for taxing all real property uniformly. (See our e-Policy Brief 00:1 released January 17.)

Uniformity in property tax policy has been mandated by the state Constitution since Washington gained statehood.

It's time to remember the significant protection provided to all taxpayers, homeowners and business alike, by the uniformity requirement.

Uniformity entails treating all real property as a single class that is assessed and taxed equally. The Senate proposal calls for a "split roll" property-tax system, which would differentially tax homeowners and businessowners.

The amendment to Washington's constitution sought by the proposal's supporters would break uniformity by giving homeowners a credit against the state portion of the property tax, beginning with a $200 credit in 2001. In time, supporters intend for the legislature to increase the credit to eliminate effectively the state property tax on homeowners.

Washington businesses, already among the most heavily taxed in the nation, would ultimately shoulder an even greater burden over time with passage of a split-roll property tax proposal. A review of property tax statistics for the fifty states reveals that classified systems typically result in increasing the property tax burden paid by business. Here in Washington, such a shift would negatively affect the state's competitiveness for new business investment and expansion.

During the past 15 years, states with uniform property-tax systems have experienced significantly greater economic growth than those with split rolls, or "classified" systems. The Washington Research Council examined the growth in gross state products over the 15-year period 1982-1997. In states with classified real property tax, gross state product increased 59 percent – fully 10 percentage-points less than the 69 percent growth in states with uniform taxation.

The overall tax burden in Washington shifted more onto business last fall, with passage of Initiative 695. More than 80 percent of the tax relief associated with repeal of the Motor Vehicle Excise Tax will benefit households and individuals. And while business have received significant tax relief since 1993, one-third of the "relief" amounts to undoing the major business tax increases imposed by the 1993 legislature. All told, the revenue effect for fiscal year 2001 of all tax cuts since 1993, including Initiative 695, will be a shift of the tax burden onto business and off homeowners.

The tax burden on businessowners is heavy as it is, and making it heavier still would discourage businesses from locating and expanding in Washington.

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Even without breaking uniformity, there's "serious concern" about how competitive Washington is right now, according to Mark Turner, director of the Spokane Economic Development Council and president of the Washington Association of Economic Development Councils. Anything that would shift more taxes onto businesses would be "of grave concern."

While breaking uniformity would hurt business, it may provide only a temporary benefit to homeowners. A 1999 interstate comparison of property-tax rates by the Minnesota Taxpayers Association found that the average property-tax rates on owner-occupied housing in states lacking uniformity roughly equal the average rates in states with uniformity.

Split rolls, then, generally result in higher taxes on businessowners, not in lower taxes on homeowners, according to this study.

Less apparent, but of no less importance, is how a split roll would hurt homeowners by obscuring the real cost of government to the public. Shifting the property-tax burden onto businessowners would mislead the public into underestimating the added tax burden on homeowners and workers. To the extent that businesses could pass tax increases on to their workers and customers, the general public would suffer invisibly higher taxes.

The Washington Research Council has identified five important tax policy principles: 1) economic neutrality, minimizing distortions in economic decision-making; 2) transparency, making clear who bears the costs of government; 3) fairness, allocating the burden of taxation equitably; 4) administrative simplicity, avoiding excessive compliance costs and record-keeping; and 5) stability, avoiding extreme fluctuation in revenue collections.

Split-roll property tax systems violate each of the first four of these principles. Departing from uniformity will bias investment decisions, conceal the costs of government from taxpayers, shift the tax burden unfairly, and diminish administrative simplicity.

Without question, uniformity in property taxation is a Constitutional protection worth maintaining.

(For a more complete review of this issue, see our e-Report, *"Preserve Property Tax Uniformity to Maintain Washington's Economic Competitiveness."*)

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