



## Budget Tidbits... just the facts

Senate Republican Caucus

### Budget Brief #7: (3/8/07)

#### Budget Brief: A Quarter-Billion Dollar Business Tax Increase

*A look at the proposed Homestead Property Tax Exemption (SSJR 8210)*

#### A. SSJR 8210: Homestead Property Tax Exemption

This week, Senate Democrats revealed their property tax agenda by moving out of the Ways & Means committee a so-called homestead exemption, which would exempt the first \$75,000 of a homeowner's property from the state property tax (but not local taxes).

The state constitution provides that all property must be taxed uniformly. The homestead exemption, because it grants preferential tax treatment to residential property and hence would violate the uniformity clause, requires a constitutional amendment.

#### B. Average Homeowner Relief: \$72 a Year

The Department of Revenue estimates the average residential tax relief in 2009 will be \$72, amounting to a 2.35 percent reduction to the average tax bill.<sup>1</sup> These are averages. Depending on the value of the home, the dollar and percent relief will vary.

One might wonder why the relief is so small when exempting \$75,000. The answer is only state taxes are exempt. And the state levy makes up only 23 percent of the average property tax bill.<sup>2</sup> Thus, in terms of value, it's equivalent to paying no taxes on the first \$17,250 of your home's value.

It's worth noting the \$72 in initial tax relief is the high-water mark. This is because SSJR 8210 holds the exemption value constant, not growing the value with inflation. As property values grow – and the exemption remains at \$75,000 – the tax relief diminishes over time.

#### C. No Loss to State Government: Tax Burden Shifted Onto Others

The homestead exemption would result in NO revenue loss to the state as the tax benefit received by some would be completely offset by higher taxes on others.

##### 1. Explaining Tax Shifts

State property tax collections are the result of the state levy rate times the property value assessed. The state can statutorily collect up to \$3.60 for every \$1,000 of property value. But the state currently imposes a much lower rate of \$2.01, largely a result of Initiative 747.<sup>3</sup>

Because of this unused taxing capacity, the state can exempt a substantial amount of property from the tax rolls – some \$150 billion worth under the homestead exemption – and simply raise the levy rate on the remaining property to collect the same revenue.

## **2. Businesses & Homes Over \$500,000 Bear the Higher Property Tax Burden**

Who bears the brunt of the tax shift? Primarily business property, including farm, agricultural, and timber land. Such property receives no benefit from the homestead exemption but bears the brunt of the higher state levy, resulting in increased taxes. **The Department of Revenue estimates that over a two-year state budget cycle the tax increase to non-residential property would be \$243 million.**<sup>4</sup>

Homes over \$500,000 would also see a tax increase, amounting to \$58 million over two years, as the higher state levy more than offsets the tax relief offered by the exemption.<sup>5</sup> In sum over \$300 million of taxes would be shifted onto others during a state budget cycle.

### **D. Robbing Peter to Pay Paul: There's No Need**

This is another example of good politics, bad policy. At first glance, who could possibly be against homeowner property tax relief? No one. But this is not true tax relief: it's taking from one person to give to another. This is bad policy on multiple-levels.

- One, there's no need. The state has a \$1.9 billion surplus. If the state wants to provide tax relief, it can and should do so by lowering the state levy rate – as well as re-enacting Initiative 747 to prevent future property tax hikes.
- Two, this hurts the competitiveness of Washington businesses. A nearly quarter-billion dollar tax increase is sure to dampen job hiring and economic expansion.
- Three, the concept of property tax uniformity is a core feature of our state constitution that has existed since statehood. Indeed, our state's lack of an income tax is attributable to the uniformity clause. In 1933, the state Supreme Court struck down a graduated income tax as violating the requirement of uniform taxation of property.<sup>6</sup> Functionally removing this core principle should not be done lightly.

### **Bottom Line**

**Isn't there a better way to provide property tax relief than by increasing the tax burden on others by several hundred million dollars?**

1. Dept. of Revenue Analysis (3/6/07) (Homes under \$100,000 would average \$118 in relief. Taxes would rise for homes over \$500,000.)
2. Dept. of Revenue – 2007 Tax Reference Manual (Calendar Year 2006 Data)
3. Calendar Year 2007 projected state levy
4. Dept. of Revenue Analysis (3/6/07) – CY 09 & 10 figures
5. *Id.*
6. *Culliton vs. Chase, 164 Wash. 633 (1933).*