

Tax Structure Work Group Local Tax Revenue Overview

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Legislation & Policy

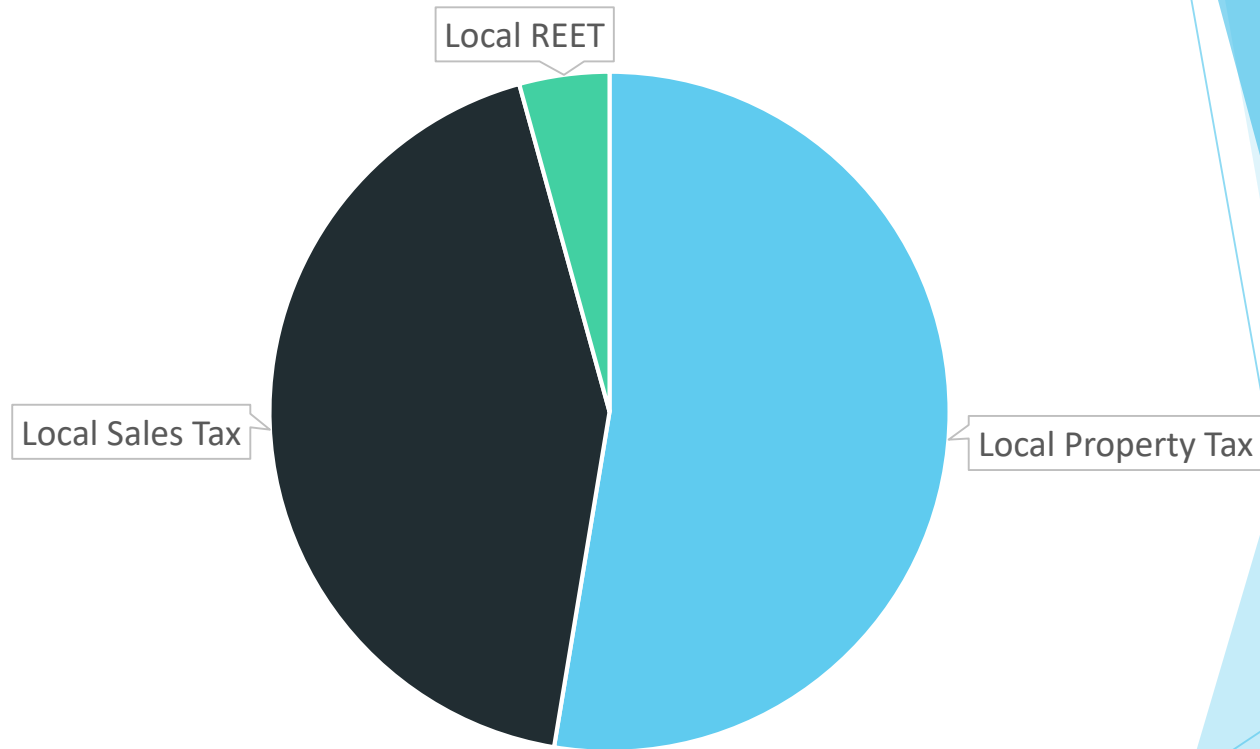
Department of Revenue

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Overview

1. Local Tax Revenue Sources
 2. Property Tax
 3. Sales & Use Tax
 4. Real Estate Excise Tax (REET)
 5. Business & Occupation Tax
 6. Discussion
-

Local Revenue Sources (FY 2018)



1. Washington State Department of Revenue, Property Tax Statistics, Property Taxes by Fund (2019). (<https://dor.wa.gov/about/statistics-reports/property-tax-statistics/property-tax-statistics-2019>)
2. Washington State Department of Revenue, 2018 Tax Statistics, Table 16 (2018). (https://dor.wa.gov/sites/default/files/legacy/docs/reports/2018/Tax-Statistics_2018/Table16.pdf)
3. Washington State Department of Revenue, 2018 Tax Statistics, Table 9 (2018). (https://dor.wa.gov/sites/default/files/legacy/docs/reports/2018/Tax-Statistics_2018/Table9.pdf)

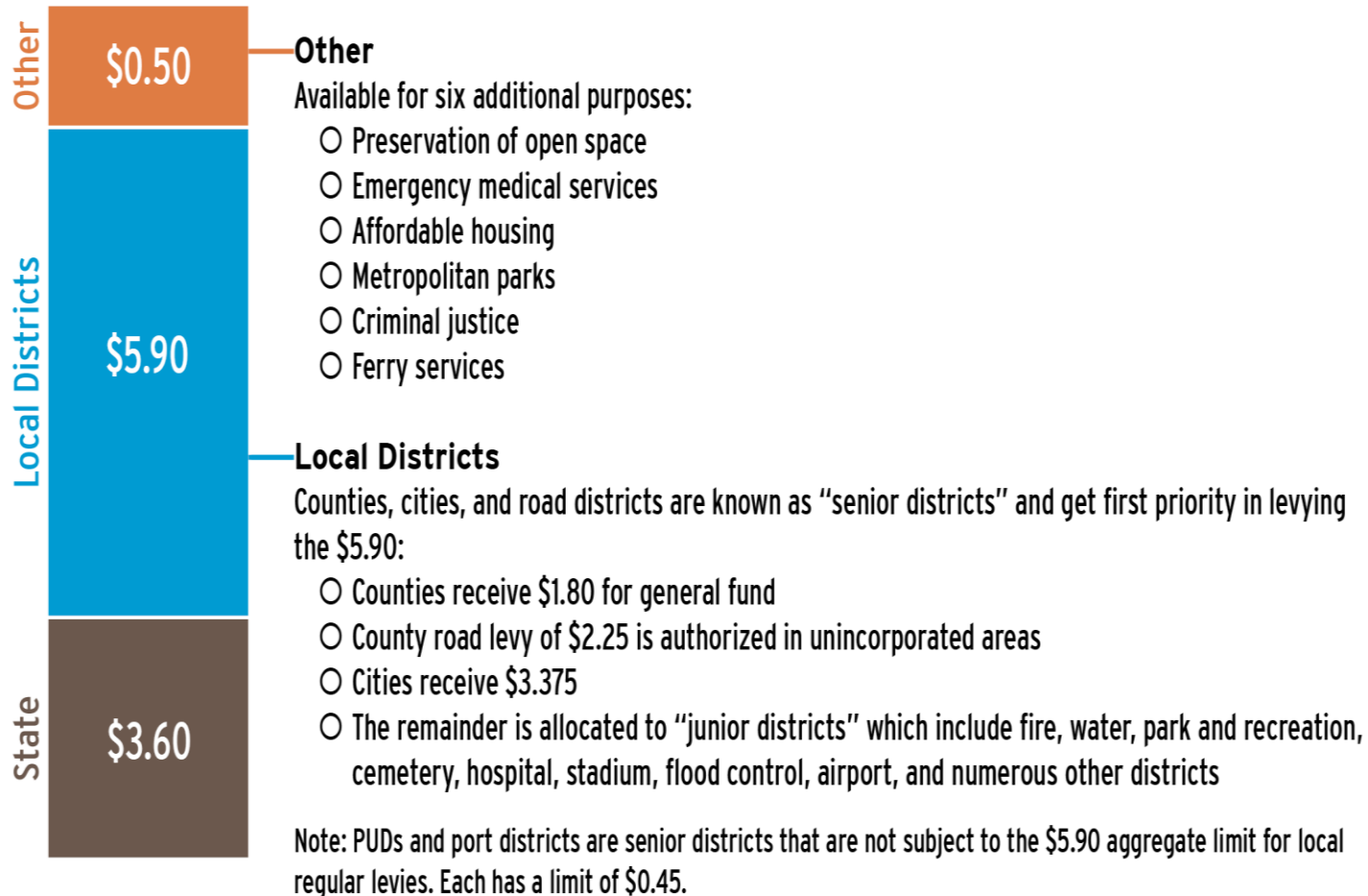
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Property Tax Limits

- ▶ Statutory Maximum Rate – There are statutory limits on individual taxing districts which set a maximum rate for the taxing district.
- ▶ 1% Growth Limit – Originated in an initiative which limits the year-over-year increase in property taxes levied to 1% (previous limit was 6%), there are some exclusions to this limit.
- ▶ \$5.90 Limit – Statutory limit on the aggregate regular levy rates for local governments which cannot exceed \$5.90 per \$1,000 of value, there are some exclusions to this limit.
- ▶ \$10 Limit – Washington constitutional provision which limits the total regular property tax rate on any individual property to 1%, though it is commonly described as \$10 per \$1,000 of value, there are some exclusions to this limit.

\$10 Property Tax Limit In Washington



Levies Outside of the \$5.90 or \$10 Limits

Levies that fall outside of both limits:

- ▶ Port district levies
- ▶ Public utility district levies
- ▶ General obligation bond excess levies
- ▶ Excess maintenance and operation levies
(now, enrichment levies)

1% Growth Limit (101% levy limit)

Taxing districts (regular levies) are limited to an annual increase in their tax revenue to a maximum of 1%

In addition to the percent growth increase, districts get additional dollars added for:

- ▶ New construction
- ▶ Improvements to property
- ▶ Newly constructed wind turbines, wind turbines, solar, biomass, and geothermal facilities
- ▶ Increases in state-assessed property

Statutory Maximum Rate Limit ("Stat Max")

Most levies have a maximum tax rate limitation set in statute.

Example:

- ▶ County \$ 1.80 or up to \$2.475 under certain circumstances
- ▶ Road \$ 2.25
- ▶ Cities \$ 3.375/\$3.60/\$3.825 (various)
- ▶ Fire \$ 1.50
- ▶ Library \$ 0.50
- ▶ Hospital \$ 0.75
- ▶ Cemetery \$ 0.1125

Budget vs. Rate-Based Systems

Rate-Based: property tax rate set and district revenues fluctuate based on increases and decreases in property value.

- ▶ Uses a simple equation:

$$\text{Levy amount} = \text{Levy rate} \times \text{assessed value}$$

Washington does not use a rate based system for property tax but does for sales and use tax and other taxes. Local property taxes are budget based.

Budget vs. Rate-Based Systems

Budget-Based: taxing jurisdictions determine their property tax budget (levy amount) in advance and the levy rate is determined using a more complicated formula.

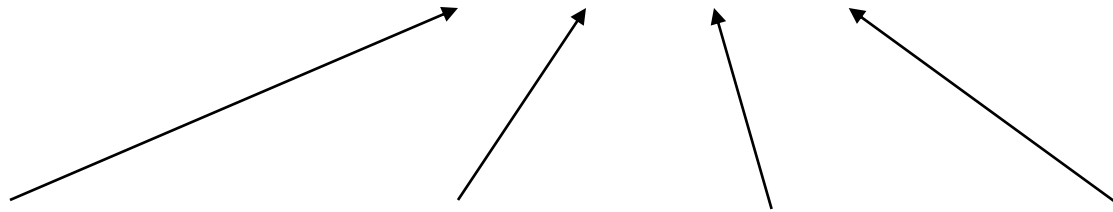
$$\frac{\text{Levy Amount}}{\text{Assessed Value}} = \text{Levy Rate}$$

$$\frac{\$50,000}{\$100,000,000} = \$.50/\$1,000 \text{ Assessed Value}$$

The levy rate is expressed in terms of dollars and cents per \$1,000 of assessed value.

Property Tax Sample

\$1000 Budget



\$187.50

\$250

\$250

\$312.50



\$75,000

\$100,000

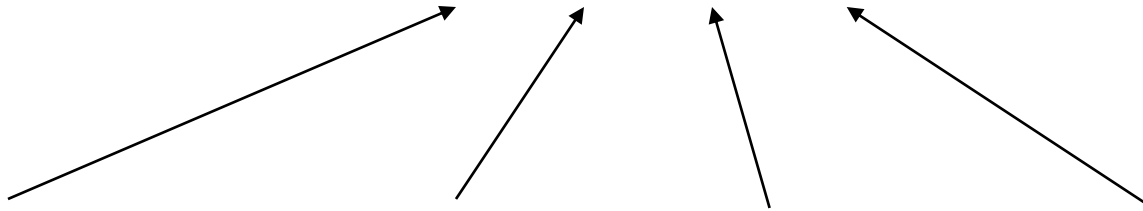
\$100,000

\$125,000

Levy Rate = \$2.50 per \$1,000 AV

Property Tax Sample (property values double)

\$1000 Budget



\$187.50

\$250

\$250

\$312.50



\$150,000

\$200,000

\$200,000

\$250,000

Levy Rate = \$1.25 per \$1,000 AV

Property Tax Sample (limit to 1% annual increase, 3% increase in value)

\$1010 Budget



Individual Property Taxes Increase 1%

\$189.38

\$252.50

\$252.50

\$315.62



\$150,000

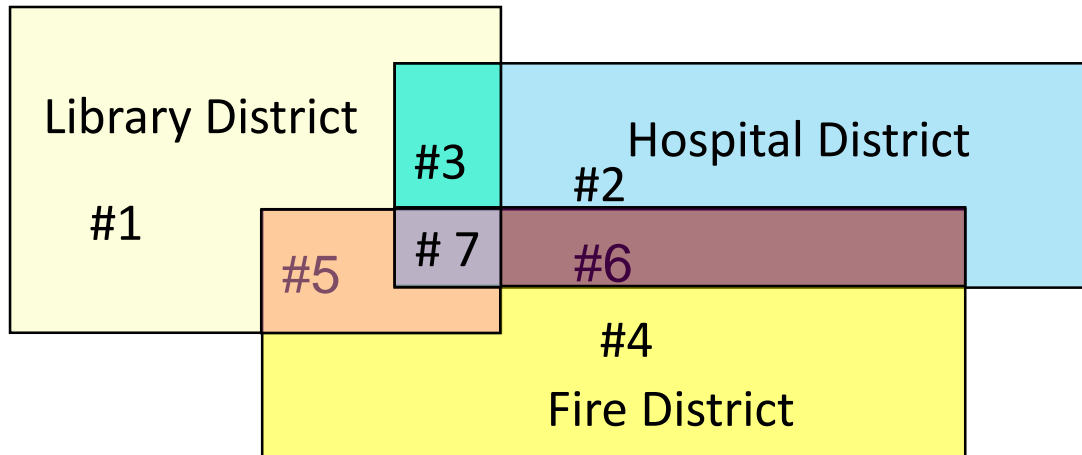
\$200,000

\$200,000

\$250,000

Levy Rate Increase to \$1.2625 per \$1,000 AV

Tax Code Areas & Prorationing



Taxing districts combine to create tax code areas.

The \$10 and \$5.90 limits are computed based on the tax code area.

If one of the limits is exceeded in a tax code area, assessors must reduce the levy rates for some of the junior taxing districts.

- ▶ This process is called prorationing.
- ▶ RCW 84.52.010 provides general guidelines for which districts' levy rates are to be reduced or eliminated first.

Levy Lid Lifts

The voters authorize an amount that exceeds the 1% Growth Limit (voters “lift the lid”).

- ▶ It is not a separate levy.
- ▶ Lid lifts may not cause the levy to exceed the Statutory Maximum Rate Limit.

Lid lifts can be:

- ▶ Temporary or permanent and are for a specific purpose.
- ▶ Single year or multiple years (up to 6 years, or more if bond)

Benefit Assessments

Benefit assessments are charges that often appear on property tax statements but which are not property tax.

Assessments are usually based on a flat-fee per parcel, an amount per acre, or similar characteristics
Generally not based on assessed value

Examples:

- Conservation
- Community facility
- Diking
- Drainage
- Fire protection
- Flood control
- Horticulture assessment
- Weed
- Irrigation
- Pest Control

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Local Sales and Use Taxes

- ▶ Items taxed or excluded under state sales and use tax are taxed or excluded under local sales and use taxes.
- ▶ Made up primarily of a basic rate and an optional rate which add up to 1% which can be used for any lawful purpose.
- ▶ Additional amounts authorized for specific purposes.

Local Sales and Use Taxes

Basic

- ▶ Use of funds: Unrestricted, may be used for any lawful purpose
- ▶ Rate: 0.5%
- ▶ All cities, towns and counties impose the full 0.5% of the basic local sales tax. Cities receive 85% of the revenues from this tax and 15% goes to counties.

Local Sales and Use Taxes

Optional

- ▶ Use of funds: Unrestricted, may be used for any lawful purpose
- ▶ Rate: 0.5%
- ▶ Cities receive 85% of the revenues based on the rate their counties impose and 100% of any additional revenues.

Some Other Local Sales Taxes

- ▶ Criminal justice Up to 0.1%
- ▶ Cultural Access Program Up to 0.1%
- ▶ Public facilities districts Up to 0.2% (distressed PFD may take + 0.2%)
- ▶ Emergency communications Up to 0.1%
- ▶ Housing and related services Up to 0.5%
- ▶ Juvenile detention facilities Up to 0.1%
- ▶ Mental health Up to 0.1%
- ▶ Passenger-only ferry service Up to 0.3%
- ▶ Public safety Counties, up to 0.3%; cities, up to 0.1%
- ▶ Regional transit authority Up to 0.1%
- ▶ Transit Minimum of 0.01%, maximum of 1%
- ▶ Transportation benefit district Up to 0.2% (+ 0.4% for passenger-only ferry)
- ▶ Zoo and aquarium Up to 0.1%

State Shared Tax Revenues

There are several purposes set out in statute for which Washington will share state sales tax revenues with local jurisdictions. This is done by distributions to local governments of a portion of the state sales tax rate.

Examples:

- ▶ Hospital benefit zone
- ▶ Local infrastructure financing tools
- ▶ Public facility districts
- ▶ Rural counties
- ▶ Lodging

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Local Real Estate Excise Tax

There are two portions of the Local Real Estate Excise Tax (REET)

- ▶ Each portion is 0.25% for a total of 0.5% for local jurisdictions under the local REET.
- ▶ For counties and cities of a certain size, some portions of the Local REET are not available unless the city plans under the Growth Management Act (GMA)
- ▶ Plans under the GMA are also referred to as Comprehensive Plans

REET 1

0.25% for capital projects and limited maintenance of those projects

- ▶ For cities over 5,000 that are fully planning under GMA—project must fall under definition of capital projects under RCW 82.46.010(6)
- ▶ For cities under 5,000—projects can be for any capital purpose.
- ▶ For maintenance, city/town may use between \$100,000 and \$1,000,000 (if 25% of REET funds > \$100,000)

REET 2

0.25% for capital projects and limited maintenance of those projects

- ▶ Limited to cities that are fully planning under the GMA
- ▶ If they are required to plan under GMA, cities can impose REET 2 without voter approval, otherwise voters must approve imposition
- ▶ Projects authorized under REET 2 restricted to infrastructure and park projects not public facilities.
- ▶ For maintenance, city/town may use between \$100,000 and \$1,000,000 (if 25% of REET funds > \$100,000)
- ▶ May be used for maintenance of REET 1 projects under certain circumstances

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Local B&O Tax

47 cities in Washington levy a Local B&O Tax

- ▶ Rates range between 0.045% (Algona) and 0.5% (Westport)
 - ▶ Manufacturing and wholesaling rates are the lowest on average, then retail and service rates are on average the highest.
- ▶ However, the maximum rate, unless voted- or grandfathered-in, is 0.2%

Counties may not levy a Local B&O Tax

1. Association of Washington Cities, Resources, B&O Taxes.
2. (<https://wacities.org/docs/default-source/resources/bando-taxes/botaxrates.pdf?sfvrsn=12>)

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