



STATE OF WASHINGTON  
**DEPARTMENT OF REVENUE**  
OFFICE OF THE DIRECTOR

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November 4, 2020

**TO:**           The Honorable Christine Rolfes, Chair    The Honorable Gael Tarleton, Chair  
                  The Honorable John Braun            The Honorable Ed Orcutt  
                  Ways & Means Committee            Finance Committee  
                  Washington State Senate            Washington State House of Representatives

                  The Honorable Patty Kuderer, Chair    The Honorable Cindy Ryu, Chair  
                  The Honorable Hans Zeiger            The Honorable Bill Jenkin  
                  Housing Stability & Affordability        Housing, Community Development &  
                  Committee                                Veterans Committee  
                  Washington State Senate            Washington State House of Representatives

                  Keith Phillips, Policy Director  
                  Office of the Governor

**FROM:**       Vikki Smith, Director *Vikki Smith*  
                  Washington State Department of Revenue

**SUBJECT:** Improvements to Single Family Dwellings Property Tax Exemption Report

The Department of Revenue is submitting this report to the Legislature as required by [Section 4, Chapter 204, Laws of 2020](#). The legislation directed the Department to work with the county assessors to evaluate the three-year property tax exemption for home improvements provided in [RCW 84.36.400](#) to determine the exemption's effectiveness in encouraging homeowners to upgrade their residences, while avoiding potentially large increases in assessed value. The report includes an analysis of the following:

- Participation by county
- Location of participating properties – urban vs. rural
- Value of exempt improvements
- County assessor feedback

If you have any questions or need the report in an alternate format, please contact Michael Bailey, Legislative and External Affairs Liaison, Executive Division, at (360) 534-1545 or MichaelBa@dor.wa.gov.

Attachment

cc: Brad Hendrickson, Secretary, Washington State Senate  
Bernard Dean, Chief Clerk, Washington State House of Representatives  
Members, Senate Ways & Means Committee  
Members, House Finance Committee  
Members, Senate Housing Stability & Affordability Committee  
Members, House Housing, Community Development & Veterans Committee  
David Schumacher, Director, Office of Financial Management  
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Roselyn Marcus, Assistant Director, Office of Financial Management  
Ramona Nabors, Budget Assistant, Office of Financial Management  
Rachel Knutson, Budget Assistant, Office of Financial Management

# Improvements to Single- Family Dwellings Exemption Review

*Review prepared as directed by Second Substitute Senate Bill 6231  
November 4, 2020*

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## Introduction

During the 2020 Legislative Session, the Legislature enacted [Second Substitute Senate Bill 6231](#) (2SSB 6231) to expand and study the property tax exemption for physical improvements to single-family dwellings, codified in [RCW 84.36.400](#). Section four of 2SSB 6231 required the Department of Revenue (Department) to work with county assessors to review and evaluate the three-year property tax exemption for home improvements to determine its effectiveness in encouraging homeowners to upgrade their residences, while avoiding potentially large increases in assessed value.

This report includes analysis of the following:

- Participation by county
- Location of participating properties—urban or rural
- Value of exempt improvements
- County assessor feedback

## The Exemption

The property tax exemption for improvements to single-family dwellings is available for any physical improvement to single-family dwellings upon real property, including constructing an accessory dwelling unit. Improvements are exempt from property tax for three assessment years after the improvements are completed. The amount of the exemption is the lesser of the difference between the true and fair value of the dwelling before and after the physical improvement, or 30% of the true and fair value of the dwelling before to the improvements.

The following requirements must be met before the exemption can be granted:

- The taxpayer must file a claim for the exemption with the county assessor before the improvements are completed.
- The taxpayer may not claim this exemption more than once in a five-year period on the same dwelling.
- When the improvements are completed, the taxpayer must submit a written notice of completion to the assessor.

For example, in 2020, Taxpayer A completed the addition of a family room and the renovation of the kitchen. These improvements cost the taxpayer \$60,000.

True and fair value of dwelling before improvements	\$150,000.00
True and fair value of improved dwelling	\$200,000.00
Difference (value of physical improvements)	\$50,000.00
30% of true and fair value of dwelling before improvements	\$45,000.00
Amount of exemption	\$45,000.00

## Data Limitations

The Department worked with county assessors to collect data for this review, but the data is limited. The Computer Assisted Mass Appraisal (CAMA) systems used by county assessors do not typically track data in a way that is beneficial for this report. For instance, the Department wanted to compare the number of improved residences per county that would have qualified for the exemption to the number of properties that actually applied for exemption. Unfortunately, the CAMA systems track new construction of all types and do not distinguish between complete new construction and new construction consisting of residential upgrades/remodels. However, while the quantitative data from the CAMA systems was not very useful, the qualitative data gathered from the county assessors was useful in the Department’s analysis.

## Participation by County

There are 39 counties in Washington State, but only about a third of the counties have participants receiving the exemption in any given year.

Year	2018	2019	2020
Number of Counties	12	13	11

The table below provides data for the last three years on the number of participants for each county with properties receiving the exemption.

2018		2019		2020	
County	Participants	County	Participants	County	Participants
Asotin	169	Clallam	5	Grays Harbor	6
Clark	11	Clark	14	Island	6
Columbia	1	Grays Harbor	2	King	536
Grays Harbor	1	Jefferson	1	Mason	5
King	874	King	1202	Okanogan	3
Kitsap	17	Kitsap	20	Pacific	2
Mason	2	Mason	2	Pierce	106
Pacific	1	Okanogan	2	San Juan	1
Pierce	25	Pacific	1	Skagit	31
Snohomish	9	Pierce	9	Snohomish	42
Thurston	11	Snohomish	12	Thurston	35
Whatcom	1	Thurston	9		
		Whatcom	2		

## Location of Properties—Urban or Rural

In 2020, 75% of all properties receiving this exemption across the state were located in an urban setting. However, when King County is excluded from the data, only 36% of all properties receiving this exemption in 2020 were located in an urban setting.

<b>2020</b>	<b>Rural</b>	<b>Urban</b>	<b>Percent Rural</b>	<b>Percent Urban</b>
With King County	191	582	25%	75%
Without King County	151	86	64%	36%

## Value of Exemption

The average value of this exemption statewide over the past three years is \$64,000,000 annually, or \$60,000 per exempt property. The table below displays 2020 data by county.

<b>County</b>	<b>Value of Exemption</b>	<b>Average Exempt Value</b>
Grays Harbor	\$ 197,156.00	\$ 32,859.33
Island	\$ 287,179.00	\$ 47,863.17
King	\$ 34,436,100.00	\$ 64,246.46
Mason	\$ 179,149.00	\$ 35,829.80
Okanogan	\$ 144,200.00	\$ 48,066.67
Pacific	\$ 19,700.00	\$ 9,850.00
Pierce	\$ 4,241,100.00	\$ 40,010.38
San Juan	\$ 27,927.00	\$ 27,927.00
Skagit	\$ 1,859,885.00	\$ 59,996.29
Snohomish	\$ 1,885,800.00	\$ 44,900.00
Thurston	\$ 1,200,210.00	\$ 34,291.71
<b>Total</b>	<b>\$ 44,478,406.00</b>	<b>\$ 57,539.98</b>

## County Assessor Feedback

During the data collection process, county assessors responded to the following question: Why don't more homeowners take advantage of this exemption?

Three themes emerged from the assessors' responses:

1. The relatively small tax benefit for homeowners is outweighed by the time and effort required to apply for the exemption and notify the assessor when the improvements are completed.
2. Most taxpayers are unaware that they must submit an application for the exemption before the completion of construction, and they do not plan accordingly.
3. Property owners are wary of the exemption and the potential for additional scrutiny of their property by county assessors.

## Findings

The purpose of this report was to determine the effectiveness of the property tax exemption for improvements to single-family dwellings in encouraging homeowners to upgrade their residences, while avoiding the sudden and potentially large increases in assessed value and property tax that can otherwise occur.

While those participating in the program do receive a property tax savings, based on the limited available data and feedback from county assessors, it appears that this exemption is not effective in encouraging homeowners to make improvements to their residences.

The following factors contributed to the Department's conclusion:

- The number of participants was relatively low. Over the last three years, only about 1,062 taxpayers, on average, in about one-third of the counties, received this exemption.
- When making significant home improvements, taxpayers focus their limited time and energy on project planning and in working with lenders and contractors, and they are often unwilling to work with yet another entity (the county assessor's office) to apply for this exemption.