

# Tax Structure Work Group

## Primary Residence Property Tax Exemption and Renter's Credit

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**Current Law** Under current law, Washington does not have a Primary Residence Property Tax Exemption (PRPTE), or traditional homestead exemption, administered in conjunction with the existing property tax system nor a corresponding property tax refund for renters (renter credit) for the portion of rent attributed to property taxes.

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**Proposal** This proposal creates a Department of Revenue (Department) administered PRPTE and renter's credit. Both refunds equal property taxes paid to the state school levies, up to the first \$250,000 of assessed value, beginning with property taxes levied for collection in 2027.

The PRIMARY RESIDENCE PROPERTY TAX EXEMPTION (PRPTE):

- Is only for property taxes paid on a residential property occupied by the owner as the principal place of residence, occupied for at least 183 days in a calendar year.
- Is a refund equivalent to the state school levies only and does not apply to locally levied property taxes.
- Cannot exceed the tax assessed on the taxable value of a parcel.
- Must be equalized by the prior year's combined indicated ratio for the county where the parcel is located.
- Is limited to one residential property tax parcel statewide per claimant.
- Applies to parcels with two or less dwelling units that include:
  - Residential units in a multiunit residential dwelling where each unit is owned and taxed separately.
  - Manufactured homes and floating homes.
  - Housing cooperatives and manufactured home park cooperatives.
  - Life estates under certain criteria.
- Is in addition to the senior citizens and people with disabilities property tax exemptions.
- May only be refunded when taxes are paid in full for the year a claim is filed.

The proposal provides a framework for claimants to file an application for a PRPTE that:

- Requires claimants to annually file an application with the Department by December 31 for the year claimed.
  - Requires the claimant to attest to only claiming the refund on one residence per year.
  - Provides for claimants to file late applications for up to 12 months after the deadline.
  - Provides an appeal process for claimants denied a refund.
  - Provides a mechanism for the Department to impose penalties if a claimant fraudulently receives a refund.
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The proposal requires the Department to:

- Develop and maintain a centralized computer system to facilitate the transfer of the necessary data and information electronically from county assessors and treasurers to the Department, subject to appropriated funds.
- Annually adjust the amount of the PRPTE by the percentage change in the state levy.
- Require the information necessary to verify and validate the claimant's principal place of residence.
- Adopt administrative rules.

The proposal requires an amendment to the state Constitution and voter approval of the amendment in November 2023. The proposal can then take effect January 1, 2024, with refunds beginning with property taxes levied for collection in calendar year 2027.

The new tax preference performance provisions do not apply to this proposal.

### RENTER'S CREDIT:

This proposal also creates a Department administered renter's credit in the form of a refund, subject to funds appropriated for this specific purpose, beginning in 2027 for rent paid by a claimant in 2026. The refund amount is based on a percentage of the rent paid that approximates the amount of state property taxes due up to the first \$250,000 of assessed value.

The renter's credit:

- Defines "rent constituting property taxes" as 2% of the gross rent paid.
- Defines "gross rent" as the amount of rent paid by a claimant in cash or its equivalent for the right of occupancy of a residence, that includes:
  - A single-family dwelling unit.
  - A unit in a multiunit residential dwelling where each unit rents separately.
  - Accessory dwelling units.
  - A manufactured home or floating home.
  - Manufactured home park lots.
- Is limited to one credit per claimant, including an individual or individuals who reside in the same household, statewide and may not be combined with a PRPTE, except for a single-family dwelling unit located on leased land for which the combined renter's credit for the land and the owner's PRPTE credit may not exceed the maximum PRPTE allowed.
- Requires the claimant to be a Washington resident for at least 183 days in a calendar year.
- Cannot exceed the amount otherwise provided in the PRPTE.
- Requires any refund for gross rent paid by a claimant must be on property subject to property tax for the year claimed.

The proposal provides for claimants to file an application for a renter's credit that:

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- Requires claimants to annually file an application with the Department by December 31.
- Requires a claimant to provide:
  - Attestation of gross rent paid for the prior year.
  - Proof of rent for the year prior, as evidenced by a lease agreement signed by both the landlord and tenant.
  - Other documentation as required by the Department.
- Provides for claimants to file late applications for up to 12 months after the deadline.
- Provides an appeal process for claimants denied a refund.
- Provides a mechanism for the Department to impose penalties if a claimant fraudulently receives a refund.

The proposal requires the Department to:

- Develop and maintain a centralized computer system for the filing and processing of applications and issuing refund payments, subject to appropriated funds.
- Annually adjust the maximum renter's credit to be equivalent to the maximum PRPTE credit.
- Require information necessary to verify and validate the claimant’s gross rent.
- Adopt administrative rules.

The proposal requires an amendment to the state Constitution and the voter approval of the amendment in November 2023. The proposal can then take effect January 1, 2024, with refunds beginning in 2027, for rent paid in calendar year 2026.

The new tax preference performance provisions do not apply to this proposal.

**Effective Date** This bill takes effect beginning January 1, 2024, with the first applications received after January 1, 2027.

**Revenue Estimate** The table below shows the fund(s) impacted and the source of the revenues for the PRIMARY RESIDENCE PROPERTY TAX EXEMPTION proposal:

Fund - Source	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF-State - NEW	0	0	0	0	(665,000,000)	(728,000,000)
<b>Fiscal Year Total</b>	0	0	0	0	(665,000,000)	(728,000,000)
<b>Biennial Total</b>	0		0		(1,393,000,000)	

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### Revenue

#### Assumptions

- The PRPTE applies to both part one and part two of the state levy.
  - The PRPTE does not apply to local levies.
  - The Department estimates 75% of potential claimants will participate in the PRPTE and renter's credit programs the first year, 80% in year two, 85% in year three, and 90% in year four and thereafter.
  - For purposes of this estimate, the Department assumes the majority of the applications will be received within the first six months of the year.
  - The PRPTE amount is adjusted by each county's combined indicated ratio for the prior year to provide a uniform exemption statewide.
  - Voters approve the constitutional amendment in November 2023.
  - Needed infrastructure and personnel are in place to administer this proposal by January 2027.
  - The 2027 maximum PRPTE or renter's credit refund is approximately \$475.
  - The Department issues refunds after July 1, 2027.
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### Data Sources

- Department of Revenue, State Property Tax Levy Model
  - Economic and Revenue Forecast Council, September 2022 forecast
  - Department of Revenue, State Levy Calculations for Property Taxes Due for 2022
  - County assessor data
  - Census Bureau, American Community Survey 2016-2020 5-year dataset
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### Local Government Impact

None.

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### Expenditure Assumptions

- The Department will administer the PRPTE and the renter's credit. The exemption will be handled as a reduction to revenues; however, the renter's credit will be treated as an expenditure and will require an appropriation to fund the credit.
  - This proposal affects approximately 3,000,000 taxpayers.
  - Expenditures assume 2,000,000 taxpayers for the primary residence property tax exemption and 1,000,000 for the equivalent renter's credit.
  - Expenditures assume the Department will start accepting applications beginning January 2027, for property taxes paid in 2027 and for rent paid in 2026.
  - The Department will start sending refunds beginning July 2027. This assumes the procurement process for a new system and implementation of that new system will take less than three (3) years.
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**Expenditure  
Estimates**

The estimate of the Department's implementation and administration costs are in process.

Appropriation amounts for the renter's credit to approved claimants:

FY 2028 - \$ 228,000,000

FY 2029 - \$ 259,000,000

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**Rules**

To be determined

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**Note**

Please note that our review, comments and any estimates provided are not intended to reflect a policy position by the Department and are solely to assist you in exploring options under development.

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**Further  
Information**

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