



## How The 1 Percent Property Tax Limit Works

### **Q. What is the 1 percent limit on increases in property taxes?**

It limits increases in taxes by individual taxing districts to 1 percent annually. For example, if a city received \$1 million in property taxes one year, it can only receive \$1.01 million the next year, plus any tax revenues generated by new construction added to the tax rolls in the past year.

### **Q. Does that mean my property taxes cannot rise more than 1 percent a year regardless of how much my assessed value increases?**

No, not necessarily. Individual tax bills are based on a number of factors, including how much your property changes in value relative to other property in a taxing district, and whether voters approve tax increases beyond the 1 percent limit.

### **Q. How is my tax bill calculated?**

Your property tax bill is composed of taxes levied by the state, counties, cities, schools, and several other “junior” taxing districts such as fire districts and hospitals. The annual property tax statement you receive in the mail every February usually provides a breakdown of these levies by district. Each district applies a specific rate, and the rates are added together to determine how much tax you will pay on the taxable value of your property. The statewide average levy rate was \$10.48 per \$1,000 assessed value for taxes due in 2007. Of this, the combined local regular tax rate was \$4.45, the local voter-approved rate was \$3.72, and the state school levy was \$2.31.

### **Q. How does the 1 percent limit affect property taxes on individual homes?**

The 1 percent limit applies to the maximum increase in tax revenue levied by an individual taxing district. It does not apply to individual homes, which tend to increase in assessed valuations at varying rates depending on location and other factors. Taxes on individual homes could increase by more or less than 1 percent depending on how they change in value relative to other properties in a district.

#### **Example:**

*Home A* increases from \$200,000 to \$220,000 in assessed value within a city (a 10 percent increase);

*Home B* increases from \$200,000 to \$240,000 in assessed value (a 20 percent increase);

*Home C* increases from \$200,000 to \$230,000 in assessed value (a 15 percent increase - the average increase in assessed valuations for all properties.)

The city collected \$1,000,000 in property taxes in 2006 at a rate of \$1.00 per \$1,000 assessed value, on a total valuation of \$1 billion. The city can increase its 2007 levy by 1 percent to \$1,010,000 in

2007 (not counting any additional tax revenue from new construction added to the tax rolls in the past year). The total taxable value of properties in the district increased 15 percent from \$1 billion to \$1.15 billion (not counting new construction). In order to keep from collecting more than 1 percent additional tax on existing properties, the city must lower its tax rate to \$0.878261 from \$1.00 per \$1,000 assessed value.

In 2007, each of these three homes paid \$200 in taxes on \$200,000 of assessed value at the \$1.00 rate. In 2008, the tax depends on how their assessed values change compared to other properties in the city.

**Home A** - value increased by 10 percent; taxes drop to \$193.22 on \$220,000 of assessed value at \$0.878261 rate (3.39% decrease);

**Home B** - value increased by 20 percent; taxes rise to \$210.78 on \$240,000 of assessed value at \$0.878261 rate. (5.39% increase);

**Home C** - value increased by 15 percent; taxes rise to \$202.00 on \$230,000 of assessed value at \$0.878261 rate (1% increase).

**Q. How do revaluation cycles affect property taxes?**

About half of Washington’s 39 counties revalue all properties annually, but the rest are revalued on two-, three- or four-year cycles. Counties with annual revaluation cycles adjust the value of all properties simultaneously, so no shifts in property tax burdens can occur due to one property being revalued while another is not.

That isn’t the case in counties with multiple-year cycles. For instance, if a quarter of a county is revalued each year, these property values increase while properties in the remaining three-quarters of the county are unchanged. That means the revalued properties will represent a greater percentage of the total county valuation and will pay a greater percentage of total property taxes, at least for countywide taxes such as county levies or the state school levy. However, if all the revalued properties are within a taxing district (for example a fire or library district), then there is no shift due to one property being revalued while another is not. However, there still could be a shift to the extent one property within that taxing district increases in value more than another in that district.

As the county reassesses other quarters of the county in subsequent years, over time the revaluation shift averages out. The problem with multiple-year revaluations is that property owners can get “sticker shock” when their properties increase substantially in value after no increases in the prior three years.

**Q. How is the school district portion of the property tax affected by the 1 percent limit?**

Most voter-approved measures, including, but not limited to maintenance and operation and bond levies proposed by school districts, are not subject to the 1 percent limit. The limit only affects regular levies, most of which are not subject to voter approval.

**Q. Is the state school levy subject to the 1 percent limit?**

Yes, the state school levy is subject to the 1 percent limit. Growth in this levy, which is dedicated to K-12 funding, was limited to the rate of inflation under Referendum 47, which was in effect from 1997 through 2001, and to 1 percent since 2002 under Initiative 747 (I-747) and reenactment by the

Legislature of the 1 percent limit after the Supreme Court ruled I-747 to be invalid. This limit does not include property taxes from new construction added to the tax rolls. As a result, the state levy has shrunk as a percentage of total property taxes. In 2007, the state school levy comprised 22 percent of property taxes statewide, compared to 26 percent in 1997. Meanwhile, the average statewide levy rate has dropped from \$3.59 per \$1,000 assessed value in 1997 to \$2.31 in 2007.

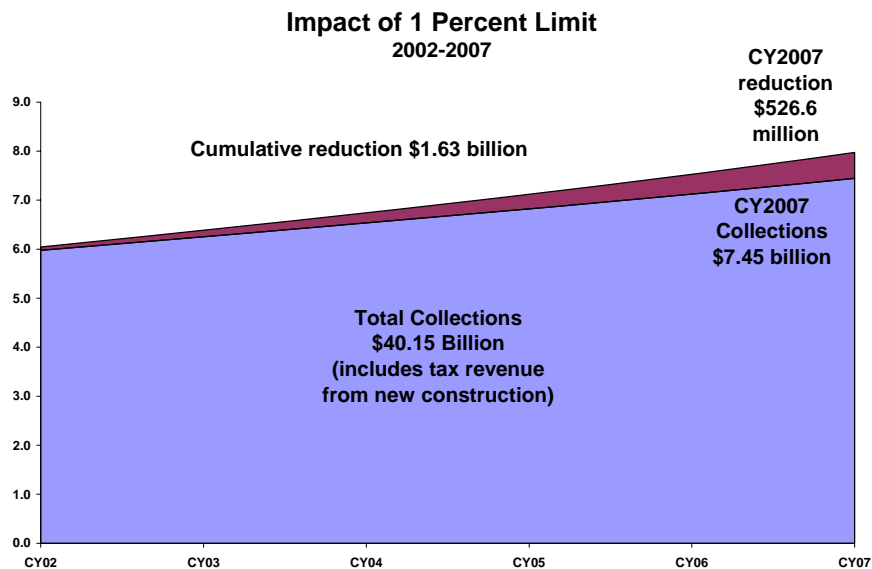
**Q. How do levy lid lifts affect property taxes?**

Local taxing districts can propose that voters “lift” the 1 percent limit on annual levy increases so the district can collect a higher levy rate, up to the maximum rate for that jurisdiction. These districts have certain statutory maximum rates but many of these districts have had to reduce their rates year after year to avoid collecting more than 1 percent additional revenue as property valuations increase. A levy lid lift lets them increase rates up to the statutory maximum rate.

For example, fire districts generally have a maximum rate of \$1.50 per \$1,000 assessed value. Many fire districts have seen their actual rates drop significantly below that maximum rate. In turn, many fire districts have successfully proposed to voters that they be allowed to increase their rates. This results in an increase in property taxes beyond the 1 percent limit. Voter-approval of levy lid lifts by fire districts and other local districts has steadily increased the percentage of voter-approved property taxes, to 38 percent of all property taxes statewide.

**Q. How much has the 1 percent limit saved taxpayers since it took effect in 2002?**

Taxpayers have saved an estimated \$1.6 billion in property taxes since the 1 percent limit imposed by I-747 took effect in 2002. This estimate is based on the assumption that if the limit had not been in effect, taxing districts would have continued to collect the same percentage increase in taxes in 2002 and beyond, that they did in 2001. Property taxes are now about 6.6 percent lower than they otherwise would have been. The chart below depicts the cumulative savings compared to property taxes collected.



**Property tax revenues were \$526.6 million, or 6.6 percent, lower in 2007 than in 2002 due to the cumulative effects of the 1 percent limit.**

**Q. Can taxing districts use “banked capacity” to increase taxes beyond 1 percent?**

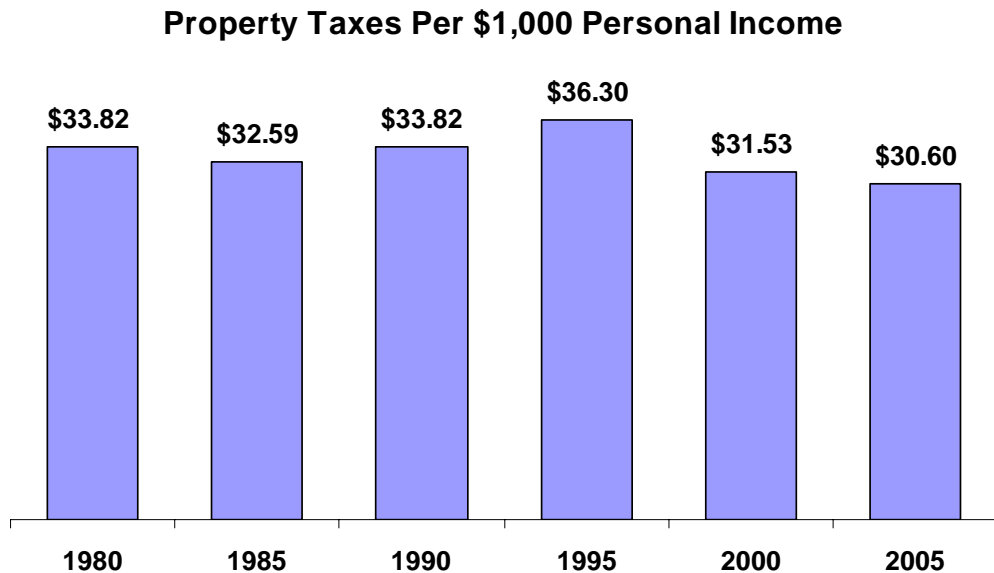
Some taxing districts have levied less than the maximum amount allowed over the years, particularly in the years before the Ref. 47 and I-747 tax limitations took effect. The law allowed these districts to retain the right to use that “banked” capacity at some future date. Many districts have never used that capacity even though they could have done so at any time.

While some districts have the authority to increase taxes beyond the 1 percent limit at some future date, this doesn’t allow them to recoup taxes from past years. The Department estimates that altogether, taxing districts have about \$108 million in banked capacity, meaning if every one of these districts decided to use all their banked capacity, property taxes could increase another \$108 million. This is a relatively small amount, 1.4 percent, compared to \$7.7 billion in collections in 2008. Examples of taxing districts with substantial banked capacity include port districts and some cities such as Bellevue, which has enough assessed valuation that it doesn’t need to collect all the property taxes it could collect. For more information on banked capacity, please see our banked capacity Q&A and spreadsheet at

<http://dor.wa.gov/content/aboutus/newsroom/html/bankedcapacityqna.aspx>.

**Q. How do property taxes stack up against personal income and taxes in other states?**

Property taxes relative to income have varied over the years but over time have kept in line with personal incomes. In 2005, the most recent year for which national comparisons are available, Washingtonians paid \$30.60 in property taxes per \$1,000 of personal income. At that time, Washington ranked 28<sup>th</sup> highest among the states. In 1995, property taxes were \$36.30 per \$1,000 for a ranking of 24<sup>th</sup> highest. In 1985, they were \$32.59 per \$1,000 of personal income, or 24<sup>th</sup>-highest in national ranking. Thus, Washington usually ranks halfway between the highest and lowest states in property taxes relative to income.



Property taxes relative to personal income have remained within a narrow range in the past 25 years.

**Q. How are my property taxes spent?**

This varies by location, but statewide, 54.6 percent of property taxes were used to finance schools in 2007. Counties receive 17.1 percent for general county government and roads, cities receive 13.9 percent, and junior taxing districts such as fire districts, ports and libraries shared 14.4 percent.

**Q. Is there any help available for senior citizens or the disabled?**

Yes. Senior citizens and the disabled on limited incomes are eligible for exemption from paying some property taxes, depending on their income levels. More information is available at <http://dor.wa.gov/content/FindTaxesAndRates/PropertyTax/>.

**Q. What other information is available on property taxes?**

Detailed information on property taxes levied by all taxing districts is available in “[Property Tax Statistics](#),” which the Department publishes annually based on information it receives from counties.