GROWTH MANAGEMENT SERVICES

SHORT GUIDE FOR COUNCILS AND STAKEHOLDERS

What is Tax Shift?

MFTE (Multifamily Housing Tax Exemption) programs can be an effective way of incentivizing market-rate and affordable housing options. To understand how it works stakeholders often ask, "Where does the money come from to pay for the exemption?"

This question can be hard to answer because of how property taxes work in Washington State. When making decisions about an MFTE program, it is important to consider possible tax and revenue impacts.

Generally, these impacts can be distributed in two ways:

- **Foregone tax revenues** that are not collected, which reduce total revenues for a city and other taxing districts (e.g., the port, county, school district, state, etc.).
- A **shift of tax obligations** to all other payers of property taxes in these districts, where there is an increase in taxes collected to offset the losses from the exemption.

How these costs are distributed depends on two things:

- **Levy limits** provided under RCW 84.55.010 mean that property tax levies are restricted to no more than a 1% increase in revenue from the assessed value from the previous year. This restricts how much cities and other districts can raise property taxes on these properties to make up this difference and can mean that deferred taxes will be foregone revenue for these jurisdictions.
- However, **projects that receive MFTEs could still increase that total levy**. Under WAC 458-12-342, county assessors must assess building value during construction and add it to these levy limits, which may not be removed from the total levy amount before the final certificate for exemption is received and the exemption begins.

The amount of tax shift versus deferred revenue depends in part on the practices of the county assessor. However, there are currently no requirements for assessors to consider MFTE in these levy limits. If cities do not consider these effects, an MFTE can shift most or even all of the exempted tax obligations to other properties.

What is MFTE?

MFTE (Multifamily Housing Tax Exemption) programs are property tax waiver programs enacted by cities and counties to support local housing goals.

Under Chapter 84.14 RCW, local governments can give exemptions for new construction, conversion, and rehabilitation of multifamily residential improvements with at least four units.

These exemptions can be provided for different lengths. The eight-year exemption does not require affordable housing, but the 12- and 20-year options have additional requirements to provide on-site affordable units.

Agency contact:

Mary M. Reinbold, AICP
SENIOR PLANNER

Growth Management Services
mary.reinbold@commerce.wa.gov
Phone: 509.638.5449

Washington State Department of Commerce

We strengthen communities

Tax Shift Considerations

If an MFTE is supported through tax shifts, there are some important policy considerations:

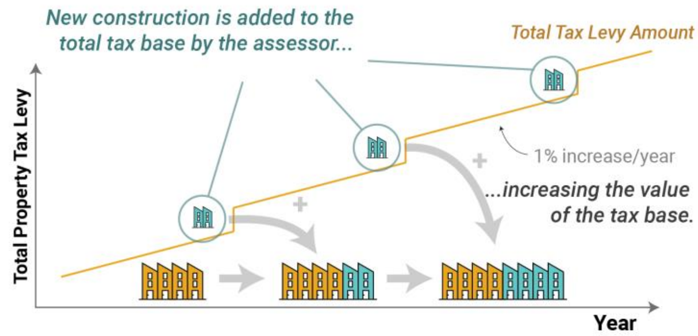
- **Communities may be less likely to support incentives** for market-rate development that use property tax increases, especially for high-end projects that do not seem to provide public benefits.
- **Shifted tax obligations are not usually calculated**, meaning that the full impacts of this program may not be transparent, especially to affected property owners.
- Depending on the popularity of the program, the total increases in property taxes could be **equivalent in magnitude to affordable housing levies** that would require voter approval and have tighter requirements (RCW 84.55.150).

Foregone Revenue Considerations

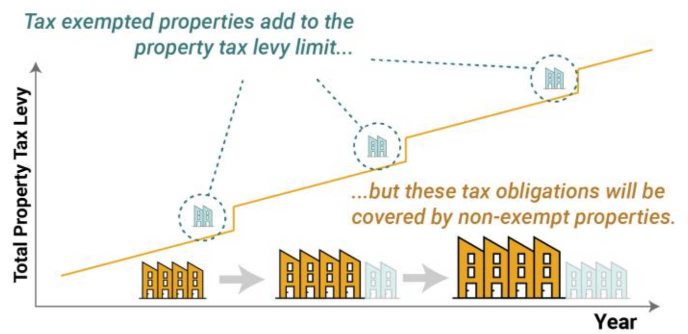
On the other hand, if a city foregoes tax revenue to support MFTEs, there may be other policy concerns:

- **Communities will have reduced long-term tax revenues** from the MFTE program, especially if they will be foregoing most or all of the exempted tax revenue. This can have a significant fiscal impact on local budgets.
- **Other taxing districts may be impacted** by tax exemptions but are not in a position under the statute to object to a community's MFTE program. This can have some significant effects on special districts that cannot make up for this lost revenue in other ways.
- **The total budget impacts may be more unpredictable**, especially without limitations on the number of exemptions issued by the community. However, placing limits on the number and value of exemptions could affect the ability of the MFTE program to meet housing goals.

Under typical situations, total property tax levies will increase by 1% over the previous year (plus new development):



If new construction value is added to the levy limit but exempted from property taxes through the MFTE, property tax obligations will be shifted to the rest of the tax base:



However, if exempted value is taken out of the levy limit in some way, the tax levy amount will decrease. This will reduce tax revenue, but note that this is not usually done by assessors in practice.