



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

December 11, 2012

Motion 13797

Proposed No. 2012-0368.2

Sponsors Ferguson

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A MOTION acknowledging receipt of the King County

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assessor's response to the 2012 Budget Ordinance,

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Ordinance 17232, Section 41, Proviso P1, regarding the

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personal property audit pilot program.

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WHEREAS, the King County assessor created in 2012 a personal property audit

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pilot program to increase compliance and education in business personal property tax

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collection, and

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WHEREAS, the assessor's personal property audit program has produced good

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results in 2012 and generated revenue for King County in excess of the cost of the

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program for 2012, and

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WHEREAS, the assessor's personal property audit program has increased fairness

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in business personal property tax collection through increased compliance, accuracy and

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education;

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NOW, THEREFORE, BE IT MOVED by the Council of King County:

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The council acknowledges receipt of the assessor's response to the 2012 Budget

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Ordinance, Ordinance 17232, Section 41, Proviso P1, attached as Attachment A to this

18 motion and the \$100,000 of the 2012 Assessments budget that was held in reserve is
19 hereby authorized to be released.
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Motion 13797 was introduced on 12/3/2012 and passed by the Metropolitan King County Council on 12/10/2012, by the following vote:

Yes: 8 - Mr. Phillips, Mr. von Reichbauer, Mr. Gossett, Ms. Hague,
Ms. Patterson, Ms. Lambert, Mr. Dunn and Mr. McDermott
No: 0
Excused: 1 - Mr. Ferguson

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON


Larry Gossett, Chair

ATTEST:



Anne Noris, Clerk of the Council

Attachments: A. DOA 2012 Proviso P1 Response



King County

Department of Assessments
King County Administration Bldg.
500 Fourth Avenue, ADM-AS-0740
Seattle, WA 98104-2384

(206) 296-7300 FAX (206) 296-5107
Email: assessor.info@kingcounty.gov
<http://www.kingcounty.gov/assessor/>

Lloyd Hara
Assessor

DEPARTMENT OF ASSESSMENTS

Response to King County Council
Proviso Regarding

Personal Property Audit Program

Due: August 31, 2012

Proviso Language

The purpose of this report is to respond to Proviso P1, Section 41 of the 2012 King County Budget. Proviso P1 states:

Proviso 1 stipulated and directed that of the department's 2012 appropriation, \$100,000 shall not be expended or encumbered until the assessor transmits a report and a motion that acknowledges receipt of the report and references the proviso's ordinance, section and number and the motion is adopted by the council. The report shall include information on identified personal property tax revenues, the personal property tax revenues specifically identified for King County and the effects, of the pilot program on increasing compliance and the equity of personal property tax collections. The assessor must transmit the motion and report required by this proviso by August 31, 2012, in the form of a paper original and an electronic copy with the clerk of the council, who shall retain the original and provide an electronic copy to all councilmembers, the council chief of staff and the lead staff for the government accountability and oversight committee or its successor.

Executive Summary

The King County Department of Assessments (DOA) would like to thank the Metropolitan King County Council for their support of the Personal Property Audit Program. This program has introduced more fairness and equity into property tax collections in King County by adding taxpayers to the tax roll that were not but should have been paying business personal property taxes. This lightens the respective tax load for the rest of the taxpayers in King County and evens the playing field for businesses that have been paying their personal property taxes as required by law. Through August 23, 2012, the DOA personal property audit team identified 1,592 businesses that were NOT paying their personal property taxes and has entered them onto the tax roll. In addition, the audit team identified 121 businesses that were underpaying their personal property taxes and has updated these collections.

Nearly \$62 million of omitted personal property value has been discovered and processed so far. Omitted personal property is considered a back tax and is treated the same as new construction as it relates to the 1% property tax limitation – that means it is NEW property tax revenue for King County and other jurisdictions and is not subject to the 1% limit.

In addition, nearly \$72,000 in tax penalties are being collected from business personal property owners who chose NOT to take part in the amnesty program. Penalties are not considered a tax, and are therefore not subject to the 1 % tax limitation. Penalties, then, are also new revenue for King County.

King County's share of the penalties and omitted personal property value discovered through August 23 is approximately \$185,000, which covers the additional annual costs of the program (\$144,000 for audit appraisers). The Personal Property Program, therefore, is projected to produce net revenue to King County this year.

Detailed Response to Proviso:
Identified Personal Property Tax Revenues (see Table A)

Table A

New Personal Property Value Added (through 8-23-12)*					
Type of Account	Number of Accounts	Omit Value (back taxes)	Current Year Value	Total Value	Penalty value
New Accounts	1,592	\$51,892,914	\$217,413,651	\$269,306,565	\$7,168,876
Existing Accounts with Value Added	121	\$9,906,694	\$4,476,966**	\$14,383,660	\$0
Grand Total	1,713	\$61,799,608	\$221,890,617	\$283,690,225	\$7,168,876

*Additional discovered value currently being processed. There is an approximately six week lag between the time a new business personal property account is discovered and it is entered on to the tax roll. This lag allows time for the property owner and King County to work together to fairly establish the value of the business personal property, and it allows time for Assessor's Office staff to create new accounts and enter the value into the system.

** Represents new, additional, current year value.

Personal Property Tax Revenues Specifically Identified for King County (see Table B)

Table B

Personal Property Tax Revenue for King County (Estimated)			
	New Revenue	Penalty value*	Expansion of Existing Revenue**
	Estimated Omit Value (back taxes)		Estimated Current Year Value
New Accounts	\$51,892,914	\$7,168,876	\$217,413,651
Existing Accounts with Value Added	\$9,906,694	\$0	\$4,476,966
Total	\$61,799,608	\$7,168,876	\$221,890,617
King County Share of Revenue	\$111,239	\$71,688	\$2,000***
King County Total Revenue	\$184,928		
Total revenue for all other taxing districts	\$506,756		

***Revenue from penalties is not shared with other taxing districts -- King County keeps all penalty revenue collected. Penalty revenue from personal property is collected at the same rate as other assessed property value (approximately 1 percent).**

****Current year value is not treated the same as omitted value. Current year value goes into the aggregate property value for all of King County and is usually offset by a lower levy rate the following year for most levies. County levies collecting at the maximum levy rate will see new revenue from an increase in the aggregate property value, however. These levies include: County Road Fund; EMS; Transit.**

*****Estimated**

Effects of Pilot Program on increasing compliance and the equity of personal property tax collections

The two most important factors in determining whether personal property tax collections are equitable are:

- Completeness of listings/reporting
- Accuracy of personal property valuations

The Personal Property Audit Pilot Program is aimed at addressing both of these factors.

Completeness:

Through the Pilot Program, nearly 1,600 properties not previously listed have been discovered and are now being reported on the tax roll. In addition, other business personal property owners and accounting firms are learning about their responsibilities under the law and are coming forward to self-report, including through the Amnesty Program (see Table C below).

Accuracy:

The Personal Property Auditors are reviewing existing accounts to make sure they are accurate and are making adjustments when necessary, including increasing the valuation, decreasing the valuation, or removing the account.

These actions increase the compliance rate and the equity overall. As stated previously, a total of 1,592 businesses that should have been paying personal property taxes have been added through the audit process. In addition, 121 existing businesses were found to have been underpaying their personal property taxes.

As Table D below shows, the discovery rate is very high as it relates to personal property audits. And, as the DOA Personal Property Audit team brings these businesses into compliance, the equity factor for all businesses and taxpayers will continue to increase. The stated goal of the King County Assessor is that each property owner should be paying their fair share -- no more, no less.

Table C

Amnesty Program Statistics	
	Number
Applications Received	208
Applications Approved	101
Total Omit Value	\$19,879,496
Penalty Value Waived	\$1,905,136

Table D

Audit Program Statistics*		
	Number of Audits	New Accounts/ Value Added
New Accounts	2,469	1,592
Existing Accounts	1,428	121
Inactivated Accounts	71	0
Total Audits	3,968	

*Total number of business personal property accounts -- approximately 44,000

Background

The primary purpose of DOA is to value all real and business personal property in King County, and to provide for the maintenance and certification of a fair and equitable county tax roll as mandated by Chapter 84 of the Revised Code of Washington (RCW). This role includes property appraisal, levy rate determination, and creation of a tax roll, established annually for the purpose of administering the property tax system for all real and personal property located within the geographic boundaries of King County.

The Department of Assessments is presided over by the Assessor, a separately elected countywide official, elected to a four-year term by the voters of King County. The County consists of 163 separate taxing districts, including 39 cities, 20 school districts, 28 fire districts, 27 water districts, 14 sewer districts, and 32 other districts including unincorporated King County. The Department's authorized FTE staffing level for 2012 is 212 FTEs.

The Department of Assessments' lines of business, as mandated by state law, include:

- Residential Assessed Valuations – which includes the Department's residential appraisal, appeal response and new construction functions.

- Commercial/Business Assessed Valuations – which includes the Department’s personal property assessment, commercial appraisal, appeal response and new construction functions.
- Accounting – which includes Mapping, GIS, Abstract, Levy Administration, and Accounting Support.

Critical to providing the above mandated functions are:

- Customer Service – which includes public information, education and outreach, exemptions, and appeal processing for all appeals filed by or on behalf of taxpayers.
- Information Services – which is the Department’s Systems Development Group, and includes general IT support, along with programming as needed.
- Administration – which is the Department’s administrative services group, and is necessary to support the above mandated functions, such as budget, finance, purchasing, payroll, human resources, etc.

DOA’s core activities are statutorily mandated. Oversight responsibility for the department is vested with the Washington State Department of Revenue (DOR) by the Washington State Legislature. Both the DOR and the Legislature evaluate the Department’s performance annually.

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