

SPECIAL TAX VALUATION FOR REHABILITATED HISTORIC PROPERTIES

Technical Paper No. 17



King County

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Overview

The Special Valuation Program for rehabilitated historic properties was established by the Washington State Legislature in 1985. The primary benefit of Special Valuation is that during a ten year “special valuation” period, property taxes will not reflect the increased value of the property due to the substantial improvements made to it. Special Valuation is simply a value, for property tax purposes, which is calculated by subtracting qualified rehabilitation costs from the total assessed value of the property after rehabilitation.

For information about the Special Valuation Program in unincorporated King County or in cities with an interlocal agreement with the King County for preservation services, contact King County Historic Preservation, at 206-477-4545.

Eligibility

Historic properties that are located in unincorporated King County and which are designated King County Landmarks, and designated local landmarks in cities with an interlocal agreement with King County are eligible for the Special Valuation program. Designated landmark properties in the City of Seattle may be eligible for special valuation through the Seattle Landmarks Preservation Board and the City of Seattle, Department of Neighborhoods.

In order to qualify for the special valuation program an eligible King County property must have (a) undergone rehabilitation work approved by the King County Landmarks Commission, (b) been completed within the twenty-four month period immediately prior to filing an application, and (c) documentation for qualified rehabilitation costs that are equal in cost to at least twenty-five percent of the assessed value of the subject building prior to rehabilitation.

Rehabilitation Expenditures

Eligible rehabilitation expenditures are based on the IRS definition of “Qualified Rehabilitation Expenditure” (QRE), P.L. 97-34, Sec. 212(e)(2). In general, the term “qualified rehabilitation expenditure” means any amount properly chargeable to a capital account.

Qualified rehabilitation expenditures include:

- 1) direct construction costs;
- 2) architectural and engineering fees;

- 3) construction permits and other code-related expenses;
- 4) development management fees;
- 5) construction loan interest and fee;
- 6) utilities, taxes, and insurance for the construction period; and
- 7) state sales tax.

Qualified rehabilitation expenditures do not include:

- 1) any costs related to acquisition of the property;
- 2) any expenditure attributable to the enlargement of the building;
- 3) any costs of valuation and permanent financing of the property; and
- 4) overhead costs or other “costs of doing business.”

Application Process

The property owner may obtain an application from the King County Department of Assessments by calling (206) 263-2308, or by visiting their site online at www.kingcounty.gov/Assessor/Forms.aspx. This is a simple one-page form that can be fairly easily completed. The property owner files this application form with the Department of Assessments. The last day of the calendar year that an application can be filed with the King County Department of Assessments and then qualify for the special valuation in the subsequent tax year is October 1 of each year.

PLEASE NOTE: Documentation for qualified rehabilitation costs can cover *only* the twenty-four month period immediately prior to the date of filing an application. It is advisable to file an application *as soon as the project is complete* or if the project exceeds beyond 24 months, at a point when the maximum project costs will qualify.

The Department of Assessments will refer the application to the Landmarks Commission within ten days of its receipt. After an application has been referred to the Commission, staff from the Landmarks Program will contact the applicant and request the following information:

- photographs of the exterior and interior of the building prior to and after the rehabilitation work was undertaken;
- a written description of the completed rehabilitation work; and,
- detailed information about the costs incurred, including sufficient documentation to confirm the expenditures. This information can be in the form of receipts, check ledgers, or income tax returns.

The Commission will hold a public meeting in conjunction with a regularly scheduled meeting to review the application. The Commission will provide adequate notice to property owners and place the request for special valuation certification on its agenda no later than 45 days after receipt of the application from the Department of Assessments. An application for special valuation must be approved or denied by the Board before December 31 of the calendar year in which the application is made in order for Special Valuation to become effective the following

year. The applicant and the Department of Assessments will be notified in writing of the approval or denial of the application within ten days of the Commission decision.

Agreement Requirement

Property owners who want to take advantage of special valuation must enter into a written agreement with King County which guarantees they will preserve and maintain significant features of the landmark during the period of special valuation. If the property is sold and the agreement is followed the special valuation continues under the new ownership.

The penalty for violating the agreement or other program requirements is substantial. All back taxes which otherwise have been owed, interest on back taxes, and a penalty equal to 12% of back taxes and interest may be due.

Time Line

Once an application is approved and an agreement is signed, the special valuation goes into effect for the following year and the property taxes reflect that adjustment the subsequent tax year and for a total of ten years.

For example:

- Aug 2010 - Aug 2012: Rehabilitation project undertaken/completed
- September 1, 2012: Owner files application with Department of Assessments
- November 2012: Commission reviews and approves application
- December 2012: Historic Preservation agreement signed
- January 1, 2013: New value goes into effect, reflecting eligible cost reductions
- January 1, 2014: Taxes due reflect new special valuation for 10 years

Meetings

The King County Landmarks Commission meets on the fourth Thursday of each month. Call 206-477-4528 to confirm location and schedule information.