## STAFF REPORT

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| **Agenda Item No:** | 5 | **Name:** | Patrick Hamacher,Erik Sund |
| **Proposed Ordinance No**.: | 2014-0073 | **Date:** | April 1, 2014 |

**SUBJECT:** A MOTION authorizing the manager of treasury operations of King County to cancel the attached list of uncollectible personal property taxes in the amount of $1,408,143.41 for the years 2003 through 2013.

**SUMMARY:**

The Treasury Division annually requests cancellation of outstanding uncollectible personal property taxes after due diligent attempts to collect the taxes have been made. This allows the Treasury Division to remove uncollectible property taxes from the tax rolls, but the County does not relinquish its ability to collect on the debts. The proposed motion would cancel 799 accounts for a total of $1,408,143. The impact to the County would be 18 percent, or $253,466. Of that amount, half, or $126,733, is the projected loss to the General Fund.

**BACKGROUND:**

King County’s Treasury Operations Section is responsible for collecting personal property taxes within the county. Personal property refers to assets used in conducting a business; it includes machinery, equipment, furniture, supplies, and leasehold improvements. Personal property taxes are assessed against businesses, utilities, airlines, timber, leasehold estates, mobile homes, floating homes and lease accounts.

When an account becomes delinquent, Treasury initiates procedures to obtain payment (see Attachment 4). After Treasury performs diligent efforts to collect, state law (RCW 84.56.240 and RCW 84.56.260) requires Treasury to submit a list to the Council of those delinquent tax accounts found to be uncollectible. The county’s Manager of Treasury Operations must also submit an affidavit stating that a diligent search for the delinquent taxpayers was conducted and unable to yield any property from which owed taxes could be collected. The Council may then “cancel such taxes as they are satisfied cannot be collected.” *This procedure is required on an annual basis and the Council considers this type of legislation each year.*

**ANALYSIS:**

This legislation would authorize the Manager of Treasury Operations to cancel 799 uncollectible personal property tax accounts, as shown in Attachment C to Proposed Motion 2014-0073. These accounts total $1,408,143.41 and date from 2003 to 2013, as reported in the Executive's transmittal letter and shown below in Table 1.

**Table 1. Uncollectible Taxes Proposed for Cancellation**

|  |  |
| --- | --- |
| ***Year Billed*** | ***Amount Unpaid*** |
| 2013 |  $ 21,421.70 |
| 2012 |  $ 426,848.95 |
| 2011 |  $ 374,196.28 |
| 2010 |  $ 238,295.54 |
| 2009 |  $ 148,626.26 |
| 2008 |  $ 90,845.92 |
| 2007 |  $ 101,938.61 |
| 2006 |  $ 2,989.62 |
| 2004 |  $ 2,373.52 |
| 2003 |  $ 607.01 |
| ***Total*** | **$ 1,408,143.41** |

The majority of personal property taxes are successfully collected within the first three years of billing. The proposed for write-offs date back as far as 11 years because over time the Treasury section determines that taxes are not collectible for various reasons. Accounts have been included on the write-off list for the following reasons:

* Taxpayer has gone out of business, and the assets cannot be traced.
* Taxpayer does not have real property to which the County can certify a personal property tax lien.
* Taxpayer has filed for bankruptcy protection.
* Taxpayer has disposed of or sold assets, and the County cannot locate the assets.
* Taxpayer relocated the business and property out of state, taking it out of the County’s jurisdiction to pursue delinquent tax payments.
* Corporate Officers with no personal liability of defunct corporate debt.
* Assessments were made in error.

An affidavit from the Manager of Treasury Operations swearing to the County’s diligent effort and ultimate inability to collect these payments has been transmitted to the Council as Attachment A to Proposed Motion 2014-0073.

The proposed motion would authorize the Manager of Treasury Operations to cancel $1,408,143.41 in billings from the tax rolls. The accounts comprising to be canceled are listed in Attachment C, with a summary report shown in Attachment B. The encumbrances would no longer be carried forward. Cancellation would not constitute a forgiveness of these debts. Tax obligations would remain in force, and the County would retain the ability to pursue appropriate legal actions to collect the debt. In reality, once accounts reach this stage of the process and are cancelled then future collection is unlikely. However, cancellation administratively helps to clear the tax rolls of those accounts that are truly unlikely to be collected.

Of the write-off, the County’s one-time potential revenue loss is $253,466, or 18 percent of the total (about half of the County’s loss, or $126,733, is a projected loss to the General Fund). The remaining loss would be incurred by a variety of taxing jurisdictions for which the County collects taxes. The proposed write-off of $1,408,143.41 for 2013 represents a 36% increase over the $1,032.410.41 of property tax written off for 2012, which was in turn 56% larger than the $661,081.35 amount for 2011. According to the Executive’s transmittal letter the increase is primarily due to the exhaustion of collection efforts related to business closures over the past several years. The taxes owed by these businesses were not declared uncollectible until all collection efforts had been exhausted.

**REASONABLENESS:**

Treasury Operations has made diligent collection efforts and, as required by state law, has submitted the annual list of delinquent tax accounts to the Council. Approval of the proposed motion would be a reasonable policy and business decision.

**INVITED:**

Ken Guy, Director, Finance and Business Operations Division (FBOD)

Scott Matheson, Treasury Operations Manager, FBOD

Dwight Dively, Director, Office of Performance, Strategy and Budget

**ATTACHMENTS:**

1. Proposed Motion 2014-0073, with Attachments A. Affidavit; B. Details of Write-offs Over $5,000; and C. Fill Write-off List
2. Transmittal Letter
3. Fiscal Note