HOUSE BILL REPORT
EHB 1322

As Passed House:
March 7 , 1995

Title: An act relating to the property taxation of senior citizens and persons retired because of physical disability.

Brief Description: Affecting the property taxation of senior citizens and persons retired because of physical disabilities.

Sponsors: Representatives Van Luven, G. Fisher, Hatfield, Ballasiotes, Mitchell, Hymes, Johnson, L. Thomas, Campbell, Kremen and Basich.

Brief History:
Committee Activity:
Finance: 2/14/95, 2/22/95 [DP].
Floor Activity:
Passed House: 3/7/95, 86-9.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 10 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Hymes; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Minority Report: Do not pass. Signed by 2 members: Representatives Dickerson, Assistant Ranking Minority Member; and Mason.

Staff: Rick Peterson (786-7150).

Background: Property subject to tax is assessed at its true and fair market value, unless the property qualifies under a special tax relief program.

Some senior citizens and persons retired due to disability are entitled to property tax relief in the form of exemptions and deferrals of taxes on their principal residences. To qualify, a person must be 61 in the year of application or retired from employment because of a physical disability, own his or her principal residence and have a disposable income below specified levels. By administrative practice, the person is required to live in the residence on January 1 of the application year.

There are three levels of exemption relief, based on income.

- If the disposable income of the applicant's household is below $26,000 a year, the residence is exempt from all excess or special levies.
- If the disposable income of the applicant's household is below $18,000 a year, but not less than $15,000, the residence is exempt from all excess or special levies and is exempt from regular levies on the greater of $30,000 or 30 percent of the assessed value, but not exceeding $50,000 of value.
- If the disposable income of the applicant's household is below $15,000 a year, the residence is exempt from all excess or special levies and is exempt from regular levies on the greater of $34,000 or 50 percent of the assessed value.

Eligible persons apply for relief during the calendar year before taxes are due. The applicant must provide evidence of income from the year before the year of application. This requirement results in a 2-year delay between the year for which income is measured and the year in which the exemption is received.

In 1994, EHB 2670 (Chapter 8, Laws of 1994, first special session) was adopted with an effective date contingent upon specific funding for administrative costs provided in the appropriations act. Specific funding was not provided in the appropriations act and EHB 2670 has not been implemented.

EHB 2670 made the following changes to the senior citizens and retired persons property tax relief program:

1. Allowed income from the application year, rather than the year preceding the application, to be used when applying for property tax relief. For example, a person applying in December 1995 uses estimated income for 1995 for tax relief that begins with tax payments due in 1996.

2. Delayed the date by which an applicant for tax relief must occupy the residence to the time of filing for tax relief.

3. Increased the $26,000 annual income threshold for the senior citizen and disabled person property tax exemption to $28,000.

4. Limited the annual change in taxable value of residences in the senior citizen and disabled person property tax relief program to the percentage change used by the federal government in adjusting social security payments.

Summary of Bill: All changes made to the senior citizen and disabled person property tax exemption program by EHB 2670, other than the valuation limit, are made effective July 1, 1995, for taxes payable in 1996.

The valuation limit based on the change in social security payment is replaced with a valuation freeze. The valuation of the residence is frozen at the market value of the residence on the later of January 1, 1995, or January 1 of the year the person first qualified for the program, but the valuation cannot exceed the market value on January 1 of the assessment year. Failure to qualify only for one year because of high income does not change this valuation upon requalification. The valuation does not transfer to a replacement residence. Subsequent improvements to the residence are added at market value.

The Department of Revenue is required to study the effect of the valuation freeze on taxpayers that are not eligible for the freeze, and develop alternative methods that can be used to prevent tax shifts as a result of the freeze. The department is required to report to the Legislature by December 31, 1995.

The new valuation limit applies to taxes payable in 1996, but only if funding is provided in the budget for the administrative costs of the new valuation limit. The administrative costs of the valuation limit under EHB 2670 are calculated to be about $1.0 million. The administrative costs associated with the valuation freeze in this bill are calculated at $701,000.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect July 1, 1995, except sections 4 through 6 of this act shall take effect only if specific funding for the administrative costs of section 4 of this act (valuation freeze), referencing this act by bill number, is provided by June 30, 1995, in the omnibus appropriations act. If such funding is not provided, sections 4 through 6 of this act shall be null and void.

Testimony For: This bill provides predictability and stability to property taxes for seniors. The version approved last year is difficult to explain. The property tax freeze in this bill is easier to explain. This bill will be easier for county assessors to administer than the bill passed last session.

Testimony Against: This bill will cause a tax shift to others who may be less fortunate than seniors. Renters will probably have to make up the difference because landlords will be forced to raise rents. Taxes should not be lowered at the expense of others.

Testified: (Pro) Representative Steve Van Luven, prime sponsor; Ray Ryan, Cowlitz County Assessor; Paul Easter, Grays Harbor Assessor; Carol Belas, Kitsap County Assessor; Ben Cassaway, Clark County Assessor; and (Con) Lloyd Regan, citizen.