Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1578

Brief Description: Modifying property tax provisions relating to the definition of combined disposable income to exclude prescribed ocular devices and hearing instruments for senior citizens, persons retired because of physical disability, or veterans.

Sponsors: Representatives Orcutt, Takko, McDonald, Kretz, Ahern, Morrell, McCune, Green, Appleton, O'Brien and Bailey.

Brief Summary of Bill

- Expands the deduction allowed for Medicare premiums under the senior citizen and disabled person property tax relief programs to cover any type of health insurance premium.
- Allows a deduction under the programs for the costs of prescription eyewear and hearing aids.

Hearing Date: 2/20/07

Staff: Mark Matteson (786-7145).

Background:

All real and personal property in this state is subject to property tax each year based on its value, unless a specific exemption is provided by law. One such program is the senior citizen property tax exemption.

Property Taxes - General Requirements and Limitations. The property tax is the oldest of taxes in Washington and is subject to a number of constitutional and statutory requirements. The State Constitution (Constitution) requires all property taxes to be applied "uniformly;" this has been interpreted to mean that within any given taxing district, the district rate applied to each parcel of taxable property must be the same.

The Constitution limits the sum of property tax rates to a maximum of 1 percent of true and fair value, or $10 per $1,000 of market value. Levies that are subject to the 1 percent rate limitation

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

are known as "regular" levies, and there is no constitutional voting requirement for regular levies. The Constitution does provide a procedure for voter approval for tax rates that exceed the 1 percent limit. These taxes are called "excess" levies. The most common excess levies are maintenance and operation levies for school districts and bond retirement levies. The Constitution provides that excess levies must obtain a 60 percent majority vote plus meet a minimum voter turnout requirement.

In order to implement the 1 percent constitutional rate limit, the Washington Legislature has adopted statutory rate limits for each individual type of district. The state levy rate is limited to $3.60 per $1,000 of assessed value; county general levies are limited to $1.80 per $1,000; county road levies are limited to $2.25 per $1,000; and city levies are limited to $3.375 per $1,000. These districts are known as "senior" districts. Junior districts like fire, library, and hospital districts each have specific rate limits as well.

In addition, there is an overall rate limit of $5.90 per $1,000 for most districts. The state property tax and a specific list of local levies, such as emergency medical services, conservation futures, and affordable housing, are not subject to the $5.90 limit. There is a complex system of prorating the various levies so that the total rate for local levies does not exceed $5.90. If the total rate exceeds $10 after prorationing under the $5.90 aggregate rate limit then another prorationing procedure reduces levy rates so that the total rate is below $10 per $1,000 of value.

In addition to the rate limitations, a district's regular property tax levy is limited by a statutory maximum growth rate in the amount of tax revenue that may be collected from year to year. Generally, the limit requires a reduction of property tax rates as necessary to limit the growth in the total amount of property tax revenue received to the lesser of 1 percent or inflation. The revenue limitation does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing property, to changes in state-assessed valuation, or to construction of certain wind turbines. In areas where property values have grown more rapidly than 1 percent per year the 101 percent revenue limit has caused district tax rates to decline below the maximum rate.

The revenue limit for regular property taxes may be superseded by voter approval; this process is known as a "lid lift." Lid lifts require approval by a majority of the voters in a taxing district, and allow the district to set its levy in an amount that exceeds 101 percent of the previous year's tax, as long as the resulting tax rate is within the statutory rate limit.

Property Taxes -Mechanics. The County Assessor (Assessor) determines assessed value for each property. The Assessor also calculates the tax rate necessary to raise the correct amount of property taxes for each taxing district. The Assessor calculates the rate so that the individual district rate limit, the district revenue limit, and the aggregate rate limits are all satisfied. The tax bill is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located.

Property Taxes - Exemptions in General. The State Constitution gives the Legislature the power to exempt property from taxation, and a number of exemptions have been enacted. Constitutional amendments have also been adopted to provide specific exceptions to the uniformity requirement for the Senior Citizen Tax Relief Program and the "current use" valuation of open space, timber, and agricultural lands. Both of these programs use a valuation less than 100 percent of fair market value.

Property tax exemptions reduce the amount of property over which the property tax levies are spread. Generally, excess property tax levies are approved by voters in terms of the total dollar amount that is to be raised. The tax rate is calculated by dividing this amount by the value of taxable property in the taxing district. Exempting property from paying excess levies means that a higher tax rate is necessary to raise the approved amount of money.

The rates for regular property tax levies are also determined by dividing the amount to be raised by the assessed value of the district. The resulting tax rate calculation is checked against the maximum allowed for the district and reduced if necessary. If a district is at or close to their rate maximum then an exemption would result in less revenue to the district. However, many districts are below the maximum rate due to the 101 percent revenue limit. In these districts an exemption will result in a higher tax rate and no loss in revenue. The lower tax amount for those exempted will be recovered from nonexempt taxpayers through higher tax rates.

Property Taxes - Senior Citizen Tax Relief. Authorized by a constitutional amendment, certain senior citizens and persons retired due to disability are entitled to property tax relief 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 of less than $35,000 a year. Persons meeting these criteria are entitled to partial property tax exemptions and a valuation freeze.

Disposable income is defined as the sum of federally defined adjusted gross income and the following, if not already included: capital gains; deductions for loss; depreciation; pensions and annuities; military pay and benefits; veterans' benefits except attendant-care and medical-aid payments; Social Security and federal railroad retirement benefits; dividends; and interest income on state and municipal bonds. Payments for: the care of either spouse received in the home, in a boarding home, in an adult family home, or in a nursing home; prescription drugs; and Medicare health care insurance premiums are deducted in determining disposable income.
Partial exemptions for senior citizens and persons retired due to disability are provided as follows:

(a) if the income is $30,001 to $35,000, all excess levies are exempted;

(b) if the income level is $25,001 to $30,000, all excess levies and regular levies on the greater of $50,000 or 35 percent of assessed valuation ($70,000 maximum) are exempted; and/or

(c) if the income level is $25,000 or less, all excess levies and regular levies on the greater of $60,000 or 60 percent of assessed valuation are exempted.

In addition to the partial exemptions listed above, the valuation of the residence of an eligible senior citizen or disabled person is frozen at the assessed value of the residence on the later of January 1, 1995, or January 1 of the assessment year a person first qualifies for the program.

In addition to the exemption program, eligible persons of age 60 with incomes less than $40,000 may defer taxes. A person is eligible if he or she qualifies for the exemption program, except for the age and income requirements. Taxes that are deferred become a lien against the property and accrue interest at 5 percent per year. If deferred taxes are not repaid within three years after the claimant ceases to own and live in the residence, the lien will be foreclosed and the residence sold to recover the taxes.

Recent developments to the federal Medicare program. The original Medicare programs are government-run fee-for-service plans for eligible persons 65 and older. Medicare Part A coverage addresses hospital insurance, and Part B coverage addresses non-hospital physician and other outpatient services. Persons choosing the Medicare Parts A and B coverage, in order to address "gaps" in coverage like the cost of deductibles, may purchase what is known as "Medigap" insurance through private insurers.

With the passage of the federal Balanced Budget Act of 1997, enrollees could opt to have coverage that would have otherwise been provided by the federal government under Parts A and B provided instead by private carriers under a managed care structure; this is what is known as Part C. In 2003, Congress enacted the Medicare Prescription Drug, Improvement, and Modernization Act. Among other things, the law provides a new entitlement benefit for prescription drugs (called Part D) and modifies Part C coverage. Under the Part C changes, enrollees may select one of several "Medicare Advantage" plans, structured similarly to health maintenance organization (HMO) coverage. Under these plans, enrollees' premiums pay for more services and reduced out-of-pocket costs, through reduced or waived co-pays, for example, than under Parts A and B. On the other hand, the pool of participating providers is more limited than under a fee-for-service structure, prescription drug formularies are restricted, and greater documentation is necessary to demonstrate medical necessity.

For the purposes of determining eligibility under the Washington senior citizen and disabled person property tax relief programs, Medicare premiums, including those for Medicare Advantage plans, may be deducted from income for the purposes of determining combined disposable income. Other premiums, like those for Medigap coverage, are not deductible.

Summary of Bill:

For the purposes of determining combined disposable income under the senior citizen and disabled person property tax relief programs, the deduction that is allowed for certain health care expenses is expanded to allow the deduction of any type of health insurance premium, prescription eyewear, and prescription hearing aids.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.