Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1629

Brief Description: Increasing the qualifying income thresholds for property tax exemptions for senior citizens, persons retired because of physical disability, and veterans.

Sponsors: Representatives Ahern, O'Brien, Ross, Eddy, McCune, Quall, Haler, Rolfes, Blake, Hinkle, Armstrong, McDonald, Dunn, Kretz, Warnick, Bailey, Strow, Kristiansen, Condotta, Ormsby, Sells, Haigh, VanDeWege and Green.

Brief Summary of Bill

- Increases the income thresholds in order to qualify for the senior citizen and disabled person property tax relief programs.
- Requires the Department of Revenue to adjust annually the eligibility requirements concerning allowable income and valuation by an inflation index.

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 are known as "regular" levies, and there is no constitutional voting requirement for regular levies.

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.

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.

Summary of Bill:

The income thresholds that limit eligibility for the senior citizen and disabled person property tax relief program are increased:

(1) from $35,000 to $40,000, with respect to the income amount below which all excess levies are exempt and for which a person qualifies to have the value of the residence frozen in the year of entry to the program;

(2) from $30,000 to $35,000, with respect to the income amount below which all excess levies are exempt and for which the first $50,000 (or 35 percent, up to a maximum of $70,000) of value is exempt from regular levies;

(3) from $25,000 to $30,000, with respect to the income amount below which all excess levies are exempt and for which the first $60,000 (or 60 percent) of value is exempt from regular levies; and

(4) from $40,000 to $45,000, with respect to the income amount below which a person may defer taxes.

On an annual basis, the Department of Revenue is required to adjust the income threshold and property valuation criteria within the property tax exemption program. Amounts must be adjusted by applying the change in the implicit price deflator to the amounts set in statute.

Appropriation: None.

Fiscal Note: Available.

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