FINAL BILL REPORT
SSB 6178

C 2 L 07 E1
Synopsis as Enacted

Brief Description: Providing a fifty percent property tax deferral for households with income of fifty-seven thousand dollars or less.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kauffman, Haugen, Rasmussen, Franklin, Brown, Eide, Rockefeller, Kline, Kilmer, Prentice, Hargrove, Shin, Berkey, Oemig and McAuliffe; by request of Governor Gregoire).

Senate Committee on Ways & Means

Background: All real and personal property in Washington State is subject to property tax, unless a specific exemption is provided by law. For example, Article 7, section 1 of the State Constitution exempts property of the United States, Washington State, counties, cities, and other local districts. The State Constitution also authorizes the Legislature to exempt other property by general law, with certain restrictions. Property taxes are calculated by multiplying a tax rate by the assessed value of each property. By statute, assessed value must be equal to 100 percent of the fair market value of the property, unless the property qualifies under a special tax relief program. Article 7, section 1 of the State Constitution provides that all taxes must be uniform on the same class of property. This means that taxes must be the same on property of the same value and requires both an equal rate and equality in valuing the property taxed.

Currently, there are two property tax relief programs that are afforded to senior citizens and persons retired due to disability. The first is an exemption program. To qualify, a person must be age 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.

The second is a property tax deferral program. Eligible persons of age 60 and older with incomes less than $40,000 may defer taxes. A person is eligible if that person 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.

Property tax exemptions reduce the amount of property over which property tax levies are spread. Thus, exempting property from paying the property taxes causes a shift in the tax burden from the individual getting the exemption onto all the other taxpayers. There are no shifts for property tax deferrals since the taxes are still owed and are being paid. 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.

Property taxes are due on April 30 each year. However, a homeowner may pay for half of the taxes on April 30 with the remainder due on October 31.

Summary: Beginning in 2008, a homeowner may defer the second half of their real property taxes or special assessments in the year in which the following conditions are met:

- It must have been the principle place of residence as of January 1 of the year the taxes are due.
- The claimant must have a combined disposable income of $57,000 or less in the preceding calendar year.
- The claimant must have owned the residence for five years before the deferral can be taken.
- The claimant must have paid one-half of the total amount of taxes due for the year in which the claim is made.
- The claimant must have fire and casualty insurance in a sufficient amount to protect the interest of the state in the claimants equity value.
- The total amount deferred by a claimant must not exceed 40 percent of the amount of the claimants equity value in the residence.
- The claimant may not defer taxes under this program and under the senior deferral program.

A claimant must file an application to the county assessor no later than September 1 of the year in which the deferral is sought.

The Department of Revenue must pay to the county treasurers the amount of the deferred taxes or assessments to be distributed to the local taxing or improvement districts. The amount of property taxes deferred becomes a lien in favor of the state on the property.

The deferred taxes become payable together with interest at the following times:

- upon the sale of the property;
- upon the death of the claimant except a surviving spouse who is qualified may elect to incur the tax lien;
- upon the condemnation of property by a public or private body exercising eminent domain power; or
- at such time the claimant ceases to reside permanently in the residence.

The interest rate for the deferred taxes is the average federal short-term rate from the previous year plus 2 percentage points.

During calendar year 2011, the Joint Legislative Audit and Review Committee is required to review the program and report to the Legislature by December 1, 2011. The report will look at, among other things, the effectiveness and the costs of the program.

Votes on Final Passage:

<u>First Special Session</u>

Senate	27	21
House	55	39

Effective: November 29, 2007