Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1161

Brief Description: Indexing qualifying income thresholds for senior citizen property tax relief programs.

Sponsors: Representatives Moeller, Bergquist, Pollet and Santos.

Brief Summary of Bill

- Indexes the income thresholds for the senior citizen property tax exemption to inflation in calendar years 2016 and 2017 and to the county median income in calendar year 2018 and thereafter.
- Indexes the income threshold for the senior citizen property tax deferral program to inflation in calendar year 2016 and thereafter.
- Includes a tax preference performance statement.

Hearing Date: 1/23/15

Staff: Richelle Geiger (786-7175).

Background:

Property Tax.

All real and personal property in the state is subject to property tax each year based on its value, unless specific exemption is provided by law. The Washington Constitution (Constitution) requires that taxes be uniform within a class of property. Uniformity requires both an equal rate of tax and equality in valuing the property taxes.

Property Tax - Senior Citizen Tax Relief.

Authorized by a constitutional amendment, qualifying senior citizens, persons retired due to disability and veterans entitled to and receiving compensation from the United States Department of Veterans Affairs at total disability rating for a service-connected disability are entitled to

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property tax relief on their principal residence. To qualify, a person must be 61 years old in the year of the application or retired from employment because of physical disability, own his or her principal residence and have a disposable income of less than $35,000 a year. Persons meeting this criteria are eligible for a partial property tax exemption 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 losses; depreciation; pensions and annuities; military pay and benefits; veterans' benefits except attendant-care and medical-aid payments; Social Security and federal railroad retirement benefits; and 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 disposable 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 of his or her residence are exempted;

(b) if disposable 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

(c) if disposable income is $30,001 to $35,000, all excess levies 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 disposable incomes less than $40,000 may defer property 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 taxes.

<u>Tax Preference Performance Statement</u>.

In 2013 the Legislature passed Engrossed Substitute Senate Bill 5882 (ESSB 5882), which requires all new tax preference legislation to include a tax preference performance statement. New tax preference means a tax preference that initially takes effect after August 1, 2013, or a tax preference in effect as of August 1, 2013, that is expanded or extended after August 1, 2013. Tax preferences include deductions, exemptions, preferential tax rates and tax credits. The performance statement must clearly specify the public policy objective of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference.

ESSB 5882 also establishes an automatic 10-year expiration date for new tax preference if an alternative expiration date is not provided in the new tax preference legislation.

Summary of Bill:

Beginning in calendar year 2016, the income thresholds for the senior citizen and disabled person property tax relief programs are annually adjusted to reflect economic conditions. The Department of Revenue must annually publish updated income thresholds by January 1st of each year. If the annual income threshold adjustment is negative, the income threshold for the current year continues to apply.

Exemption Program.

1. For taxes levied for collection in calendar years 2016 & 2017, all income thresholds are annually adjusted to reflect the change in the consumer price index.
2. For taxes levied for collection in calendar year 2018 and thereafter, the income thresholds are indexed to county median household income and equal the following:
    a. Income threshold 1: The greater of $25,000 or the county's median household income;
    b. Income threshold 2: The greater of $30,000 or 105 percent of the county's median household income; and
    c. Income threshold 3: The greater of $35,000 or 110 percent of the county's median household income.
3. Consumer price index means the consumer price index for all urban consumers (CPI-U), as published by the Bureau of Labor Statistics of the US Department of Labor.
4. County median income means the median household income estimate for the county of the legal address of the eligible residence, as published by the Office of Financial Management.

Deferral Program.
For taxes levied for collection in calendar years 2016 and thereafter, the deferral program income threshold is annually adjusted to reflect the change in the consumer price index.

Tax Preference Performance Statement.

To monitor the efficacy of the bill in achieving the bill's specific public policy objective, JLARC must provide a report to the legislature every five years to, at minimum, evaluate the following:
1. Total number of participants and the total tax relief provided to participants of the tax preferences, by income threshold and by county;
2. Total fiscal impact of the tax preferences to state and local governments and other property owners, by county; and
3. Median household income by county.

This bill is exempt from the expiration date requirement.

Appropriation: None.

Fiscal Note: Requested.

Effective Date: The act applies to the taxes levied for collection in 2016 and thereafter.