Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1427

Brief Description: Concerning property tax relief programs available to senior citizens, persons retired because of physical disability, qualifying veterans and widows or widowers of veterans.

Sponsors: Representatives Stokesbary, S. Hunt, Morris, Kilduff, Bergquist, Fey, Buys, Cody, Caldier, Blake, Jinkins, Ormsby, Moeller, Manweller, McBride, Gregerson, Pollet and Hargrove.

Brief Summary of Bill

- Indexes the income threshold for the senior citizen property tax exemption program, senior citizen property tax deferral program and widows and widowers of veterans property tax assistance program to inflation in calendar year 2016 and thereafter.
- Provides additional excess property tax relief through the senior citizen property tax exemption program.
- 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.

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.

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 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; 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.

Property Tax - Widow and Widower of Veterans Tax Relief.

Qualifying widows or widowers of veterans can receive a grant of state funds to pay a portion of their property taxes. Qualified applicants must be a widow or a widower of a veteran who either: (1) died as a result of a service-connected disability; (2) was entitled to and receiving compensation from the United States Department of Veterans Affairs at total disability rating 10 years prior to death; (3) was a former prisoner of war and entitled to and receiving compensation from the United States Department of Veterans Affairs at total disability rating one year prior to death; or (4) died in active duty or training status. Applicants for the property tax assistance program must be over the age of 62 or unable to work because of disability, have a disposable income of $40,000 or less, own and occupy a primary residence in Washington and not have remarried.

This program supplements the property tax exemption program for senior citizens and disabled persons.

The grant equals the amount of regular and excess property tax levies imposed on the difference between the value of the residence that is eligible under the senior citizen exemption program and the following:

(a) if disposable income is $30,000 or less, the first $100,000 of assessed value;
(b) if disposable income is $30,001 to $35,000, the first $75,000 of assessed value; or
(c) if disposable income is $35,001 to $40,000, the first $50,000 of assessed value.

Repayment of the grant is not required if the applicant continues to live in the residence until at least December 15 in the year a grant is received.

Tax Preference Performance Statement.

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 qualifying income thresholds for the senior citizen and disabled person property tax relief programs and widows and widowers of veterans property tax assistance program are annually adjusted to reflect the change in the consumer price index. The Department of Revenue must annually publish updated income thresholds by January 1 of each year. If the annual income threshold adjustment is negative, the income threshold for the current year continues to apply.

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.

A taxpayer who qualifies for the senior citizen property tax exemption program, except for the income requirement, is exempt from any amount of excess property taxes that exceed the amount their disposable income is greater than income threshold three.

To monitor the efficacy of the bill in achieving the bill's specific public policy objective, the JLARC must provide a report to the Legislature every 10 years to, at minimum, evaluate the following:

1. comparison of the real-dollar of each qualifying income threshold in fiscal year 2015 and in the fiscal year of the evaluation; and
2. number of participants and the total tax relief provided to participants who qualify for the new excess tax relief created in this bill.

This bill is exempt from the expiration date requirement.

Appropriation: None.

Fiscal Note: Requested.

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