
Finance Committee

HB 2535

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, Kilduff, Hargrove, Pollet and Bergquist.

Brief Summary of Bill

- Indexes to inflation the income thresholds for three programs: the senior citizen property tax exemption, senior citizen property tax deferral, and widows and widowers of veterans property tax assistance, beginning in calendar year 2017 and thereafter.

Hearing Date: 1/22/16

Staff: Sarah McLaughlin Emmans (786-7288).

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 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

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residence, and have a disposable income of less than \$40,000 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 Tax Exemption: Partial tax exemptions for senior citizens and persons retired due to disability are provided as follows:

- a. If disposable income level is \$30,000 or less, all excess levies and regular levies on the greater of \$60,000 or 60 percent of assessed valuation of the residence are exempted;
- b. If disposable income level is \$35,000 or less but greater than \$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 \$40,000 or less but greater than \$35,000, all excess levies are exempted.

Valuation Freeze: 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.

Deferral: In addition to the exemption program, eligible persons of age 60 or who are retired due to disability and have disposable incomes less than \$45,000 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.

This program supplements the property tax exemption program for senior citizens and disabled persons. 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. Received compensation from the United States Department of Veterans Affairs at total disability rating ten years prior to death;
3. Was a former prisoner of war 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.

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 \$35,000 or less, but greater than \$30,000, the first \$75,000 of assessed value; or
- c. If disposable income is \$40,000 or less, but greater than \$35,000, 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.

Qualifying Incomes Increased.

In 2015 the Legislature passed Substitute Senate Bill 5186 (SSB 5186), which increased by \$5,000 the qualifying disposable income thresholds for the senior citizen and disabled property tax exemption program (so that the maximum qualifying disposable income is \$40,000). The qualifying income for a person entitled to defer property taxes was also increased by \$5,000, to \$45,000.

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 2017, 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 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.

JLARC is required to measure the effectiveness of the preference by, at a minimum, comparing the real-dollar value of each qualifying income threshold in FY 2016 to the real-dollar value of qualifying income thresholds in future years, and by evaluating the total tax relief provided annually to participants.

The act is not subject to an expiration date.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill applies to the taxes levied for collection in 2017 and thereafter.