BILL ANALYSIS

Finance Committee

HB 2759

Brief Description: Concerning property tax exemptions for service-connected disabled veterans and senior citizens.

Sponsors: Representatives Wylie, S. Hunt, Reykdal, Rossetti, Kilduff and Stanford.

Brief Summary of Bill

- Creates income thresholds for senior citizen and disabled persons who qualify for property tax exemptions or the deferral of property taxes.
- Requires the Department of Revenue to adjust and publish the income thresholds, which are the greater of their levels under current statute or a percentage of county median household income, beginning in calendar year 2019 and every five years thereafter.
- Allows qualifying senior citizens and disabled persons to deduct additional health-related costs from their combined disposable income, for the purposes of calculating eligibility for the exemption.

Hearing Date: 1/26/16

Staff: Sarah 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

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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 $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 combined disposable income.

Partial Tax Exemption: Partial tax exemptions for senior citizens and persons retired due to disability are provided as follows:

1. 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;
2. 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
3. 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.

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:

Qualifying senior citizens and disabled persons (participants) are entitled to partial property tax exemptions on their primary residence if their combined disposable income (CDI) meets the following thresholds:

1. Income threshold 1: If CDI falls at or below the greater of $30,000 or 45 percent of county median household income, the participant is entitled to an exemption from all excess levies and from regular levies on the greater of $60,000 or 60 percent of assessed value;

2. Income threshold 2: If CDI falls at or below the greater of $35,000 or 55 percent of county median household income, but above income threshold 1, the participant is entitled to an exemption from all excess levies and from regular levies on the greater of $50,000 or 35 percent of the assessed value (up to $70,000);

3. Income threshold 3: If CDI falls at or below the greater of $40,000 or 65 percent of county median household income, but above income threshold 2, the participant is entitled to an exemption from all excess levies.

The qualifying income level for deferral of property taxes is also changed to the greater of $45,000 or 75 percent of county median household income.

The Department of Revenue must adjust and publish updated income thresholds by January 1 of each calendar year 2019, and every five years thereafter.

In calculating CDI, taxpayers may deduct the following, in addition to prescription drug costs and treatment costs for in-home nursing care or for nursing home, assisted living facilities, or adult family homes:

a. Health care insurance premiums for all health care coverage, including dental, vision, Medicare, and copayments;
b. Amounts paid for durable medical and mobility enhancing equipment; and
c. Long-term care insurance.

The act is not subject to an expiration date or to JLARC reviews. The act applies to taxes levied for collection in 2019 and thereafter.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

Effective Date: The bill takes effect July 1, 2019, except for the definitions, which take effect July 1, 2017.