HOUSE BILL REPORT
HB 2759

As Reported by House Committee On:
Finance

Title: An act relating to property tax exemptions for service-connected disabled veterans and senior citizens.

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 History:
Committee Activity:
Finance: 1/26/16, 2/5/16 [DPS].

Brief Summary of Substitute Bill

- 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 property tax exemption and deferral.
- Adjusts income levels necessary to qualify for the exemption and deferral based on county median household income, for taxes levied for collection beginning in 2019.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Lytton, Chair; Robinson, Vice Chair; Frame, Pollet, Reykdal, Ryu, Springer, Stokesbary and Wylie.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Assistant Ranking Minority Member; Manweller and Vick.

Minority Report: Without recommendation. Signed by 3 members: Representatives Nealey, Ranking Minority Member; Condotta and Wilcox.

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.

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 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; 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 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 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, 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, 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.

Engrossed Substitute Senate Bill 5882 also establishes an automatic 10-year expiration date for new tax preferences if an alternative expiration date is not provided in the new tax preference legislation.

Summary of Substitute Bill:

The income levels necessary for qualifying senior citizens and disabled persons to participate in the property tax exemption program are adjusted for taxes levied for collection in calendar year 2019 and thereafter. The adjusted incomes will be the greater of their levels under current statute, or a percentage of county median household income. The exemptions themselves remain as under current statute. The adjusted income levels will be as follows:

- income threshold 1: the greater of $30,000 or 45 percent of county median household income;
- income threshold 2: the greater of $35,000 or 55 percent of county median household income; and
- income threshold 3: the greater of $40,000 or 65 percent of county median household income.

The qualifying income level for deferral of property taxes is also changed to be the greater of $45,000 (as under current statute) or 75 percent of county median household income.

The Department of Revenue is required to publish the adjusted threshold levels in 2018 for taxes levied for collection in calendar year 2019, and every five years thereafter.

In calculating combined disposable income, 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.

Substitute Bill Compared to Original Bill:

The timing of both of the changes to current statute, the definition of "combined disposable income" and the redefinition of "qualifying incomes," are aligned to begin for taxes levied in calendar year 2017, compared to two different effective dates as under the original bill. The income thresholds are adjusted in calendar year 2018 (instead of calendar year 2019) by the Department of Revenue, for taxes collected in calendar year 2019 and thereafter, and remain as under current statute for taxes levied for collection in calendar years prior to 2019. The Department of Revenue is authorized to use the latest available year of county median household income that is published by the Office of Financial Management, including preliminary estimated or projected (instead of actual, as in the original bill).

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 8, 2016.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Senior citizens and disabled persons and veterans need relief. It is the Legislature's responsibility to help people age with dignity in their own homes. Indexing to cost of living helps make this program make sense statewide, because there are such great differences geographically in terms of cost of living. This bill allows for regular revisiting of the income levels in the current program. It also expands the allowable deductions in terms of calculating income, which will help taxpayers. Deducting large medical expenses are a critical component to helping people.

(Opposed) Counties are primarily funded by property taxes and get nervous when exemptions are expanded or implemented. Counties need a robust set of revenue tools with which to plan and cannot over-rely on property taxes.

Persons Testifying: (In support) Representative Wylie, prime sponsor; Steven Drew, Washington State Assessor Association; and Monty Cobb, Washington Association of County Assessors.

(Opposed) Josh Weiss, Washington State Association of Counties.

Persons Signed In To Testify But Not Testifying: None.