Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

2SSB 5127

Brief Description: Revising a property tax exemption for veterans with total disability ratings and their surviving spouses or domestic partners.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Angel, Roach and O'Ban).

Brief Summary of Second Substitute Bill

- Provides qualified veterans and their surviving spouses or domestic partners an exemption from all regular and excess levies on the total assessed value of their principal residence.
- Includes a tax preference performance statement.

Hearing Date: 3/24/15

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 (VA) at total disability rating for a service-connected disability (qualified veteran) are entitled to property tax relief on their principal residence. To qualify, a person must

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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.

<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:

A qualified veteran is eligible for an exemption from all regular and excess property tax levies on the total assessed value of their principal residence (full exemption). A qualified veteran is not required to meet disposable income or age requirements to qualify for the full exemption. The surviving spouse or domestic partner of a qualified veteran who was receiving the exemption at the time of their death may retain the full exemption if the surviving spouse or domestic partner is at least 57 years old .

To monitor the efficacy of the bill in achieving the bill's specific public policy objective, JLARC must provide a report to the legislature by December 1, 2020, assessing the impact of the tax preference in reducing homelessness and demand for services in state veterans' homes among veterans with total disability ratings and their surviving spouses or domestic partners.

This bill is exempt from the expiration date requirement.

Appropriation: None.

Fiscal Note: Available.

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