HOUSE BILL REPORT
SSB 5186

As Passed House:
June 28, 2015

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: Senate Committee on Ways & Means (originally sponsored by Senators Benton, Hasegawa, Sheldon and Keiser).

Brief History:
Committee Activity:
None.
Floor Activity:
Passed Senate: 3/11/15, 49-0.
Second Special Session
Floor Activity:
Passed Senate: 6/24/15, 44-0.
Third Special Session
Floor Activity:
Passed Senate: 6/28/15, 44-0.

Brief Summary of Substitute Bill

- Increases senior citizen and disabled persons property tax relief program income thresholds by $5,000, for taxes levied for collection in 2016 and thereafter.
- Includes a tax preference performance statement.

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Background:

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 and Disabled Persons Tax Relief.
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.

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 combined disposable income of less than $35,000 a year. Eligible individuals may qualify for a partial property tax exemption and a valuation freeze.

Combined 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 eligible individuals are provided as follows:
- 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;
- 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
- 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 individual 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 individuals who are 60 years of age or older with disposable incomes less than $40,000 may defer property taxes on up to eighty percent of the value of their equity in the property. The deferral program qualification requirements are the same as those for the exemption program, except for the age and income requirements. Deferred taxes 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.

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.

Engrossed Substitute Senate Bill 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:

<u>Property Tax - Senior Citizen and Disabled Persons Tax Relief</u>.
The qualifying income thresholds for the senior citizens and disabled persons tax relief programs are increased by $5,000 each, for taxes levied for collection in 2016 and thereafter. Partial exemptions for eligible individuals are provided as follows:

- 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 his or her residence are exempted;
- if disposable income level is $30,001 to $35,000, all excess levies and regular levies on the greater of $50,000 or 35 percent of assessed valuation ($70,000 maximum) are exempted; and
- if disposable income is $35,001 to $40,000, all excess levies are exempted.

To qualify for the property tax deferral program, an eligible applicant must have a combined disposable income of $45,000 or less.

<u>Tax Preference Performance Statement</u>.
The tax preference is categorized as one intended to provide tax relief for certain businesses or individuals. The public policy objective is to provide tax relief to senior citizens, disabled persons, and veterans. The tax preference performance statement does not require the JLARC to evaluate the tax preference. The income threshold modifications are exempt from the ten-year tax preference expiration date.

The bill applies to taxes levied for collection in 2016 and thereafter.

Appropriation: None.

Fiscal Note: Available.

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