Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2747

Brief Description: Allowing a deduction for out-of-pocket medical expenses from the calculation of disposable income for senior property tax programs.

Sponsors: Representatives Wylie, Harris, Johnson, Pellicciotti, Pollet, Stonier, Kloba, Chapman, Valdez, Appleton, Muri, Jinkins, Goodman, Gregerson, Doglio, Tharinger and Slatter.

Brief Summary of Bill

- Allows qualifying senior citizens and persons with disabilities to deduct additional health-related costs from their combined disposable income for the purposes of calculating eligibility for a property tax exemption or deferral.

Hearing Date: 1/25/18

Staff: Serena Dolly (786-7150).

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 requires that taxes be uniform within a class of property.

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 disability; own his or her principal residence; and have a combined disposable income of less than $40,000 a year. Eligible individuals may qualify for a partial property tax exemption and a valuation freeze.

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.

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

- If disposable income is $35,001 to $40,000, all excess levies and the additional state levy are exempted.
- If disposable income is $30,001 to $35,000, all excess levies, the additional state levy, and regular levies on the greater of $50,000 or 35 percent of assessed valuation ($70,000 maximum) are exempted.
- If disposable income is $30,000 or less, all excess levies, the additional state levy, and regular levies on the greater of $60,000 or 60 percent of assessed valuation are exempted.

Valuation Freeze: In addition to the partial exemptions listed above, the valuation of the residence of an eligible individual is frozen, for the purpose of calculating property tax liability, at the assessed value of the residence on the later of January 1, 1995, or January 1 of the assessment year in which a person first qualifies for the program.

Deferral: In addition to the exemption program, an eligible person who is at least 60 years old or retired due to disability, with a combined disposable income of 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 eligible person ceases to own and live in the residence, the lien will be foreclosed and the residence sold to recover taxes.

<u>Disposable Income</u>.
For property tax relief programs, 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.

<u>Tax Preference Performance Statement</u>.
All new tax preference legislation must include a tax preference performance statement unless the legislation enacting the new tax preference contains an explicit exemption. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives 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. New tax preferences expire 10 years after the effective date of the tax preference, unless otherwise provided.

Summary of Bill:

In calculating combined disposable income for property tax exemption and deferral programs, 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:

- medical, dental, and vision care expenses, including insurance premiums, deductibles, copayments, and coinsurance;
- amounts paid for durable medical and mobility enhancing equipment; and
- long-term care insurance.

The bill provides an exemption from the JLARC tax preference performance review and from the 10-year expiration date for new tax preferences. The act applies to taxes levied for collection beginning in 2019.

Appropriation: None.

Fiscal Note: Available.

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