SENATE BILL REPORT
EHB 2906

As of February 21, 2018

Title: An act relating to eligibility of a surviving spouse for the property tax exemption for senior citizens and disabled persons.

Brief Description: Concerning eligibility of a surviving spouse for the property tax exemption for senior citizens and disabled persons.

Sponsors: Representatives McDonald, Johnson and Muri.

Brief History: Passed House: 2/14/18, 98-0.
Committee Activity: Ways & Means: 2/24/18.

Brief Summary of Bill

- Allows a senior citizen or person with a disability to claim a property tax exemption if income is reduced in the last two months of a calendar year due to the death of a spouse.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Alia Kennedy (786-7405)

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 State Constitution limits regular property tax levies to a maximum of 1 percent of the property's value ($10 per $1,000 of assessed value). Excess levies are not subject to this constitutional limit and require voter approval. There are statutory rate maximums for individual taxing districts and aggregate rate maximums to keep the total tax rate of regular property taxes within the constitutional limit. All regular levies, except the state levies, are subject to a statutory revenue growth limit. If the taxing authority has a population of 10,000 or more, the revenue growth limit is the lesser of inflation or 1 percent plus the valuation of new construction. If the taxing authority has a population of less than 10,000, the revenue growth limit is 1 percent plus the value of new construction.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. In 2017 the

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Legislature adopted EHB 2242, which created the additional state levy. For taxes levied for collection in calendar years 2018-2021, the combined rate for both state levies is $2.70 per $1,000 of assessed value. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both levies. Participants in the senior citizen, individuals with disabilities, and qualifying veterans property tax exemption program receive a partial exemption from the original state levy and a full exemption from the additional state levy.

Senior Citizen, Individuals with Disabilities, and Veterans 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 at a total disability rating for a service-connected disability are entitled to property tax relief on their principal residence (property tax exemption program). 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.

Combined disposable income is defined as the sum of federally defined adjusted gross income and the following, if not already included: capital gains; amount deducted for losses; depreciation; pensions and annuities; military pay and benefits; veterans' benefits except attendant care, medical aid, disability compensation, and dependency and indemnity compensation; 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 when determining disposable income.

Exemptions for eligible individuals are provided as follows:

- 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 of a person's residence 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, at a $70,000 maximum, are exempted; and
- if disposable income is $35,001 to $40,000, all excess levies and the additional state levy are exempted.

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.

<u>Tax Preferences.</u> State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, deferrals, credits, and preferential tax rates. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided. The

Joint Legislative Audit and Review Committee is responsible for periodic review of tax preferences.

Summary of Bill: Beginning with property taxes levied for collection in 2019, a senior citizen or person with a disability may claim a property tax exemption if income is reduced in the last two months of an assessment year due to the death of a spouse.

The tax preference is exempt from the tax preference review and expiration requirements.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.