SENATE BILL REPORT
SB 6251

As Reported by Senate Committee On:
Ways & Means, February 6, 2018

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: Senators Dhingra, Kuderer, Rolfes, Nelson, Palumbo, Wellman, Mullet, Chase, Keiser, Saldaña and Conway.

Brief History:
Committee Activity: Ways & Means: 1/25/18, 2/06/18 [DPS].

Brief Summary of First Substitute Bill

- Modifies the qualifying income thresholds for the property tax exemption and deferral programs for low-income senior citizens, individuals with disabilities, and veterans, beginning in calendar year 2022.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6251 be substituted therefor, and the substitute bill do pass.
Signed by Senators Rolfes, Chair; Frockt, Vice Chair; Braun, Ranking Member; Bailey, Becker, Billig, Brown, Carlyle, Conway, Darneille, Hasegawa, Hunt, Keiser, Mullet, Palumbo, Pedersen, Ranker, Rivers, Schoesler, Van De Wege, Wagoner and Warnick.

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

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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 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.

Tax Preferences. 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 (First Substitute): The income qualification thresholds for the exemption program are modified beginning January 1, 2022, as follows:

- Income Threshold 1 replaces the $30,000 income threshold—Income Threshold 1 is defined as equal to the greater of Income Threshold 1 for the previous year or 45 percent of the county median household income (CMI);
- Income Threshold 2 replaces the $35,000 income threshold—Income Threshold 2 is defined as equal to the greater of Income Threshold 2 for the previous year or 55 percent of CMI; and
- Income Threshold 3 replaces the $40,000 income threshold—Income Threshold 3 is defined as equal to the greater of Income Threshold 3 for the previous year or 65 percent of CMI.

The income threshold for the deferral program is defined as equal to the greater of the income threshold for the previous year or 75 percent of CMI, replacing the $45,000 income threshold.

CMI is defined as median household income estimates for Washington by county of the legal address of the principal place of residence, as published by the Office of Financial Management (OFM).

The Department of Revenue must publish updated income thresholds every five years beginning January 1, 2021. The adjusted thresholds must be rounded to the nearest dollar. The thresholds must be adjusted to reflect the most recent year available of estimated CMI, including preliminary estimates or projections, as published by the OFM.

The act applies to taxes levied for collection in 2022, and thereafter.

The bill includes language that states the tax preference is exempt from the tax preference performance statement and ten-year expiration date requirements for new tax preferences because the Legislature intends for the preference in this act to be permanent.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Makes the act apply to taxes levied for collection in 2022 and thereafter, rather than 2020 and thereafter.
- Changes the effective date in which the Department of Revenue must publish updated threshold incomes from January 1, 2019, to January 1, 2021.

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.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: This bill provides property tax relief to those who can least afford a property tax increase: senior citizens, persons with disabilities, and veterans. Right now, the senior property tax exemption is based on the same level of income for every county even though the cost of living is not the same in every county. Affordability of housing is a huge problem in some districts. This bill bases eligibility on the median household income of each county. It has been a longstanding request by the county assessors to base the threshold on county median income. The fiscal note indicates a revenue loss because the state is in a rate based tax structure, but if the effective date is moved to taxes levied in 2022, then there would be no loss to state revenue. This bill is part of an array of actions needed to address the housing crisis. Creating an adjustable income threshold is a step in the right direction. The existing program is disproportionately benefiting more wealthy seniors. The best and most affordable option for seniors is to have them remain in their homes and age in place. The bill should include a component that makes eligible persons aware of the program.

Persons Testifying: PRO: Senator Manka Dhingra, Prime Sponsor; John Wilson, King County Assessor; Ted Wicorek, Veterans Legislative Coalition; Monty Cobb, Washington Association of County Officials; Dave Asher, Councilmember, City of Kirkland; Cathleen MacCaul, American Association of Retired Persons.

Persons Signed In To Testify But Not Testifying: No one.