Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

ESSB 5160

Brief Description: Concerning property tax exemptions for service-connected disabled veterans and senior citizens.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Dhingra, Wellman, Palumbo, Keiser, Rolfes, Das, Randall, Wilson, C., Fortunato, Hasegawa, King and Kuderer).

Brief Summary of Engrossed 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 with taxes levied for collection in 2022.

Hearing Date: 3/21/19

Staff: Rachelle Harris (786-7137).

Background:

Property Tax - General.
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) limits regular property tax levies to a maximum of 1 percent of the property's value ($10 per $1,000 of assessed value [AV]). 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.

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 - State Levies.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. Over time the Legislature adopted limitations on the levy, including on the growth of revenue. In 1971, the Legislature adopted the first statutory revenue growth limit for regular levies. In 2007, the Legislature limited the revenue growth rate to the lesser of 1 percent or inflation, plus the value of new construction (revenue growth limit). In 2017, the Legislature adopted Engrossed House Bill 2242, which created the additional state levy.

For taxes levied for collection in calendar years 2020-2021, the combined rate for both state levies is $2.70 per $1,000 AV. 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.

Property Tax - Levy Lid Lift.

Voters may approve regular property tax increases above the revenue growth limit. This voter-approved increase is referred to as a levy lid lift. A levy lid lift may be authorized for a single year or for multiple years, not to exceed six years. A multi-year lid lift must be for a specific purpose, and lid lift funds may not supplant existing funds used for the purpose specified in the lid lift ballot proposition.

Property Tax - Senior Citizens 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 their 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. If the owner is confined to a hospital, nursing home, assisted living facility, or adult family home, the claim for exemption may still be made as long as the residence is temporarily unoccupied, the residence is occupied by a spouse or domestic partner, or the residence is rented out in order to pay for the alternative living arrangement.

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 AV ($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 AV of the principal residence are exempted.

Cities and counties are permitted to exempt participants in the property tax exemption program from any portion of their regular property tax levy attributable to a levy lid lift, with voter approval.

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 AV of the residence on the later of January 1, 1995, or January 1 of the assessment year in which the person first qualifies for the program. To be eligible, the person must have a disposable income of less than $40,000.

Deferral. In addition to the exemption program, individuals who meet the requirements for the senior citizen and individuals with disabilities exemption program, except for the income and age requirements, are permitted to defer their property taxes if their combined disposable income is $45,000 or less and they are 60 years or older. 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.

Combined Disposable Income.
For property tax relief programs, 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; 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 combined disposable income.

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, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Income thresholds for the senior citizen, individuals with disabilities, and veterans property tax exemption are modified. Income ceilings based on a percentage of county median household income are added to each threshold category as follows for tax collection year 2022:
- Income threshold one replaces the $30,000 income threshold. "Income threshold one" is defined as equal to the greater of income threshold one for the previous year or 45 percent of county median household income.

- Income threshold two replaces the $35,000 income threshold. "Income threshold two" is defined as equal to the greater of income threshold two for the previous year or 55 percent of county median household income.
- Income threshold three replaces the $40,000 income threshold. "Income threshold three" is defined as equal to the greater of income threshold three for the previous year or 65 percent of county median household income.

The income threshold for the valuation freeze is modified to be based off of income threshold three (a combined disposable income of up to 65 percent of county median household income). The income threshold for the deferral program is updated to up to 75 percent of county median household income. The property tax deferral program is altered such that heirs and devisees may maintain the deferral, subject to certain conditions. Confinement in the home of a relative for the purposes of long-term care is added to the list of conditions under which the exemption may be maintained.

"County median household income" is defined as the median income estimates for the state of Washington, by county, of the legal address of the principal place of residence, as published by the Office of Financial Management.

The Department of Revenue (DOR) is directed to publish updated income thresholds every five years beginning March 1, 2021. The DOR must authorize an option for electronic filing of applications for the exemption program. The DOR is required to submit a report to the legislature every five years beginning December 1, 2021. The report must include the number of additional properties that qualify for the exemption as the result of the changes in the bill.

The bill contains a TPPS identifying the public policy objective of provide tax relief to senior citizens, disabled persons, and veterans. The bill is exempt from the automatic 10 year tax preference expiration date.

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

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on March 1, 2021.