SENATE BILL REPORT
SB 5160

As of January 17, 2019

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, Wellman, Palumbo, Keiser, Rolfes, Das, Randall, Wilson, C., Fortunato, Hasegawa, King and Kuderer.

Brief History:
Committee Activity: Housing Stability & Affordability: 1/21/19.

Brief Summary of 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 2020.

SENATE COMMITTEE ON HOUSING STABILITY & AFFORDABILITY

Staff: Jeff Olsen (786-7428)

Background: Property Tax. All real and personal property in the state is subject to property tax each year based on its value, unless a specific exemption is provided. 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 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 sixty-one 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.

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: The income qualification thresholds for the exemption program are modified beginning with taxes levied for collection in calendar year 2020, and thereafter, 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 provide an option for electronic filing of applications and renewal applications for the senior citizen, individuals with disabilities, and veterans tax relief program. Beginning July 1, 2019, and by January 1 every fifth year thereafter, the department must publish updated income thresholds. 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.

A claimant may, among other stated exceptions, be confined to the home of a relative for the purpose of long-term care without disqualification to the property tax exemption program.

The term "principal place of residence" is defined to mean a residence occupied for more than nine months each calendar year.

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.

Appropriation: None.

Fiscal Note: Requested on January 15, 2019.

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

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2019.

Staff Summary of Public Testimony: PRO: The changes in the bill help vulnerable populations, including low-income seniors, individuals with disabilities, and disabled veterans, afford to stay in their own homes. With rising housing costs, many seniors and veterans that have lived in their homes for thirty years, find it difficult to stay in their community. The current income thresholds in the bill do not serve the entire state. By tying the thresholds to county median income, it allows for income thresholds to be adjusted to reflect varying incomes and costs across the state, especially in central Puget Sound. Increasingly, seniors are reaching out for assistance with rising tax bills, and property tax relief is needed as soon as possible. The electronic filing requirements may need to be modified or removed.

Persons Testifying: PRO: Senator Manka Dhingra, Prime Sponsor; Joanna Grist, AARP Washington; Jay Arnold, Deputy Mayor, City of Kirkland; Ted Wicorek, Veterans Legislative Coalition (VLC); Dianne Dorey, Lewis County Assessor; Jerry Fugich, VLC; Denise Rodriguez, Washington Homeownership Resource Center.

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