SENATE BILL REPORT
SB 5390

As of January 31, 2019

Title: An act relating to providing property tax relief to preserve home ownership.

Brief Description: Providing property tax relief to preserve home ownership.

Sponsors: Senators Becker, Walsh, Bailey, Short, Holy, O'Ban, Rivers, Fortunato, Hawkins, Warnick, Zeiger, Padden and Wilson, L..

Brief History:
Committee Activity: Ways & Means: 1/31/19.

Brief Summary of Bill

- Expands the property tax relief program for senior citizens and persons retired by reason of disability.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

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 taxes be uniform within a class of property. Uniformity requires both an equal rate of tax and equality in valuing the property taxes. The state property tax was increased in 2017 as part of K-12 school finance reform legislation enacted that year. The state tax rate was increased by approximately $0.94 per $1,000 of assessed value to a total rate of $2.70 per $1,000. Legislation enacted in 2018 lowers the rate by $0.30 for CY 2019.

Property Tax—Senior Citizen 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. To qualify, a person must be sixty-one years old in the year of the application or retired from employment because of physical disability, own their principal residence and have a combined disposable income of less than $40,000 a year. Persons

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meeting this criteria are eligible for a partial property tax exemption and a valuation freeze. Combined disposable income is the income of the household, 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; 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 in determining disposable income.

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

- if the combined disposable income level is $30,000 or less, the property owner is exempt from all excess levies, a portion of the state property tax, and regular levies on the greater of $60,000 or 60 percent of assessed valuation of their residence;
- if the combined disposable income level is $30,001 to $35,000, the property owner is exempt from all excess levies, a portion of the state property tax, and regular levies on the greater of $50,000 or 35 percent of assessed valuation—$70,000 maximum; and
- if the combined disposable income is $35,001 to $40,000, the property owner is exempt from all excess levies and a portion of the state property tax.

In addition to the partial exemptions listed above, the valuation of the residence of an eligible senior citizen or disabled person is frozen at the assessed value of the residence on the later of January 1, 1995, or January 1st of the assessment year a person first qualifies for the program.

In addition to the exemption program, eligible persons of age 60 with disposable incomes 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 claimant ceases to own and live in the residence, the lien will be foreclosed and the residence sold to recover taxes.

<u>Tax Preference Performance Statement and Automatic Expiration.</u> All new tax preference legislation must include a tax preference performance statement. 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 as well as the specific metrics and data used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. New tax preferences expire ten years after the effective date of the tax preference, unless otherwise provided.

Summary of Bill: The property tax relief program for senior citizens and persons retired by reason of disability is expanded to apply to additional individuals.

Senior citizens and other persons retired by reason of disability are entitled to property tax relief on their principal residence if the following requirements are met:

- the person claiming the exemption must be sixty-five years of age or older on December 31st of the year of the exemption application, or retired from regular gainful employment by reason of disability, or a veteran of the Armed Forces of the United States entitled to and receiving compensation from the United States Department of Veterans Affairs at a total disability rating for a service-connected disability;
- the person must have a combined disposable income of $100,000 or less or the residence must have an assessed value below the county median residential assessed value; and
- the person must have been a Washington resident for at least 15 years prior at the time of application if the person would otherwise qualify on the basis of age.

A qualifying person is exempt from the first part of the state property tax levy, for example, the state property tax in effect prior to the increase in the tax rate in 2018, which is approximately $1.76 per $1,000 of assessed value.

A qualifying person also qualifies for a valuation freeze similar to the current senior citizen property tax relief program.

Applications for additional property owners to qualify for property tax relief under the program would not be accepted on or after January 1, 2029. Property owners previously qualifying under the program would continue to receive an exemption as long as they continued to meet the requirements and conditions of the program.

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.