SENATE BILL REPORT
SB 5802

As of January 25, 2022

Title: An act relating to providing additional financial relief for property owners using the senior citizen and disabled persons property tax exemption and deferral programs by increasing the income thresholds and lowering the interest rate for deferred property taxes.

Brief Description: Providing additional financial relief for property owners using the senior citizen and disabled persons property tax exemption and deferral programs by increasing the income thresholds and lowering the interest rate for deferred property taxes.

Sponsors: Senators Fortunato, Holy and Stanford.

Brief History:
Committee Activity: Business, Financial Services & Trade: 1/25/22.

Brief Summary of Bill

- Increases each of the income thresholds for the senior citizen and disabled persons property tax exemption and deferral programs by $30,000.
- Modifies the dates in which income thresholds must be adjusted by county median income and inflation.
- Reduces the interest rate on deferred taxes from five percent to two percent.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

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 a specific exemption is provided by law. The Washington Constitution limits regular property tax levies to a maximum of 1 percent

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of the property's 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.

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 created a second state levy. For taxes levied for collection in calendar years 2018, 2020, and 2021, the combined rate for both state levies is $2.70 per $1,000 of assessed value. For taxes levied for collection in calendar year 2019, the combined rate for both state levies is $2.40 per $1,000 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 and the rate is calculated based on the total levy amount.

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.

Senior Citizens and Disabled Persons Property Tax Exemption. Qualifying senior citizens, persons retired due to disability, and veterans are entitled to partial property tax relief on their principal residence. To qualify, a person must be:

- 61 years old in the year of the application;
- retired from employment because of disability; or
- a veteran of the Armed Forces of the United States receiving compensation from the United States Department of Veterans Affairs at either a combined service-connected valuation rate of 80 percent or higher or a total disability rating for a service-connected disability without regard to evaluation percent.

Qualification is based on income thresholds that vary by county. The qualifying income thresholds for a county is the greater of a base threshold or a percentage of the county median household income, as follows:

- income threshold 1 is $30,000 or 45 percent of the county median household income;
- income threshold 2 is $35,000 or 55 percent of the county median household income; or
- income threshold 3 is $40,000 or 65 percent of the county median household income.

The amount of the reduction in property taxes is based on the applicant's income and county of residence, as follows:

- for the highest income threshold that qualifies, a person is exempt from all excess levies and the second state levy;
- for the middle income threshold that qualifies, a person is exempt from all excess

levies, the second state levy, and all regular property taxes on the greater of $50,000 or 35 percent of assessed value at a $70,000 maximum; or
- for the lowest income threshold that qualifies, a person is exempt from all excess levies, the second state levy, and all regular property taxes on the greater of $60,000 or 60 percent of assessed value.

Property Tax Deferral. In addition to the exemption program, individuals 60 years or older are permitted to defer their property taxes if their combined disposable income is the greater of $45,000 or 75 percent of the county median income. 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.

Adjusting Income Thresholds. The Department of Revenue (DOR) must publish adjusted base income thresholds on a five- year cycle. The adjustment must reflect the most recent year available of estimated county median income provided by the Office of Financial Management. The next adjustment is March 1, 2024.

In addition to county median income adjustments, DOR must also make inflation adjustments using the consumer price index published by the United States Bureau of Labor Statistics. Inflation adjustments begin March 1, 2024, and occur every tenth year thereafter.

Tax Preference Performance Statement. State law provides 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. 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 that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary of Bill: For taxes levied for collection in 2023, income eligibility for the senior citizen and disabled persons property tax exemption by calculating a percentage of the county median house income is suspended. The qualifying income thresholds are as follows:
- threshold 1 means $60,000;
- threshold 2 means $65,000; and
- threshold 3 means $70,000.

Beginning with taxes levied for collection in 2024, the qualifying income thresholds for a county is the greater of the base income threshold or a percentage of the county median household income, as follows:

- income threshold 1 is $60,000 or 45 percent of the county median household income;
- income threshold 2 is $65,000 or 55 percent of the county median household income; or
- income threshold 3 is $70,000 or 65 percent of the county median household income.

The base income threshold for the property tax deferral program is increased to $75,000, rather than $45,000. The interest rate on deferred taxes accrues at two percent per year, rather than five percent per year.

Base thresholds for the property tax exemption and tax deferral programs must be adjusted to reflect the most recent county median income data on March 1, 2022, rather than March 1, 2024. Base thresholds must be adjusted for inflation on March 1, 2027, rather than March 1, 2024.

The act is subject to tax preference performance review or automatic expiration after ten years.

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: PRO: The income threshold is too low. Many people who could benefit from the property tax exemption do not qualify because their combined household income is too high. Mortgage interest rates are lower than the interest that accrues on deferred taxes.

CON: The Legislature already made significant improvements to the tax exemption and deferral programs that impacted counties across the state. New medical expense deductions that kick in this year will increase the amount of eligible applicants. The changes in this bill will be an administrative burden on counties and may delay getting exemptions to persons in need due to a growing backlog of applications. Expanding the program will cause an increase in property taxes for remaining taxpayers.

Persons Testifying: PRO: Senator Phil Fortunato, Prime Sponsor.

CON: John Wilson, King County Assessor; Peter Van Nortwick, Clark County.

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