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HOUSE BILL 1040

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State of Washington

69th Legislature

2025 Regular Session

By Representatives Doglio, Parshley, Ryu, Ramel, Klicker, Richards, Reed, Alvarado, Shavers, Peterson, Paul, Wylie, Fey, Kloba, Lekanoff, Fosse, and Reeves

Prefiled 12/11/24. Read first time 01/13/25. Referred to Committee on Finance.

1 AN ACT Relating to rental income received by people eligible for  
2 certain property tax exemption programs; amending RCW 84.36.383; and  
3 creating new sections.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 84.36.383 and 2024 c 119 s 1 are each amended to  
6 read as follows:

7 As used in RCW 84.36.381 through 84.36.389, unless the context  
8 clearly requires otherwise:

9 (1) "Accessory dwelling unit" means a separate, autonomous  
10 residential dwelling unit that provides complete independent living  
11 facilities for one or more persons and includes permanent provisions  
12 for living, sleeping, eating, cooking, and sanitation.

13 (2) "Combined disposable income" means the disposable income of  
14 the person claiming the exemption, plus the disposable income of his  
15 or her spouse or domestic partner, and the disposable income of each  
16 cotenant occupying the residence for the assessment year, less  
17 amounts paid or, for purposes of (n) of this subsection (2), received  
18 by the person claiming the exemption or his or her spouse or domestic  
19 partner during the assessment year for:

1 (a) Drugs supplied by prescription of a medical practitioner  
2 authorized by the laws of this state or another jurisdiction to issue  
3 prescriptions;

4 (b) The treatment or care of either person received in the home  
5 or in a nursing home, assisted living facility, or adult family home;

6 (c) Health care insurance premiums for medicare under Title XVIII  
7 of the social security act;

8 (d) Costs related to medicare supplemental policies as defined in  
9 Title 42 U.S.C. Sec. 1395ss;

10 (e) Durable medical equipment, mobility enhancing equipment,  
11 medically prescribed oxygen, and prosthetic devices as defined in RCW  
12 82.08.0283;

13 (f) Long-term care insurance as defined in RCW 48.84.020;

14 (g) Cost-sharing amounts as defined in RCW 48.43.005;

15 (h) Nebulizers as defined in RCW 82.08.803;

16 (i) Medicines of mineral, animal, and botanical origin  
17 prescribed, administered, dispensed, or used in the treatment of an  
18 individual by a person licensed under chapter 18.36A RCW;

19 (j) Ostomic items as defined in RCW 82.08.804;

20 (k) Insulin for human use;

21 (l) Kidney dialysis devices; (~~and~~)

22 (m) Disposable devices used to deliver drugs for human use as  
23 defined in RCW 82.08.935; and

24 (n) Rental amounts up to \$6,000 per year received from the  
25 renting of living space in the person's principal place of residence.

26 (i) For the purposes of this subsection (2)(n), "rental amount"  
27 has the same meaning as in RCW 59.18.030.

28 (ii) For the purposes of this subsection (2)(n), amounts received  
29 from short-term rentals, as defined in RCW 64.37.010, are not  
30 included. Any amounts received from a short-term rental must be  
31 reported as income.

32 (3) "Cotenant" means a person who resides with the person  
33 claiming the exemption and who has an ownership interest in the  
34 residence.

35 (4) "County median household income" means the median household  
36 income estimates for the state of Washington by county of the legal  
37 address of the principal place of residence, as published by the  
38 office of financial management.

39 (5) "Department" means the state department of revenue.

1 (6) "Disability" has the same meaning as provided in 42 U.S.C.  
2 Sec. 423(d)(1)(A) as amended prior to January 1, 2005, or such  
3 subsequent date as the department may provide by rule consistent with  
4 the purpose of this section.

5 (7) "Disposable income" means adjusted gross income as defined in  
6 the federal internal revenue code, as amended prior to January 1,  
7 1989, or such subsequent date as the director may provide by rule  
8 consistent with the purpose of this section, plus all of the  
9 following items to the extent they are not included in or have been  
10 deducted from adjusted gross income:

11 (a) Capital gains, other than gain excluded from income under  
12 section 121 of the federal internal revenue code to the extent it is  
13 reinvested in a new principal residence;

14 (b) Amounts deducted for loss;

15 (c) Amounts deducted for depreciation;

16 (d) Pension and annuity receipts;

17 (e) Military pay and benefits other than attendant-care and  
18 medical-aid payments;

19 (f) Veterans benefits, other than:

20 (i) Attendant-care payments;

21 (ii) Medical-aid payments;

22 (iii) Disability compensation, as defined in Title 38, part 3,  
23 section 3.4 of the Code of Federal Regulations, as of January 1,  
24 2008; and

25 (iv) Dependency and indemnity compensation, as defined in Title  
26 38, part 3, section 3.5 of the Code of Federal Regulations, as of  
27 January 1, 2008;

28 (g) Federal social security act and railroad retirement benefits;

29 (h) Dividend receipts; and

30 (i) Interest received on state and municipal bonds.

31 (8) "Income threshold 1" means:

32 (a) For taxes levied for collection in calendar years prior to  
33 2020, a combined disposable income equal to \$30,000;

34 (b) For taxes levied for collection in calendar years 2020  
35 through 2023, a combined disposable income equal to the greater of  
36 "income threshold 1" for the previous year or 45 percent of the  
37 county median household income; and

38 (c) For taxes levied for collection in calendar year 2024 and  
39 thereafter, a combined disposable income equal to the greater of  
40 "income threshold 1" for the previous year or 50 percent of the

1 county median household income, adjusted every three years beginning  
2 August 1, 2023, as provided in RCW 84.36.385(8).

3 (9) "Income threshold 2" means:

4 (a) For taxes levied for collection in calendar years prior to  
5 2020, a combined disposable income equal to \$35,000;

6 (b) For taxes levied for collection in calendar years 2020  
7 through 2023, a combined disposable income equal to the greater of  
8 "income threshold 2" for the previous year or 55 percent of the  
9 county median household income; and

10 (c) For taxes levied for collection in calendar year 2024 and  
11 thereafter, a combined disposable income equal to the greater of  
12 "income threshold 2" for the previous year or 60 percent of the  
13 county median household income, adjusted every three years beginning  
14 August 1, 2023, as provided in RCW 84.36.385(8).

15 (10) "Income threshold 3" means:

16 (a) For taxes levied for collection in calendar years prior to  
17 2020, a combined disposable income equal to \$40,000;

18 (b) For taxes levied for collection in calendar years 2020  
19 through 2023, a combined disposable income equal to the greater of  
20 "income threshold 3" for the previous year or 65 percent of the  
21 county median household income; and

22 (c) For taxes levied for collection in calendar year 2024 and  
23 thereafter, a combined disposable income equal to the greater of  
24 "income threshold 3" for the previous year or 70 percent of the  
25 county median household income, adjusted every three years beginning  
26 August 1, 2023, as provided in RCW 84.36.385(8).

27 (11) "Principal place of residence" means a residence occupied  
28 for more than six months each calendar year by a person claiming an  
29 exemption under RCW 84.36.381.

30 (12) The term "real property" also includes a mobile home which  
31 has substantially lost its identity as a mobile unit by virtue of its  
32 being fixed in location upon land owned or leased by the owner of the  
33 mobile home and placed on a foundation (posts or blocks) with fixed  
34 pipe, connections with sewer, water, or other utilities. A mobile  
35 home located on land leased by the owner of the mobile home is  
36 subject, for tax billing, payment, and collection purposes, only to  
37 the personal property provisions of chapter 84.56 RCW and RCW  
38 84.60.040.

39 (13) The term "residence" means a single-family dwelling unit  
40 whether such unit be separate or part of a multiunit dwelling, may

1 include one accessory dwelling unit and includes the land on which  
2 such dwellings stand not to exceed one acre, except that a residence  
3 includes any additional property up to a total of five acres that  
4 comprises the residential parcel if this larger parcel size is  
5 required under land use regulations. The term also includes a share  
6 ownership in a cooperative housing association, corporation, or  
7 partnership if the person claiming exemption can establish that his  
8 or her share represents the specific unit or portion of such  
9 structure in which he or she resides. The term also includes a  
10 single-family dwelling situated upon lands the fee of which is vested  
11 in the United States or any instrumentality thereof including an  
12 Indian tribe or in the state of Washington, and notwithstanding the  
13 provisions of RCW 84.04.080 and 84.04.090, such a residence is deemed  
14 real property.

15 NEW SECTION. **Sec. 2.** This act applies to taxes levied for  
16 collection in 2027 and thereafter.

17 NEW SECTION. **Sec. 3.** RCW 82.32.805 and 82.32.808 do not apply  
18 to this act. The legislature intends for this tax preference and its  
19 expansion to be permanent.

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