

HOUSE BILL REPORT

SHB 1102

As Passed House:

February 28, 2007

Title: An act relating to property tax exemptions for persons with disabilities related to the performance of military duties.

Brief Description: Modifying property tax exemption provisions for veterans of the armed forces.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Campbell, Green, McCune, Conway, Kirby, Appleton, McCoy, Ormsby, B. Sullivan, Hurst, Linville, O'Brien, P. Sullivan, Sells, Springer, Rolfes, Moeller, Wallace and Morrell).

Brief History:

Committee Activity:

Finance: 1/26/07, 2/14/07 [DPS].

Floor Activity:

Passed House: 2/28/07, 96-0.

Brief Summary of Substitute Bill

- Makes eligible veterans with incomes of \$70,000 or less, if the veteran has a service-connected total disability rating, for the purposes of the senior property tax exemption program.
- Excludes for veterans any compensation for service-connected disabilities and any special monthly compensation payments for the purposes of calculating combined disposable income to determine eligibility under the senior property tax exemption.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Conway, Ericks, Roach and Santos.

Staff: Mark Matteson (786-7145).

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.

Background:

All real and personal property in this state is subject to property tax each year based on its value, unless a specific exemption is provided by law. One such program is the senior citizen property tax exemption.

Property Taxes - General Requirements and Limitations. The property tax is the oldest of taxes in Washington and is subject to a number of constitutional and statutory requirements. The State Constitution (Constitution) requires all property taxes to be applied "uniformly;" this has been interpreted to mean that within any given taxing district, the district rate applied to each parcel of taxable property must be the same.

The Constitution limits the sum of property tax rates to a maximum of 1 percent of true and fair value, or \$10 per \$1,000 of value. Levies that are subject to the 1 percent rate limitation are known as "regular" levies, and there is no constitutional voting requirement for regular levies. The Constitution does provide a procedure for voter approval for tax rates that exceed the 1 percent limit. These taxes are called "excess" levies. The most common excess levies are maintenance and operation levies for school districts and bond retirement levies. The Constitution provides that excess levies must obtain a 60 percent majority vote plus meet a minimum voter turnout requirement.

In order to implement the 1 percent constitutional rate limit, the State Legislature has adopted statutory rate limits for each individual type of district. The state levy rate is limited to \$3.60 per \$1,000 of assessed value; county general levies are limited to \$1.80 per \$1,000; county road levies are limited to \$2.25 per \$1,000; and city levies are limited to \$3.375 per \$1,000. These districts are known as "senior" districts. Junior districts like fire, library, and hospital districts each have specific rate limits as well.

In addition, there is an overall rate limit of \$5.90 per \$1,000 for most districts. The state property tax and a specific list of local levies, such as emergency medical services, conservation futures, and affordable housing, are not subject to the \$5.90 limit. There is a complex system of prorating the various levies so that the total rate for local levies does not exceed \$5.90. If the total rate exceeds \$10 after prorating under the \$5.90 aggregate rate limit then another prorating procedure reduces levy rates so that the total rate is below \$10 per \$1,000 of value.

In addition to the rate limitations, a district's regular property tax levy is limited by a statutory maximum growth rate in the amount of tax revenue that may be collected from year to year. Generally, the limit requires a reduction of property tax rates as necessary to limit the growth in the total amount of property tax revenue received to the lesser of 1 percent or inflation. The revenue limitation does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing property, to changes in state-assessed valuation, or to construction of certain wind turbines. In areas where property values have grown more rapidly than 1 percent per year the 101 percent revenue limit has caused district tax rates to decline below the maximum rate.

The revenue limit for regular property taxes may be superseded by voter approval; this process is known as a "lid lift." Lid lifts require approval by a majority of the voters in a taxing district, and allow the district to set its levy in an amount that exceeds 101 percent of the previous year's tax, as long as the resulting tax rate is within the statutory rate limit.

Property Taxes -Mechanics. The County Assessor (Assessor) determines assessed value for each property. The Assessor also calculates the tax rate necessary to raise the correct amount of property taxes for each taxing district. The Assessor calculates the rate so that the individual district rate limit, the district revenue limit, and the aggregate rate limits are all satisfied. The tax bill is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located.

Property Taxes - Exemptions in General. The State Constitution gives the Legislature the power to exempt property from taxation, and a number of exemptions have been enacted. Constitutional amendments have also been adopted to provide specific exceptions to the uniformity rule for the Senior Citizen Tax Relief Program and the "current use" valuation of open space, timber, and agricultural lands. Both of these programs use a valuation less than 100 percent of fair market value.

Property tax exemptions reduce the amount of property over which the property tax levies are spread. Generally, excess property tax levies are approved by voters in terms of the total dollar amount that is to be raised. The tax rate is calculated by dividing this amount by the value of taxable property in the taxing district. Exempting property from paying excess levies means that a higher tax rate is necessary to raise the approved amount of money.

The rates for regular property tax levies are also determined by dividing the amount to be raised by the assessed value of the district. The resulting tax rate calculation is checked against the maximum allowed for the district and reduced if necessary. If a district is at or close to their rate maximum then an exemption would result in less revenue to the district. However, many districts are below the maximum rate due to the 101 percent revenue limit. In these districts an exemption will result in a higher tax rate and no loss in revenue. The lower tax amount for those exempted will be recovered from nonexempt taxpayers through higher tax rates.

Property Taxes - Senior Citizen Tax Relief. Some senior citizens and persons retired due to disability are entitled to property tax relief on their principal residences. To qualify, a person must be 61 in the year of application or retired from employment because of a physical disability, own his or her principal residence, and have a disposable income of less than \$35,000 a year. Persons meeting these criteria are entitled to partial property tax exemptions and a valuation freeze.

Disposable income is defined as the sum of federally defined adjusted gross income and the following, if not already included: capital gains; deductions for loss; 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. 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 and payments for prescription drugs and payments for 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:

- (a) if the income is \$30,001 to \$35,000, all excess levies are exempted;
- (b) if the income level is \$25,001 to \$30,000, all excess levies and regular levies on the greater of \$50,000 or 35 percent of assessed valuation (\$70,000 maximum) are exempted;
and/or
- (c) if the income level is \$25,000 or less, all excess levies and regular levies on the greater of \$60,000 or 60 percent of assessed valuation are exempted.

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 1 of the assessment year a person first qualifies for the program.

Veterans, Veterans' Benefits, and Eligibility Under the Senior Citizen Property Tax Program. A military veteran that has a service-connected disability is entitled to receive compensatory payments and other benefits from the federal Veterans Benefits Administration (VBA). The amount of compensation is based on a rating of an individual's impairment that is intended to reflect the resulting reduction, on average, in earnings capacity. Veterans' disability ratings range from 0 to 100 percent (the most severe) and are defined in the code of federal regulations. Veterans who are unable to maintain gainful employment and who have ratings of at least 60 percent are considered for the purposes of compensation to have "total disability ratings." Veterans who have disabilities rated 30 percent or higher and who have dependent spouses, children, or parents are paid special allowances because of their dependents.

In addition to compensation related to reduced economic capacity, the VBA also makes special compensation payments. These payments acknowledge, for example, that while a person's economic capacity may not have been substantially reduced, a person's physical integrity may have been compromised, such as through the loss of hearing or reproductive capacity.

In 2005, the Legislature adopted legislation in which language was added to explicitly make eligible those veterans with total disability ratings. The legislative change has no substantive effect, since veterans with total disability ratings are a subset of persons retired from employment because of a physical disability, a category of individuals eligible for the currently configured program since its inception.

Summary of Substitute Bill:

Eligibility requirements are modified in the Senior Citizen Property Tax Exemption Program (Program) with respect to veterans with service-connected total disability ratings. A

qualifying veteran with a combined disposable income of \$70,000 or less is exempt from all excess levies; exempt from regular levies on the greater of \$60,000 or 60 percent of the home value; and qualifies to have the value of the home frozen at the assessed value of the residence on the later of January 1, 1995, or January 1 of the assessment year a person first qualifies for the Program.

For the purposes of calculating combined disposable income, veterans may exclude amounts received as compensation for service-connected disabilities and special monthly compensation payments.

The changes apply to property taxes levied for collection in calendar year 2008 and thereafter.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) We have broken ground on this bill before. There are three aspects of this that are important. The first is the income level. It is important to recognize that much of the benefits that disabled vets get goes toward nondiscretionary care. The second is that when a vet receives a benefit payment that the Internal Revenue Service (IRS) does not consider it taxable, but county assessors do. This should change. The third thing is that the definition of veteran should be tied to the federal Veterans Benefits Administration (VBA) statutes, and not the Social Security statutes. This is the least we could do for those who have served and have been damaged.

This bill addresses a subset of service-connected disabled veterans. The amounts that they are getting from the VBA should be considered like insurance policy payments. A guy gets \$6,000 per month, and most goes to pay for three attendants to care for him round the clock. Another chunk pays for medical care. That doesn't leave a lot for housing costs and food.

Without this legislation, 250 veterans will be taxed out of their own homes. If the Legislature does not act now, it will ultimately have to act later, to build them a nursing home. Let's remember to do the right thing.

I bought a house in 1989 for \$155,000 in Gig Harbor. Homes around me have shot up in value as they have been bought and sold. In 2006, my assessed value was \$402,000. Next year, it's going up to \$530,000. My parents live with me, and my father is also a service-connected disabled veteran. I receive close to \$70,000 in benefits from the VBA. I use \$40,000 of that toward attendant and medical care. The rest goes toward mortgage and property taxes.

My property valuation increased \$56,000 last year. The amount of taxes I owe is \$4,500. Ten years ago, my assessed value was \$174,000. Now it is \$434,000. This is primarily due to other homes being built in the area that are bigger.

I served with the 101st Airborne Division of the United States Army. I now receive home care physical therapy three days a week for three hours a day. The other two days, I go to master physical therapy to keep my strength up. I feel fortunate that the Veterans Administration (VA) takes good care of me. The military retired receive pay of about 2.5 percent of base pay for each year of service put in. The VA disability compensation is meant to address loss of integrity as well as the potential loss of employability. This will help even the playing field.

Freedom is never free.

(Opposed) None.

Persons Testifying:

(In support) Representative Campbell, prime sponsor; Skip Dreps and Patrick Farrell, Paralyzed Veterans of America; and Tony Woods, Veteran's Legislative Coalition.

Persons Signed In To Testify But Not Testifying: None.