

# SENATE BILL REPORT

## 2ESSB 5001

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As Passed Senate, May 23, 1995

**Title:** An act relating to the property taxation of senior citizens and persons retired because of physical disability.

**Brief Description:** Affecting the property taxation of senior citizens and persons retired because of physical disabilities.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Sheldon, Snyder, Haugen, Winsley, Quigley, Franklin, Rasmussen and Prentice).

**Brief History:**

**Committee Activity:** Ways & Means: 1/19/95 [DPS].

Passed Senate, 3/8/95, 40-8.

**First Special Session:** Passed Senate, 5/23/95, 40-6.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5001 be substituted therefor, and the substitute bill do pass.

Signed by Senators Rinehart, Chair; Bauer, Drew, Finkbeiner, Gaspard, Hargrove, Johnson, Long, McDonald, Moyer, Snyder, Strannigan, Sutherland, West, Winsley and Wojahn.

**Staff:** Terry Wilson (786-7715)

**Background:** Some senior citizens and persons retired due to disability are entitled to property tax relief in the form of exemptions and deferrals of taxes 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 below specified levels. By administrative practice, the person is required to live in the residence on January 1 of the application year.

To be eligible for an exemption, the disposable income of the applicant's household must fall below \$26,000 a year. A partial property tax exemption is provided according to the following table:

| <u>Income</u>        | <u>Exemption</u>  |
|----------------------|---|
| \$18,001 to \$26,000 | All excess levies   |
| \$15,001 to \$18,000 | All excess levies<br>Regular levy on greater of \$30,000 or 30% of valuation (\$50,000 valuation maximum) |
| \$15,000 or less     | All excess levies<br>Regular levy on greater of \$34,000 or 50% of valuation                              |

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, Social Security and federal railroad retirement benefits, dividends, and interest income. Payments for the care of either spouse received in the home or in a nursing home care are deducted in determining disposable income.

Eligible persons apply for relief during the calendar year before taxes are due. The applicant must provide evidence of income from the year before the year of application. This requirement results in a two-year delay between the year for which income is measured and the year in which the exemption is received.

In 1994, the Legislature enacted Engrossed House Bill 2670 (1994 1st Sp.S. C 8), but its effective date was contingent upon funding of the administrative costs. The funding was not provided in 1994. Several changes were made to the senior citizen exemption program by EHB 2670:

- o The \$26,000 annual income threshold for eligibility was increased to \$28,000.
- o For seniors and disabled persons with disposable annual incomes of \$28,000 or less, the taxable value of their residences was limited to the lesser of 1) the market value of the residence less the otherwise allowable exemption, or 2) last year's taxable value plus the percentage change used by the federal government in adjusting social security benefits.
- o Income from the application year, rather than the year preceding the application, is used when applying for property tax relief.
- o An applicant for tax relief must occupy the residence at the time of filing for tax relief.

**Summary of Bill:** The following changes are made to the senior citizen and disabled person property tax exemption program effective July 1, 1995, for taxes payable in 1996:

- (1) All changes made to the senior citizen and disabled person property tax exemption program by EHB 2670, other than the valuation limit.
- (2) The valuation limit is simplified. The valuation of the residence is frozen at the market value of the residence on the later of January 1, 1995, or January 1 of the year the person first qualified for the program, but the valuation cannot exceed the market value on January 1 of the assessment year. Failure to qualify only for one year because of high income does

not change this valuation upon requalification. The valuation does not transfer to a replacement residence. Subsequent improvements to the residence are added at market value. Any exemption to which the person is entitled is applied to this valuation.

(3) Payments for prescription drugs are deducted in determining disposable income.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains several effective dates. Please refer to the bill.

**Testimony For:** Governor Lowry had asked the assessors to work with the Department of Revenue in the interim to develop a value limit that worked. This helps seniors who retire on fixed incomes from skyrocketing assessments. The freeze language is simpler to explain, easier to implement, and more cost effective.

**Testimony Against:** We should have a progressive tax system that looks at ability to pay but that is not the case here. The \$28,000 level is too high. These people have no mortgage payment and no children at home to raise. There are many people with families making less than \$28,000 per year who have to pay taxes and will subsidize these seniors as their taxes shift. This also discriminates against renters who can't even afford a house. Seniors can defer the taxes if they can't afford the taxes but they just don't want a lien on their house. The lien is not collectible until the senior dies so there is no real threat of the senior losing the home. This really subsidizes the heirs who will inherit the property.

**Testified:** Senator Sheldon, sponsor (pro); Carol Belas, Kitsap County Assessor (pro); Ray Ryan, Cowlitz County Assessor (pro); Helen Rundquist, citizen (pro); Eugene Lux, citizen (con); Lloyd Ragan, citizen (con); Eugene Levin, People for Fair Taxes (con).