

SENATE BILL REPORT

SB 5001

As Reported By Senate Committee On:
Ways & Means, January 19, 1995

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

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

Sponsors: Senators Sheldon, Snyder, Haugen, Winsley, Quigley, Franklin, Rasmussen and Prentice.

Brief History:

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

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 Regular levy on greater of \$30,000 or 30% of valuation (\$50,000 valuation maximum)
\$15,000 or less	All excess levies Regular levy on greater of \$34,000 or 50% of valuation

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 Substitute Bill: All changes made to the senior citizen and disabled person property tax exemption program by EHB 2670, other than the valuation limit, are made effective July 1, 1995, for taxes payable in 1996.

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.

The new valuation limit applies to taxes payable in 1996, but only if funding is provided in the budget for the administrative costs of the new valuation limit. The administrative costs of the valuation limit under EHB 2670 are calculated to be about \$1.0 million. The administrative costs associated with the simplified limit under the proposal are calculated at \$701,000.

Substitute Bill Compared to Original Bill: The original bill did not address subsequent improvements.

Appropriation: None.

Fiscal Note: Requested on January 11, 1995.

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).