
Finance Committee

HB 2597

Brief Description: Extending the existing state property tax exemption for residences of senior citizens and disabled persons to local regular property taxes.

Sponsors: Representatives Sullivan, Wylie, Slatter, Sawyer, Stanford, Pollet, Kloba, Bergquist, Ormsby, Kilduff and Macri.

Brief Summary of Bill

- Permits cities and counties to provide senior citizens, individuals with disabilities, and veterans with an exemption from any portion of their regular property tax attributable to a levy lid lift, with voter approval.
- Replaces the full exemption of the additional state property tax in the senior citizen, individuals with disabilities, and veterans property tax exemption with a partial exemption.

Hearing Date: 1/23/18

Staff: Richelle Geiger (786-7139).

Background:

Property Tax - General.

All real and personal property in the state is subject to property tax each year based on its value, unless specific exemption is provided by law. The Washington Constitution (Constitution) limits regular property tax levies to a maximum of 1 percent of the property's value (\$10 per \$1,000 of assessed value [AV]). 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. 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

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population of less than 10,000, the revenue growth limit is 1 percent plus the value of new construction.

Property Tax - State Levies.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. Over time the Legislature adopted limitations on the levy, including on the growth of revenue. In 1971 the Legislature adopted the first statutory revenue growth limit for regular levies. In 2007 the Legislature limited the revenue growth rate to the lesser of 1 percent or inflation, plus the value of new construction (revenue growth limit). In 2017 the Legislature adopted Engrossed House Bill 2242, which created the additional state levy.

For taxes levied for collection in calendar years 2018-2021, the combined rate for both state levies is \$2.70 per \$1,000 AV. 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. Participants in the senior citizen, individuals with disabilities, and qualifying veterans property tax exemption program receive a partial exemption from the original state levy and a full exemption from the additional state levy.

Property Tax - Levy Lid Lift.

Voters may approve regular property tax increases above the revenue growth limit. This voter-approved increase is referred to as a levy lid lift. A levy lid lift may be authorized for a single year or for multiple years, not to exceed six years. A multi-year lid lift must be for a specific purpose, and lid lift funds may not supplant existing funds used for the purpose specified in the lid lift ballot proposition.

Property Tax - Senior Citizen, Individuals with Disabilities, and Veterans Tax Relief.

Authorized by a constitutional amendment, qualifying senior citizens, persons retired due to disability, and veterans entitled to and receiving compensation from the United States Department of Veterans Affairs at a total disability rating for a service-connected disability are entitled to property tax relief on their principal residence (property tax exemption program). To qualify, a person must be 61 years old in the year of the application or retired from employment because of disability, own his or her principal residence, and have a combined disposable income of less than \$40,000 a year. Eligible individuals may qualify for a partial property tax exemption and a valuation freeze.

Combined disposable income is defined as the sum of federally defined adjusted gross income and the following, if not already included: capital gains; amount deducted for losses; depreciation; pensions and annuities; military pay and benefits; veterans' benefits except attendant care, medical aid, disability compensation, and dependency and indemnity compensation; Social Security and federal railroad retirement benefits; and dividends and interest income on state and municipal bonds. 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; prescription drugs; and Medicare health care insurance premiums are deducted when determining disposable income.

Exemptions for eligible individuals are provided as follows:

- If disposable income is \$30,000 or less, all excess levies, the additional state levy, and regular levies on the greater of \$60,000 or 60 percent of assessed valuation of his or her residence are exempted.
- If disposable income is \$30,001 to \$35,000, all excess levies, the additional state levy, and regular levies on the greater of \$50,000 or 35 percent of assessed valuation (\$70,000 maximum) are exempted.
- If disposable income is \$35,001 to \$40,000, all excess levies and the additional state levy are exempted.

In addition to the partial exemptions listed above, the valuation of the residence of an eligible individual is frozen, for the purpose of calculating property tax liability, at the assessed value of the residence on the later of January 1, 1995, or January 1 of the assessment year in which a person first qualifies for the program.

Summary of Bill:

The senior citizen, individuals with disabilities, and veterans property tax exemption is modified.

Cities and counties are permitted to exempt any portion of their regular property tax levy attributable to a levy lid lift, with voter approval.

The full exemption from the additional state property tax is removed and participants receive a partial exemption from the levy, as it is treated as all other regular levies for purposes of the exemption program.

Appropriation: None.

Fiscal Note: Available.

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