Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

SSB 6251

Brief Description: Concerning property tax exemptions for service-connected disabled veterans and senior citizens.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Dhingra, Kuderer, Rolfes, Nelson, Palumbo, Wellman, Mullet, Chase, Keiser, Saldaña and Conway).

Brief Summary of Substitute Bill

- Modifies the qualifying income thresholds for the property tax exemption and deferral programs for low-income senior citizens, individuals with disabilities, and veterans beginning in calendar year 2022.

Hearing Date: 2/22/18

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

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.

The state collects two regular property tax levies for common schools. The original state levy was first imposed when Washington achieved statehood in 1889. 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 citizens, 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.

<u>Property Tax - Senior Citizens, Individuals with Disabilities, and Veterans Tax Relief.</u>
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 the principal 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.

<u>Tax Preference Performance Statement.</u>
In 2013 the Legislature passed Engrossed Substitute Senate Bill 5882 (ESSB 5882), which requires all new tax preference legislation to include a tax preference performance statement.

"New tax preference" means a tax preference that initially takes effect after August 1, 2013, or a tax preference in effect as of August 1, 2013, that is expanded or extended after August 1, 2013. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits.

ESSB 5882 also established an automatic 10-year expiration date for new tax preferences if an alternative expiration date is not provided in the new tax preference legislation.

Summary of Bill:

The income qualification thresholds for the exemption program are modified beginning January 1, 2022, as follows:

- Income Threshold 1 replaces the $30,000 income threshold. Income Threshold 1 is defined as equal to the greater of Income Threshold 1 for the previous year or 45 percent of the county median household income (CMI).
- Income Threshold 2 replaces the $35,000 income threshold. Income Threshold 2 is defined as equal to the greater of Income Threshold 2 for the previous year or 55 percent of the CMI.
- Income Threshold 3 replaces the $40,000 income threshold. Income Threshold 3 is defined as equal to the greater of Income Threshold 3 for the previous year or 65 percent of the CMI.

The income threshold for the deferral program is defined as equal to the greater of the income threshold for the previous year or 75 percent of CMI, replacing the $45,000 income threshold.

CMI is defined as median household income estimates for Washington by county of the legal address of the principal place of residence, as published by the Office of Financial Management (OFM).

The Department of Revenue must publish updated income thresholds every five years beginning January 1, 2021. The adjusted thresholds must be rounded to the nearest dollar. The thresholds must be adjusted to reflect the most recent year available of the estimated CMI, including preliminary estimates or projections, as published by the OFM.

The act applies to taxes levied for collection in 2022 and thereafter.

The bill includes language that states the tax preference is exempt from the tax preference performance statement and 10-year expiration date requirements for new tax preferences, because the Legislature intends for the preference in this act to be permanent.

Appropriation: None.

Fiscal Note: Available.

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