HOUSE BILL REPORT
HB 1629

As Reported by House Committee On:
Finance

Title: An act relating to providing property tax relief for disabled veterans.

Brief Description: Providing property tax relief for disabled veterans.

Sponsors: Representatives Reeves, Walen, Ryu, Kirby, Barkis, Leavitt, Kilduff, Stanford, Appleton, Lovick, Ortiz-Self, Frame, Shea and Bergquist.

Brief History:
Committee Activity:
Finance: 1/29/19, 2/25/19 [DPS].

Brief Summary of Substitute Bill

- Adjusts the disability rating qualification for the disabled veterans property tax exemption program to all veterans receiving compensation at a combined service-connected evaluation rating of 80 percent or higher.
- Requires county assessors to submit annual data to the Department of Revenue on veteran property tax relief.
- Requires the Department of Revenue to submit a biennial report describing veteran use of the property tax exemption program based on county level data.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Morris, Orwall, Springer, Stokesbary, Vick and Wylie.

Staff: Rachelle Harris (786-7137).

Background:

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.

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 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.

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 2020-2021, 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 Citizens Tax Relief.

Authorized by a constitutional amendment, qualifying senior citizens, persons retired due to disability, and veterans receiving compensation from the United States Department of Veterans Affairs at total disability rating for a service-connected disability are entitled to property tax relief on their principal residence. To qualify, a person must be 61 years old in the year of the application or retired from employment because of disability. They must also own their 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.

Partial Tax Exemption. Partial tax exemptions for senior citizens and persons retired due to disability are provided as follows:

- If disposable income is $35,001 to $40,000, all excess levies and the additional state levy 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 $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.

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

Valuation Freeze. 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 AV of the residence on the later of January 1, 1995, or January 1 of the assessment year in which the person first qualifies for the program. To be eligible, the person must have a disposable income of less than $40,000.

Deferral. In addition to the exemption program, individuals who meet the requirements for the senior citizen and individuals with disabilities exemption program, except for the income and age requirements, are permitted to defer their property taxes if their combined disposable income is $45,000 or less and they are 60 years or older. Taxes that are deferred become a lien against the property and accrue interest at 5 percent per year. If deferred taxes are not repaid within three years after the eligible person ceases to own and live in the residence, the lien will be foreclosed and the residence sold to recover taxes.

<u>Combined Disposable Income</u>.
For property tax relief programs, "combined disposable income" is defined as the sum of federally defined adjusted gross income and the following, if not already included: capital gains; deductions for losses; 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 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 combined disposable income.

<u>Tax Preference Performance Statement</u>.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to

evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Substitute Bill:

The disability rating for a veteran to qualify for the tax exemption program is adjusted so that all veterans receiving compensation at a combined service-connected evaluation rating of 80 percent or higher or a total disability rating without regard to evaluation percent will qualify.

Beginning July 1, 2020, county assessors must submit annual data to the Department of Revenue (DOR) on the number of veterans who apply for the senior and disabled veterans property tax exemption program and on the number of veterans who are receiving property tax relief under any other local property tax relief program for veterans. Beginning January 15, 2021, the DOR must submit a biennial report describing veteran use of the property tax exemption program based on county level data.

The bill is exempt from the TPPS requirements, the JLARC review, and the 10-year expiration for tax preferences.

Substitute Bill Compared to Original Bill:

The substitute bill made changes to the data collection requirements from county assessors as well as to the reporting requirements for the DOR. The substitute bill adjusted the disability rating qualification for veterans property tax exemption program to all veterans receiving compensation at a combined service-connected evaluation rating of 80 percent or higher or a total disability rating without regard to evaluation percent, instead of a disability rating of 50 percent.

The substitute bill contains an exemption from the TPPS requirements, the JLARC review, and the 10-year expiration for tax preferences.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Currently, no King County veterans qualify for the current disabled veterans property tax exemption. This is because the Department of Veterans Affairs rarely issues 100 percent disability ratings, in part because of improvements in technology. The process to apply for the property tax exemption is more onerous than the benefit of the exemption they are receiving. This is also about collecting good data so the state can evaluate the number of vets living in each county compared to the number actually receiving property tax benefits. The data collection is necessary to understand if the exemption is achieving its objective.

(Opposed) None.

(Other) No Thurston County veterans currently qualify for the exemption. If the objective is to provide relief to veterans with this bill, it is a policy choice by the Legislature. The Washington Association of County Assessors is neutral on the bill. The data collection is about balance. It would require assessors to enter into a new field of collecting and maintaining the Health Insurance Portability and Accountability Act protected information. The assessors do not have a system for tracking this types of data. This would be a new burden that is new and different for assessors. The Department of Veterans Affairs may only provide statistical data that would not enable implementation of the data. The American Association of Retired Persons may be a source of the information. Possibly the DOR can be the primary point of contact for the taxpayers. The County Assessors would be open to expanding the current program’s eligibly for more veterans, but the policy would need to be the right balance.

Persons Testifying: (In support) Representative Reeves, prime sponsor.

(Other) Steven Drew, Washington Assessors.

Persons Signed In To Testify But Not Testifying: None.