FINAL BILL REPORT
ESSB 5160

C 453 L 19
Synopsis as Enacted

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, Wellman, Palumbo, Keiser, Rolfes, Das, Randall, Wilson, C., Fortunato, Hasegawa, King and Kuderer).

Senate Committee on Ways & Means
Senate Committee on Housing Stability & Affordability
House Committee on Finance

Background: <u>Property Tax.</u> All real and personal property in the state is subject to property tax each year based on its value, unless a specific exemption is provided. The Washington State Constitution limits regular property tax levies to a maximum of 1 percent of the property's value—$10 per $1,000 of assessed value. 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.

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 EHB 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 of assessed value. 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.

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

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Veterans Affairs at a total disability rating for a service-connected disability, are entitled to property tax relief on their principal. To qualify, a person must be sixty-one years old in the year of the application or retired from employment because of disability; 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.

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 a person's 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, at a $70,000 maximum, are exempted; and
- if disposable income is $35,001 to $40,000, all excess levies and the additional state levy are exempted.

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 1st of the assessment year in which a person first qualifies for the program.

Property Tax Deferral Program. The property tax deferral program allows qualifying property owners to make payments of property taxes and special assessments for current and delinquent years. The deferred amount accrues 5 percent simple interest until repayment is complete. Deferrals must be repaid when the home is sold, the applicant passes away, or the home is no longer used as the primary residence.

To qualify, applicants must own and occupy a primary residence in the state, have a combined disposable income of $45,000 or less, and have enough equity to secure the interest of the state in the property. A surviving spouse or domestic partner of a claimant may continue the deferral program upon the death of the claimant if they are at least fifty-seven years of age and meet all other residency and income requirements.

<u>Tax Preferences.</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, deferrals, credits, and preferential tax rates. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided. The

Joint Legislative Audit and Review Committee is responsible for periodic review of tax preferences.

Summary: Senior Citizen, Individuals with Disabilities, and Veterans Tax Relief. The income qualification thresholds for the exemption program are modified beginning with taxes levied for collection in calendar year 2020, and thereafter, 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 CMI; and
- 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 CMI.

The income threshold for the valuation freeze is modified to be based off of income threshold three. The income threshold for the deferral program is updated to up to 75 percent of county median household income. The property tax deferral program is altered such that heirs and devisees may maintain the deferral, subject to certain conditions. If a county's income thresholds are not adjusted based on the county median income adjustment, then the threshold must be adjusted based on the lesser of the Consumer Price Index or 1 percent every ten years.

The disability rating qualification for disabled veterans to qualify for the property tax exemption program is changed such that it applies to all veterans receiving compensation at a combined service-connected evaluation rating of 80 percent or higher, or with a total disability rating without regard to evaluation percent.

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 (DOR) must authorize an option for electronic filing of applications and renewal applications for the senior citizen, individuals with disabilities, and veterans tax relief programs.

Beginning August 1, 2019, and by March 1st every fifth year thereafter, DOR must publish updated income thresholds. The adjusted thresholds must be rounded to the nearest dollar. The thresholds must be adjusted to reflect the most recent year available of estimated CMI, including preliminary estimates or projections, as published by OFM.

A claimant may, among other stated exceptions, be confined to the home of a relative for the purpose of long-term care without disqualification to the property tax exemption program.

The term "relative" means any individual related to the claimant by blood, marriage, or adoption.

The term "principal place of residence" is defined to mean a residence occupied for more than nine months each calendar year.

Property Tax Deferral Program. 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.

Heirs and devisees are added to those individuals who may continue the deferral program upon the death of a claimant. "Heirs" means those persons, including the surviving spouse, who are entitled under the statutes of intestate succession to the property of a decedent. "Devisee" means any person designated in a will to receive a disposition of real or personal property.

Tax Preference Performance Requirements. The act is exempt from the tax preference performance review and automatic expiration provisions.

The bill applies to taxes levied for collection in 2020 and thereafter.

Votes on Final Passage:

Senate	37	11	
House	98	0	(House amended)
Senate	35	11	(Senate concurred)

Effective: July 28, 2019