Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2906

Brief Description: Concerning eligibility of a surviving spouse for the property tax exemption for senior citizens and disabled persons.

Sponsors: Representatives McDonald, Johnson and Muri.

Brief Summary of Bill

- Allows a senior citizen or person with a disability to claim a property tax exemption if income is reduced in the last two months of a calendar year due to the death of a spouse.

Hearing Date: 2/5/18

Staff: Serena Dolly (786-7150).

Background:

Property Tax.
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 requires that taxes be uniform within a class of property.

Property Tax - Senior Citizen 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, 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.

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.

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 his or her residence are exempted.

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 assessed value 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.

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>Income Changes</u>.
Generally, eligibility for the property tax exemption is based on the prior year's combined disposable income. Applicants with substantially reduced income for at least two months before the end of the fiscal year due to the death of a spouse may calculate an average monthly income to estimate income.

<u>Tax Preference Performance Statement</u>.
All new tax preference legislation must include a tax preference performance statement unless the legislation enacting the new tax preference contains an explicit exemption. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee

(JLARC) to evaluate the efficacy of the tax preference. New tax preferences expire 10 years after the effective date of the tax preference, unless otherwise provided.

Summary of Bill:

Beginning with property taxes payable in 2018, a senior citizen or person with a disability may claim a property tax exemption if income is reduced in the last two months of an assessment year due to the death of a spouse.

A person may claim the exemption within one year of the death of a spouse. Property taxes paid prior to a person being granted the exemption must be refunded.

The tax preference expires on December 31, 2026, and is subject to a 10-year performance review.

Appropriation: None.

Fiscal Note: Available.

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