Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1765

Brief Description: Concerning medical deductions for calculating disposable income.

Sponsors: Representatives Wylie, Pollet and Frame.

Brief Summary of Bill

- Adds to the list of expenses that may be deducted when calculating combined disposable income for various property tax relief programs.

Hearing Date: 2/25/19

Staff: Rachelle Harris (786-7137).

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 Constitutionlimits 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

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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.

<u>Property Tax - Senior Citizens and Disabled Veterans Tax Relief</u>.
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.

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. 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>Widow and Widower of Veterans Tax Relief</u>.
In addition to the property tax exemption for senior citizens and disabled veterans, qualifying widows or widowers of veterans can receive a grant of state funds to pay a portion of their property taxes. Qualified applicants must be a widow or a widower of a veteran who either:

1. died as a result of a service-connected disability;
2. received compensation from the United States Department of Veterans Affairs at a total disability rating 10 years prior to death;
3. was a former prisoner of war receiving compensation from the United States Department of Veterans Affairs at total disability rating one year prior to death; or
4. died in active duty or training status.

Applicants for the property tax assistance program must be over the age of 62 or unable to work because of disability, have a disposable income of $40,000 or less, own and occupy a primary residence in Washington, and have not been remarried. Repayment of the grant is not required if the applicant continues to live in the residence until at least December 15 in the year a grant is received.

Limited Income Property Tax Deferral Program.
Individuals with an annual household income of $57,000 or less may defer 50 percent of yearly real property taxes and special assessments. Deferred amounts, including interest, become a lien on the residence. A claimant may not make a claim for deferral under both this program and the senior citizens limited income deferral program in the same tax year.

Combined Disposable Income.
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.

Summary of Bill:

For the purposes of the senior citizen and disabled veterans property tax exemption, the widow and widower of veterans property tax relief program, and the limited income property tax deferral program, expenses that are deducted when determining combined disposable income are expanded to include all health care coverage costs (including dental and vision), durable medical equipment, mobility enhancing equipment, prosthetic devices, and medically prescribed oxygen. Alterations made to the exempted residence to accommodate or install medical equipment and long-term care insurance may also be deducted.

Appropriation: None.

Fiscal Note: Available.

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