H-0226.1

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**HOUSE BILL 1040**

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**State of Washington 69th Legislature 2025 Regular Session**

**By** Representatives Doglio, Parshley, Ryu, Ramel, Klicker, Richards, Reed, Alvarado, Shavers, Peterson, Paul, Wylie, Fey, Kloba, Lekanoff, Fosse, and Reeves

AN ACT Relating to rental income received by people eligible for certain property tax exemption programs; amending RCW 84.36.383; and creating new sections.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

**Sec.**  RCW 84.36.383 and 2024 c 119 s 1 are each amended to read as follows:

As used in RCW 84.36.381 through 84.36.389, unless the context clearly requires otherwise:

(1) "Accessory dwelling unit" means a separate, autonomous residential dwelling unit that provides complete independent living facilities for one or more persons and includes permanent provisions for living, sleeping, eating, cooking, and sanitation.

(2) "Combined disposable income" means the disposable income of the person claiming the exemption, plus the disposable income of his or her spouse or domestic partner, and the disposable income of each cotenant occupying the residence for the assessment year, less amounts paid or, for purposes of (n) of this subsection (2), received by the person claiming the exemption or his or her spouse or domestic partner during the assessment year for:

(a) Drugs supplied by prescription of a medical practitioner authorized by the laws of this state or another jurisdiction to issue prescriptions;

(b) The treatment or care of either person received in the home or in a nursing home, assisted living facility, or adult family home;

(c) Health care insurance premiums for medicare under Title XVIII of the social security act;

(d) Costs related to medicare supplemental policies as defined in Title 42 U.S.C. Sec. 1395ss;

(e) Durable medical equipment, mobility enhancing equipment, medically prescribed oxygen, and prosthetic devices as defined in RCW 82.08.0283;

(f) Long-term care insurance as defined in RCW 48.84.020;

(g) Cost-sharing amounts as defined in RCW 48.43.005;

(h) Nebulizers as defined in RCW 82.08.803;

(i) Medicines of mineral, animal, and botanical origin prescribed, administered, dispensed, or used in the treatment of an individual by a person licensed under chapter 18.36A RCW;

(j) Ostomic items as defined in RCW 82.08.804;

(k) Insulin for human use;

(l) Kidney dialysis devices; ((~~and~~))

(m) Disposable devices used to deliver drugs for human use as defined in RCW 82.08.935; and

(n) Rental amounts up to $6,000 per year received from the renting of living space in the person's principal place of residence.

(i) For the purposes of this subsection (2)(n), "rental amount" has the same meaning as in RCW 59.18.030.

(ii) For the purposes of this subsection (2)(n), amounts received from short-term rentals, as defined in RCW 64.37.010, are not included. Any amounts received from a short-term rental must be reported as income.

(3) "Cotenant" means a person who resides with the person claiming the exemption and who has an ownership interest in the residence.

(4) "County median household income" means the median household income estimates for the state of Washington by county of the legal address of the principal place of residence, as published by the office of financial management.

(5) "Department" means the state department of revenue.

(6) "Disability" has the same meaning as provided in 42 U.S.C. Sec. 423(d)(1)(A) as amended prior to January 1, 2005, or such subsequent date as the department may provide by rule consistent with the purpose of this section.

(7) "Disposable income" means adjusted gross income as defined in the federal internal revenue code, as amended prior to January 1, 1989, or such subsequent date as the director may provide by rule consistent with the purpose of this section, plus all of the following items to the extent they are not included in or have been deducted from adjusted gross income:

(a) Capital gains, other than gain excluded from income under section 121 of the federal internal revenue code to the extent it is reinvested in a new principal residence;

(b) Amounts deducted for loss;

(c) Amounts deducted for depreciation;

(d) Pension and annuity receipts;

(e) Military pay and benefits other than attendant-care and medical-aid payments;

(f) Veterans benefits, other than:

(i) Attendant-care payments;

(ii) Medical-aid payments;

(iii) Disability compensation, as defined in Title 38, part 3, section 3.4 of the Code of Federal Regulations, as of January 1, 2008; and

(iv) Dependency and indemnity compensation, as defined in Title 38, part 3, section 3.5 of the Code of Federal Regulations, as of January 1, 2008;

(g) Federal social security act and railroad retirement benefits;

(h) Dividend receipts; and

(i) Interest received on state and municipal bonds.

(8) "Income threshold 1" means:

(a) For taxes levied for collection in calendar years prior to 2020, a combined disposable income equal to $30,000;

(b) For taxes levied for collection in calendar years 2020 through 2023, a combined disposable income equal to the greater of "income threshold 1" for the previous year or 45 percent of the county median household income; and

(c) For taxes levied for collection in calendar year 2024 and thereafter, a combined disposable income equal to the greater of "income threshold 1" for the previous year or 50 percent of the county median household income, adjusted every three years beginning August 1, 2023, as provided in RCW 84.36.385(8).

(9) "Income threshold 2" means:

(a) For taxes levied for collection in calendar years prior to 2020, a combined disposable income equal to $35,000;

(b) For taxes levied for collection in calendar years 2020 through 2023, a combined disposable income equal to the greater of "income threshold 2" for the previous year or 55 percent of the county median household income; and

(c) For taxes levied for collection in calendar year 2024 and thereafter, a combined disposable income equal to the greater of "income threshold 2" for the previous year or 60 percent of the county median household income, adjusted every three years beginning August 1, 2023, as provided in RCW 84.36.385(8).

(10) "Income threshold 3" means:

(a) For taxes levied for collection in calendar years prior to 2020, a combined disposable income equal to $40,000;

(b) For taxes levied for collection in calendar years 2020 through 2023, a combined disposable income equal to the greater of "income threshold 3" for the previous year or 65 percent of the county median household income; and

(c) For taxes levied for collection in calendar year 2024 and thereafter, a combined disposable income equal to the greater of "income threshold 3" for the previous year or 70 percent of the county median household income, adjusted every three years beginning August 1, 2023, as provided in RCW 84.36.385(8).

(11) "Principal place of residence" means a residence occupied for more than six months each calendar year by a person claiming an exemption under RCW 84.36.381.

(12) The term "real property" also includes a mobile home which has substantially lost its identity as a mobile unit by virtue of its being fixed in location upon land owned or leased by the owner of the mobile home and placed on a foundation (posts or blocks) with fixed pipe, connections with sewer, water, or other utilities. A mobile home located on land leased by the owner of the mobile home is subject, for tax billing, payment, and collection purposes, only to the personal property provisions of chapter 84.56 RCW and RCW 84.60.040.

(13) The term "residence" means a single-family dwelling unit whether such unit be separate or part of a multiunit dwelling, may include one accessory dwelling unit and includes the land on which such dwellings stand not to exceed one acre, except that a residence includes any additional property up to a total of five acres that comprises the residential parcel if this larger parcel size is required under land use regulations. The term also includes a share ownership in a cooperative housing association, corporation, or partnership if the person claiming exemption can establish that his or her share represents the specific unit or portion of such structure in which he or she resides. The term also includes a single-family dwelling situated upon lands the fee of which is vested in the United States or any instrumentality thereof including an Indian tribe or in the state of Washington, and notwithstanding the provisions of RCW 84.04.080 and 84.04.090, such a residence is deemed real property.

NEW SECTION. **Sec.**  This act applies to taxes levied for collection in 2027 and thereafter.

NEW SECTION. **Sec.**  RCW 82.32.805 and 82.32.808 do not apply to this act. The legislature intends for this tax preference and its expansion to be permanent.

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