Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1106

Brief Description: Recognizing the tremendous sacrifices made by our military veterans by phasing down the disability rating requirements to ensure more disabled veterans are eligible for property tax relief.

Sponsors: Representatives Barnard, Leavitt, Eslick, Penner, Klicker, Richards, Shavers, Couture, McClintock, Callan, Marshall, Kloba, Nance and Simmons.

Brief Summary of Bill

- Reduces the combined service-connected evaluation rating percentage for disabled veterans from 80 percent to 20 percent over a period of three years in order to qualify for the senior citizens, disabled individuals, and qualifying veterans property tax exemption.

Hearing Date: 2/4/25

Staff: Kristina King (786-7190).

Background:

<u>Property Tax—Regular Levies</u>.
All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue is limited as follows:

- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent plus the value of new construction.

The state collects two regular property tax levies for common schools. The revenue growth limit applies to both levies. Participants in the senior citizens, individuals with disabilities, and qualifying veterans property tax exemption (SPTE) program receive a partial exemption from the original state levy and a full exemption from the additional state levy.

The Washington Constitution also limits regular levies to a maximum of 1 percent of the property's value ($10 per $1,000 of assessed value). There are individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. For example:

- The state levy rate is limited to $3.60 per $1,000 of assessed value.
- County general levies are limited to $1.80 per $1,000 of assessed value.
- County road levies are limited to $2.25 per $1,000 of assessed value.
- City levies are limited to $3.375 per $1,000 of assessed value.

For property tax purposes, the state, counties, and cities are collectively referred to as senior taxing districts. Junior taxing districts—a term that includes fire, hospital, flood control zone, and most other special purpose districts—each have specific rate limits as well.

<u>Levy Lid Lift</u>.
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.

<u>Property Tax—Senior Citizens, Disabled Individuals, and Qualifying Veterans Tax Relief</u>.
Qualifying senior citizens, people retired due to disability, and qualifying veterans are entitled to property tax relief on their principal residence. To qualify for the SPTE, a person must be:

- At least 61 years old;
- At least 57 years old and the surviving spouse or domestic partner of a person who was an exemption participant at the time of their death;
- retired from employment because of disability, or
- a disabled veteran with a service-connected evaluation rating of at least 80 percent or a total (100 percent) disability rating for a service-connected disability without regard to evaluation percent.

The home must be owned and be the primary residence of the applicant. An applicant's combined disposable income must be under the county's income threshold to qualify. Eligible individuals qualify for a partial property tax exemption and a valuation freeze.

Partial Tax Exemption.
The partial property tax exemption for the SPTE is provided according to various income thresholds. The income thresholds and associated partial exemptions are as follows:

- "Income threshold one" is the greater of income threshold one for the previous year or 50 percent of county median household income. Applicants qualifying under this income threshold receive an exemption from all excess levies, the additional state levy, and regular levies on the greater of $60,000 or 60 percent of the assessed valuation.

- "Income threshold two" is the greater of income threshold two for the previous year or 60 percent of county median household income. Applicants qualifying under this income threshold but above income threshold one receive an exemption from all excess levies, the additional state levy, and regular levies on the greater of $50,000 or 35 percent of assessed valuation (with a $70,000 maximum).
- "Income threshold three" is the greater of income threshold three for the previous year or 70 percent of county median household income. Applicants qualifying under this income threshold but above income threshold two receive an exemption from all excess levies and the additional state levy.

The income thresholds are adjusted every three years to reflect the most recent year of estimated county median household incomes as published by the Office of Financial Management. For every adjustment made, if an income threshold in a county is not adjusted based on percentage of county median income, then the income threshold must be adjusted based on the growth of the seasonally adjusted consumer price index for all urban consumers for the prior twelve-month period as published by the United States Bureau of Labor Statistics, with a limit of 1 percent.

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 individual eligible for the SPTE 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 income threshold three.

Deferral: In addition to the SPTE, individuals who meet the requirements, except for the income and age requirements, are permitted to defer their property taxes if their combined disposable income is less than the deferral threshold and they are 60 years or older. The income threshold for the deferral program is the greater of 75 percent of the county median household income or $45,000.

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>Tax Preference Performance Statement</u>.
Tax preferences confer reduced tax liability upon a designated class of taxpayers. These include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. There are over 700 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 Bill:

The disabled veteran combined service-connected evaluation rating for the SPTE is decreased each year according to the following schedule:

- Beginning January 1, 2026, until December 31, 2026, the rating is 60 percent or higher.
- Beginning January 1, 2027, until December 31, 2027, the rating is 40 percent or higher.
- Beginning January 1, 2028, the rating is 20 percent or higher.

An exemption from a TPPS, JLARC review, and the 10-year expiration is included.

Appropriation: None.

Fiscal Note: Available.

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