
Finance Committee

ESSB 6162

Brief Description: Concerning property tax reform.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Krishnadasan, Alvarado, Bateman, Chapman, Christian, Conway, Cortes, Dhingra, Frame, Hunt, Lias, Lovelett, Lovick, Nobles, Orwall, Pedersen, Riccelli, Robinson, Saldaña, Salomon, Shewmake, Slatter, Stanford, Valdez and Wilson, C.).

Brief Summary of Engrossed Substitute Bill

- Consolidates the state property tax levy into a single levy at a rate of \$2.07355.
- Exempts people qualifying for the property tax relief program for senior citizens, disabled individuals, and qualifying veterans (SPTE) from the state property tax.
- Increases the amount of assessed value that can be exempted under the SPTE.
- Authorizes a standard deduction of \$7,500 per person in lieu of an itemized deduction amount for calculating combined disposable income for the SPTE.
- Adds up to \$6,000 in rental income to the allowable deductions from combined disposable income for the SPTE.
- Increases qualifying income thresholds for the SPTE.

Hearing Date: 2/27/26

Staff: Rachelle Harris (786-7137).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Background:

State Property Tax Rate.

The state property tax levy, which is dedicated to kindergarten through grade twelve education, consists of two parts, sometimes referred to as part 1 and part 2. For calendar year 2026, the property tax rate for part 1 is \$1.36240 per \$1,000 of assessed value (AV) and for part 2 is \$0.73445 per \$1,000 of AV. These combine for a total rate of \$2.09685 per \$1,000 of AV.

Property Tax—Senior Citizens, Disabled Individuals, and Qualifying Veterans Tax Relief.

Qualifying senior citizens, people retired due to disability, and qualifying veterans are entitled to property tax relief on their principal residence (SPTE). 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 disability evaluation of at least 80 percent (40 percent beginning January 1, 2027) or receiving compensation from the United States Department of Veterans Affairs at the 100 percent rate for a service-connected disability.

The home must be owned by and be the primary residence of the applicant, or be a detached accessory dwelling unit. An applicant's combined disposable income (CDI) must be under the county's income threshold to qualify. Eligible individuals qualify for a partial property tax exemption and a valuation freeze.

Partial Property 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 the county median household income (CMI). 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 the CMI. 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 the CMI. 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 CMIs 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 the CMI, then the income threshold must be adjusted based on the growth of the seasonally adjusted consumer price index for all urban consumers (CPI-U) 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.

The Department of Revenue and local county assessors are required to publicize qualification information and instructions for making claims for the SPTE through communications media, including paid advertisements and/or notices. Details about qualifications and the application process must be included with property tax statements and revaluation notices.

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 CDI 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 CDI 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 CMI 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.

Combined Disposable Income.

For property tax relief programs, the CDI is defined as the sum of federally defined adjusted gross income plus 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.

The following are deducted when determining the CDI:

- 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 disposable devices to deliver them;
- Medicare health care insurance premiums;
- supplemental Medicare policies;
- durable medical equipment;
- long term care insurance;
- nebulizers;
- ostomic items;
- insulin;
- kidney dialysis devices; and
- naturopathic medicines.

Tax Preference Performance Statement.

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. 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:

State Property Tax.

The state property tax is consolidated into a single levy, and set to an initial rate of \$2.075377 per \$1,000 of AV. Tax statements must identify the state property tax as the “state school levy.”

Senior Citizens, Disabled Individuals, and Qualifying Veterans Tax Relief.

Applicants to the SPTE who qualify under income threshold three are exempt from the full consolidated state property tax levy.

The amount of AV used in determining the amount of regular property tax relief under income thresholds one and two are increased as follows:

- applicants qualifying under income threshold one are exempt from all regular property taxes on the greater of \$80,000 or 80 percent of the valuation of the residence; and
- applicants qualifying under income threshold two are exempt from all regular levies on the greater of \$70,000 or 45 percent of the valuation, with a valuation limit of \$200,000.

A standard deduction option is provided for purposes of calculating the CDI. The standard deduction amount is \$7,500 for the person claiming the exemption plus an additional \$7,500 for the person's spouse or domestic partner.

Rental income up to \$6,000 from the rental of living space in the principal place of residence is added to the itemized list of allowable deductions.

Combat-related special compensation is excluded from the calculation of the CDI.

Income Threshold Adjustments.

Income thresholds are increased to be:

- Income threshold one is 60 percent of the CMI.
- Income threshold two is 70 percent of the CMI.
- Income threshold three is 80 percent of the CMI.

For the deferral program, the income threshold is 90 percent of the CMI.

All changes to the SPTE are exempt from TPPS requirements, a JLARC review, and the 10 year expiration.

Appropriation: None.

Fiscal Note: Available.

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