2025 tax preference review:

Disabled Veteran Adapted Housing

PRELIMINARY REPORT | JULY 2025

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Legislative Auditor's conclusion

The preference provides limited financial relief because few eligible veterans claim it.

Key points

- The preference is available to disabled military veterans who receive an adapted housing grant from the federal Department of Veterans Affairs (VA).
- A veteran who uses a VA grant can receive a state sales tax refund of up to $2,500. The average grant-funded project likely includes about $3,700 in state sales tax.
- From 2017 through 2024, fewer than three beneficiaries claimed the preference. The combined total was 0.33% of the funds available.
- More people were eligible: during this time, the VA awarded 252 qualifying grants to Washingtonians.
- Veterans may be unaware of the preference. Two agencies post information on their websites but do not otherwise promote it to eligible veterans.

About this preference

Estimated savings: $0 (2025-27 biennium)	**Tax type:** State sales tax	**Expiration date:** January 2028

Report details

Disabled military veterans may apply for a remittance of the state sales and use tax paid on projects funded by a federal Specially Adapted Housing grant or a Special Home Adaptation grant. These grants provide financial assistance to disabled veterans to improve their home's accessibility and aid mobility.

The Legislature stated its objective was to provide financial relief to disabled veterans who use their federal grant to pay state sales tax on the materials and labor needed for the project.

The Legislature enacted the preference in 2017. It will expire on January 1, 2028.

Preference is tied to federal grants for adapted housing

To qualify for one of the grants, disabled veterans and military service members must have serious, service-connected disabilities and apply to the federal Department of Veterans Affairs (VA) for benefits. By including service members, the definition for grant eligibility is broader than the definition used for tax preference eligibility.

Recipients use the funds for projects that remove barriers and improve their home's accessibility. For example, a project may involve installing ramps or widening doorways. To be eligible, a veteran must be in a home that they own, will own, or will live in for a long time. The programs have eligibility criteria and award amounts based on the nature of the disability (**Appendix A**).

The amount of the adapted housing or home adaptation grants is adjusted annually, subject to congressional approval. In fiscal year 2024, the maximum grant amount was $117,014.

The preference refunds up to $2,500 of state sales tax paid on adapted housing projects

Disabled military veterans and service members can apply to the Department of Revenue (DOR) for a remittance up to $2,500 if they both:

- Received one of the grants.
- Paid state sales and use tax on the materials and labor for the project, either directly or with grant funds.

State law caps total remittances at $125,000 per year. DOR processes applications on a first-in-time basis and posts the amount of the remittances remaining per year on its website.

Local sales tax is not eligible to be remitted under the preference.

Tax preference is underused in comparison to the number and amount of federal grants

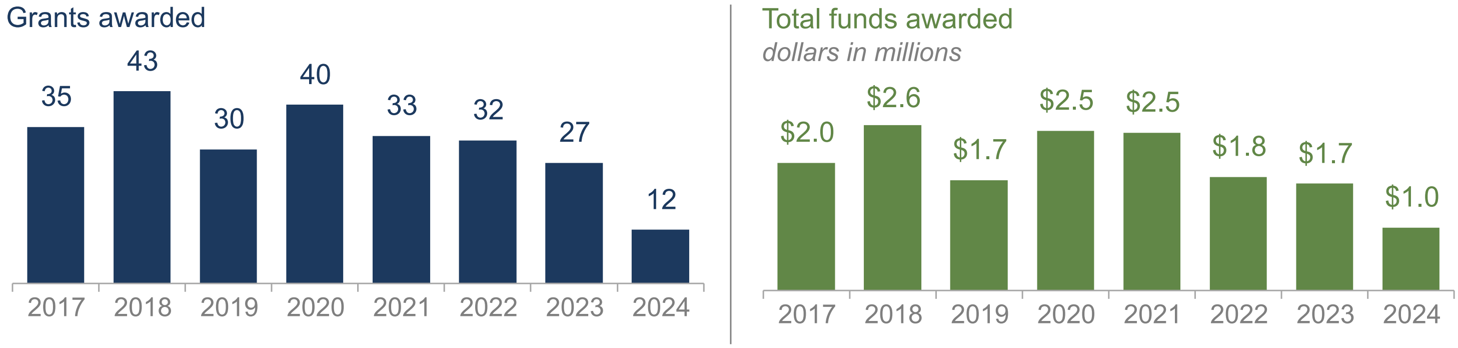
To evaluate the effectiveness of the preference, the Legislature directed the Joint Legislative Audit and Review Committee (JLARC) to review:

- The number of qualifying adapted housing projects for which disabled veterans request the preference each year.
- The total amount of federal adapted housing grants awarded to Washington veterans.

Fewer than three beneficiaries have requested remittances since the preference became available in 2017. Total taxpayer savings during this time was just $3,000. This is 0.33% of the $875,000 that could have been claimed during the seven years the preference has been available.

During this same period, the VA awarded 252 adapted housing grants to Washington veterans, totaling $15.7 million. The average grant amount was $62,200, which would cover about $58,500 in building and local tax costs plus about $3,700 in state sales and use tax. This state tax amount exceeds the preference's individual cap of $2,500. Thus, the average grantee likely could have claimed a remittance for the full amount allowable.

Figure 1: Since 2017, the VA has awarded 252 adapted housing grants to Washington veterans, totaling $15.7 million



Note: Calendar year 2024 data includes grants issued January through September. The sum of awards does not equal the total shown due to rounding.

Source: JLARC staff analysis of VA data.

Low awareness among potential beneficiaries may be one reason the tax preference is underused

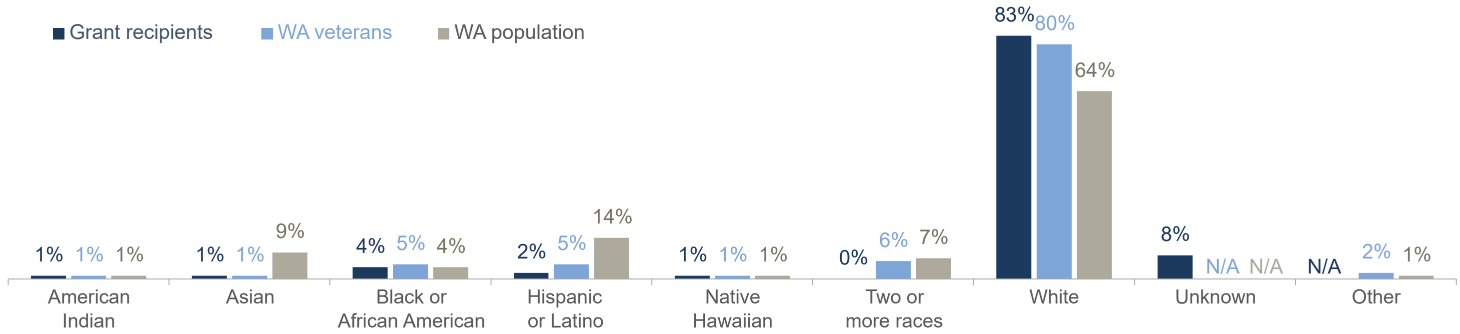
JLARC staff could not definitively identify a reason why the tax preference has seen little use, but lack of awareness may be a factor. Two agencies post information about the preference on their websites but do not otherwise promote or advertise its availability to eligible veterans.

- DOR issued a special notice about the preference. DOR uses special notices to communicate tax information to the public. It posts these notices online and distributes them via email to taxpayers based on their account history. However, DOR notes that individuals are less likely than businesses to interact with the department or know how to access information about tax preferences.
- The Washington State Department of Veterans Affairs (WDVA) is not involved in the federal adapted housing grant programs. Although WDVA did not play a role in the legislation that created the preference, DOR notified WDVA when the preference was enacted. WDVA's website has a link to DOR's special notice. However, WDVA does not monitor or promote the preference.
- The manual for federal VA housing agents directs them to notify veterans of state-level benefits. JLARC staff's attempts to speak with an agent were unsuccessful, so it is unclear to what extent agents are aware of the state tax exemption.
- DOR suggests that veterans who used grant funds may not know that they are eligible for the preference because they did not pay sales tax out of pocket.

Recipients of federal grants more closely resemble Washington's veteran population than state population for race and ethnicity

The VA provided data showing that both the grant recipients and the veteran population of Washington have a higher percentage of white individuals than the general population of Washington. They also have lower percentages of Hispanic, Black/African American, Native Hawaiian, and Asian individuals.

Figure 2: Recipients of federal grants more closely resemble the veteran population of Washington than the general population



Note: The VA provided JLARC staff with race and ethnicity data on grant recipients. Grant recipient data includes an "unknown" category that the VA and general population data do not. Grant recipient data does not include an "other" category.

Sources: VA data regarding grant recipients and 2023 veteran population; 2020 decennial census.

Recommendations

The Legislative Auditor makes two recommendations.

Recommendation #1:
The Legislature should continue the tax preference.

- It should extend the preference's January 1, 2028, expiration date. The preference can provide financial relief to disabled veterans who use their federal grant to pay state sales tax on the cost of adaptive housing projects.

Legislation required: Yes.

Fiscal impact: If the Legislature continues the preference, use of the preference is estimated to be $0 in the 2027-29 biennium.

Implementation date: 2027 legislative session.

Recommendation #2:
The Legislature should modify the tax preference.

- It should modify the preference to more effectively provide financial relief to eligible disabled veterans. One option is to increase the $2,500 per-project cap to cover a greater portion of state sales tax paid on adaptive housing projects.
- It should consult with the Washington Department of Veterans Affairs when considering changes to the preference. The WDVA aims to connect veterans and their family members to the benefits and services they earned through their military service.

Legislation required: Yes.

Fiscal impact: Depends on Legislature's policy choice. The preference is currently capped at $125,000 per year.

Implementation date: 2027 legislative session.

Letter from commission chair

To be included in proposed final report.

Commission recommendation

To be included in proposed final report.

Agency response

To be included in proposed final report.

Current recommendation status

JLARC staff review whether the agency acted on the recommendation for four years. The first review typically happens about a year after we issue the report. The most recent responses from agencies and status of the recommendations in this report can be viewed on our **legislative auditor recommendations page**.

Appendices

Appendix A: Grant eligibility requirements

To qualify for the federal Specially Adapted Housing grant, a recipient must:

- Own or will own the home; and
- Have a qualifying service-connected disability such as:
  - The loss or loss of use of more than one limb.
  - The loss or loss of use of a lower leg along with lasting effects of an organic disease or injury.
  - Blindness in both eyes.
  - Certain severe burns.

- The loss, or loss of use, of one lower extremity after September 11, 2001, which makes it so they cannot balance or walk without the help of braces, crutches, canes, or a wheelchair.

Applicants for a federal Special Home Adaptation grant must use the grant money to buy, build, or change their permanent home (i.e., a home they plan to live in for a long time) and:

- Recipients or a family member own or will own the home.
- Applicant must have a qualifying service-connected disability such as:
  - The loss or loss of use of both hands.
  - Certain severe burns.
  - Certain respiratory or breathing injuries.

Appendix B: Applicable statutes

RCW **82.08.0207**

Appendix C: Study questions

By law, tax preference reviews must address these study questions

Study questions define the scope of the audit. These reviews will consider the study questions as they relate to each preference, which were presented to JLARC in September 2024 (**view here**).

- **Public policy objectives:** What did the Legislature intend to accomplish? Has the preference achieved those goals?
  - The Legislature defined specific performance metrics for some tax preferences.
  - For others, JLARC staff infer objectives and metrics.
- **Beneficiaries:** Who does the preference benefit, either directly or indirectly? How much have they saved?
- **Revenue and economic impacts:** What are the impacts to the taxpayers and the state?
- **Other states:** Do other states have a similar tax preference?
- **Racial equity:** Are there racial equity considerations associated with the tax preferences?

Methods

The methodology JLARC staff use when conducting analyses is tailored to the scope of each study, but generally includes the following:

- **Interviews** with stakeholders, agency representatives, and other relevant organizations or individuals.
- **Site visits** to entities that are under review.
- **Document reviews**, including applicable laws and regulations, agency policies and procedures pertaining to study objectives, and published reports, audits or studies on relevant topics.

- **Data analysis**, which may include data collected by agencies and/or data compiled by JLARC staff. Data collection sometimes involves surveys or focus groups.
- **Consultation with experts** when warranted. JLARC staff consult with technical experts when necessary to plan our work, to obtain specialized analysis from experts in the field, and to verify results.

The methods used in this study were conducted in accordance with Generally Accepted Government Auditing Standards.

More details about specific methods related to individual study objectives are described in the body of the report under the report details tab or in technical appendices.

Appendix D: Audit authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's nonpartisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in **Chapter 44.28 RCW**, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

Appendix E: Study process

View guide to JLARC Tax Preference Reviews **here**.

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