

# HB 2607

## Bill Analysis

January 27, 1998

**Brief Description:** Exempting certain impact fees from sales and use taxation.

**Bill Sponsors:** Representatives Romero, Reams, Lantz, Cairnes, Fisher, Gardner and Thompson.

**Staff:** Rick Peterson, 786-7150.

**Background:** Cities and counties that plan under the Growth Management Act may charge impact fees on development. The fees are imposed as a condition of development approval and pay for public facilities needed to serve new growth and development. Impacts fees may be charged for public streets and roads; publicly owned parks, open space and recreation facilities; school facilities; and city fire protection facilities.

The sales tax is imposed on retail sales of most items of tangible personal property and some services. Use tax is imposed on the use of an item in this state, when the acquisition of the item or service has not been subject to sales tax. Taxable services include construction, repair, telephone, and some recreation and amusement services. The combined state and local sales and use tax rate is between 7 and 8.6 percent, depending on location.

Generally, sales tax applies to construction activity. However, there is a difference in tax treatment between prime contractors and speculative builders. Prime contractors are hired to construct buildings for consumers. The prime contractor collects sales tax from the consumer on the full contract price for the construction. Materials and services purchased by the contractor are purchases for resale and sales tax is not collected. The full contract price includes all the costs of construction including the prime contractor's profit and charges paid by the contractor for impact fees and other permits.

Speculative builders construct buildings on land owned by the builder. The speculative builder pays sales tax on the materials and services used during construction. Sale of the completed building and land is a sale of real estate. The real estate excise tax is paid rather than the sales tax. As a result, the costs associated with labor, profit and fees and permits are not subject to sales tax.

**Summary of Bill:** Impact fees authorized by the Growth Management Act are exempt from

House of Representatives  
Office of Program Research  
Finance Committee

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sales and use tax.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.