January 28, 1998

BILL ANALYSIS

TO: Members, Committee on Trade and Economic Development

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: HB 2649 - Establishing revenue provisions for low-income housing programs.

BACKGROUND:

The real estate excise tax (REET) applies to sales of real property and is collected when the sale document is recorded with the county. The tax also applies to transfers of controlling interest in entities that own property in the state. The tax rate is 1.28 percent of the selling price of the property. The proceeds from the state REET are deposited into the general fund for exclusive use in funding K-12 education and public works trust fund.

Most local governments impose an additional local REET at a rate not to exceed 0.25 percent of the selling price of the property. Additional local options are available that include the option to impose a REET at a rate not to exceed 0.5 percent if a local 0.5 percent retail sales and use tax is not imposed.

Revenues generated from the 0.25 percent local REET must be used as follows: (1) In counties and cities with a population of less than 5,000, for capital purposes identified in a capital improvement plan and local capital improvements; and (2) In counties and cities with a population over 5,000 and that are required or choose to plan under the Growth Management Act, for financing capital projects identified in a capital facilities plan element of a comprehensive plan and housing relocation assistance.

Real and personal property that is owned, rented, or leased by a nonprofit organization and used for emergency or transitional housing for low-income homeless persons or victims of domestic violence who are homeless for personal safety reasons is exempt from property taxes. To qualify for the property tax exemption, the benefit of the property tax reduction must inure, in the form of reduced lease rents, to the nonprofit organization. The exemption for property that is leased or rented by a nonprofit organization is only for taxes that are assessed through the year 1999.

SUMMARY:

Cities and counties are authorized to levy an additional local real estate excise tax (REET) in the amount of 0.037 percent of the selling price of the property.

The proceeds of the additional local REET must be used only for low-income housing activities that include: (1) planning, construction, maintenance, or rehabilitation of publicly owned low-income housing; (2) granting funds to nonprofit organizations for low-income housing; (3) granting funds for the benefit of residents of low-income housing through rent subsidies; and (4) other financial aid or grants to individuals or organizations provided the money is used only for planning, construction, maintenance, rehabilitation, or provision of low-income housing.

The local additional 0.037 percent REET for low-income housing is credited against the state's 1.28 percent REET. The additional local REET is not credited against the portion of the state REET dedicated to the public works trust fund.

The property tax exemption for real and personal property that is rented or leased by a nonprofit organization for use as emergency or transitional housing for low-income homeless persons or victims of domestic violence who are homeless for personal safety reasons is made permanent.

Low-income housing– means housing for low-income households.

Low-income household– means a person, family, or unrelated individuals with an income at or below 50 percent of the median income, adjusted for household size, in the county where the low-income housing is located.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 1998.