

Finance

HB 1245

Brief Description: *Exempting labor and services on new residential construction from sales tax.*

Sponsors: *Representatives Cairnes, Morris, DeBolt, Pennington, Roach, Crouse, McMorris, Reardon, Carrell, Hatfield, Dunn, Boldt, Mielke, Edwards, Bush, Van Luven, G. Chandler and D. Schmidt .*

Brief Summary of Bill

- *Charges for labor and services associated with new residential construction are exempt for the state portion of the retail sales tax.*

Hearing Date: *1/30/01*

Staff: *Mark Matteson (786-7145).*

Background:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods, as well as construction, including labor and services. The tax is imposed at a 6.5 percent rate by the state. Cities and counties may impose a local tax at a rate up to a maximum of 3.1 percent; currently, local rates range from 0.5 percent to 2.3 percent.

The manner in which the retail sales tax applies to construction for the purpose of new residential construction depends on whether the materials, labor, or services are being provided for resale or final consumption. If a speculative builder or developer acquires title to land for the purpose of building and marketing the residence, the builder is

considered the consumer and state and local retail sales taxes apply to sales made to the builder of building materials, tools, equipment, consumable supplies, and other tangible personal property, as well as sales of labor, services, and materials to the builder by subcontractors.

If, on the other hand, a landowner hires a prime contractor to construct a new residence upon the landowner's land, the landowner is considered the consumer and the prime contractor is required to collect from the landowner state and local retail sales taxes as measured by the price of the full contract. Sales to the prime contractor or subcontractor of building materials are exempt from state and local retail sales taxes, since such sales are considered sales for resale (through the prime contract) to the landowner. Labor and services provided by a subcontractor are similarly considered to be wholesale activities and state and local retail sales taxes do not apply.

Summary of Bill:

An exemption for the state portion of the retail sales tax is provided to charges made for labor and services associated with clearing land, moving earth, or site preparation; constructing, repairing, decorating, renovating, expanding, or improving new or existing buildings; or any other improvement upon real property for the purposes of new residential construction. The local retail sales tax continues to apply to such charges.

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

Appropriation: *None.*

Fiscal Note: *Requested on January 23, 2001.*