

SENATE BILL REPORT

SB 6198

As Reported By Senate Committee On:
Financial Services, Insurance & Housing, January 20, 2004

Title: An act relating to restoring the American dream by eliminating the state sales tax on construction labor and services in counties where the first-time home buyers housing affordability index shows that housing is not affordable.

Brief Description: Eliminating the state sales tax on construction labor and services in counties where housing is not affordable for first-time buyers.

Sponsors: Senator Benton.

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 1/19/04, 1/20/04 [DPS-WM].

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Majority Report: That Substitute Senate Bill No. 6198 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Berkey, Keiser, Murray, Prentice and Roach.

Staff: Fara Daun (786-7459)

Background: There is concern that first-time home buyers have been priced out of the housing market in many Washington counties, particularly those buyers with incomes under 120 percent of median. There is concern that the state sales tax on construction labor and services contributes to the high cost of housing.

Summary of Substitute Bill: In any county where the first-time buyer housing affordability index is less than 100 for three quarters in a year, measured on the same calendar as the state fiscal year, for the following two calendar years, the state portion of the retail sales tax does not apply to sales or charges for labor and services for clearing land, moving earth, site preparation, constructing, repairing, renovating, expanding, or improving of any new or existing buildings, structures, facilities for qualifying residential construction within a qualifying county.

The first-time buyer housing affordability index means the index maintained by the Washington Center for Real Estate Research at Washington State University that calculates whether a person who earns 70 percent of the area median household income can make principal and interest payments equal to 25 percent of household income on a home priced at 85 percent of the county median sales price for homes, if that person makes a 10 percent down payment and has a 30-year mortgage at the prevailing average fixed rate of interest.

The index is scaled such that an index of 100 indicates that a household of the defined income can afford a house of the defined price. An index of less than 100 indicates that a household of the defined income cannot afford a house of the defined price without spending more than 25 percent of their income on mortgage payments.

The seller must retain the documentation required by the Department of Revenue as necessary to administer the exemption and is subject to a 15 percent penalty as well as the interest and penalties under Chapter 82.32 RCW for improper exemptions.

Qualifying residential construction means construction of residential property that will be listed for sale for less than the county average sale price for homes.

Substitute Bill Compared to Original Bill: The substitute limits the exemption to qualifying residential construction, requires the seller to retain documentation and imposes a 15 percent penalty as well as the interest and penalties under Chapter 82.32 RCW. Qualifying residential construction means construction of residential property that will be listed for sale for less than the county average sale price for homes. The substitute also makes non-substantive amendments to clarify and simplify language and provide definitions.

Appropriation: None.

Fiscal Note: Requested on January 14, 2004.

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

Testimony For: Taxes and impact fees profoundly affect the cost of housing and are making achieving the American dream of home ownership more and more difficult to achieve. Taxes represent about 10 percent of the cost of a home. There is a benefit to the state beyond the production of homes. Statistics show that for each home built there will be revenue not directly attributable to construction costs equaling approximately 50 percent of the value of the taxes that would have been collected. This amount should be offset against the reduction in state sales tax. The production of homes improves the lives of the people and communities.

Testimony Against: This bill should not be passed until the state can afford to fund the things it is already obligated to provide, including those things mandated by the citizens. This is a matter of prioritizing obligations over good ideas.

Testified: Senator Benton, prime sponsor (pro); Dean Schwickerath, citizen (con); Bob Mitchell, Washington Association of Realtors (pro); Kim Herrman, Washington State Housing Finance Commission (pro).