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**SUBSTITUTE SENATE BILL 6198**

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**State of Washington                      58th Legislature                      2004 Regular Session**

**By** Senate Committee on Financial Services, Insurance & Housing  
(originally sponsored by Senator Benton)

READ FIRST TIME 01/22/04.

1            AN ACT Relating to restoring the American dream by eliminating the  
2 state sales tax on construction labor and services in counties where  
3 the first-time home buyers housing affordability index shows that  
4 housing is not affordable; adding a new section to chapter 82.08 RCW;  
5 and creating a new section.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7            NEW SECTION.    **Sec. 1.** The legislature finds that first-time home  
8 buyers in Washington state have been priced out of the housing market  
9 in many counties. The legislature finds that many organizations,  
10 including local governments, have recognized the affordable housing  
11 crisis for first-time home buyers. The legislature finds that, for  
12 example, as reported in King county's benchmark growth report, "buying  
13 a first home remains extremely difficult for those under one hundred  
14 twenty percent of median income."

15            The legislature further finds that the state sales tax on  
16 construction labor and services contributes to the high cost of housing  
17 in many Washington counties, and that eliminating this tax will reduce  
18 housing prices. The legislature also recognizes that the Washington  
19 state tax structure study committee suggested that exempting

1 construction labor from the state sales tax would improve economic  
2 vitality and harmonize Washington's sales tax provisions with other  
3 nearby states.

4 The legislature intends to make housing more affordable for first-  
5 time home buyers in counties where housing is currently not affordable  
6 for first-time home buyers. The legislature intends to do this by  
7 eliminating the state sales tax on construction labor and services in  
8 counties where the first-time buyer housing affordability index  
9 demonstrates that housing is not affordable for first-time home buyers.

10 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.08 RCW  
11 to read as follows:

12 (1) The tax levied by RCW 82.08.020 does not apply to the sale of  
13 or charge made for labor and services rendered in respect to clearing  
14 land, moving earth, site preparation, or constructing, repairing,  
15 renovating, expanding, or improving of new or existing buildings,  
16 structures, or other facilities under, upon, or above real property  
17 for qualifying residential construction within qualifying counties for  
18 two calendar years beginning January 1st following the department's  
19 determination that a county is a qualifying county.

20 (2) The exemption under this section only applies to the state  
21 portion of the sales tax.

22 (3) The seller shall retain any documentation the department deems  
23 necessary for the proper administration of this section.

24 (4) If the department determines that the seller improperly  
25 exempted a sale of labor or services under this section, a fifteen-  
26 percent penalty shall apply to taxes owed to the department as well as  
27 interest and penalties under chapter 82.32 RCW.

28 (5) For the purposes of this section, the following definitions  
29 apply:

30 (a) "Qualifying county" means a county for which the first-time  
31 buyer housing affordability index is less than one hundred for three of  
32 four quarters in any given year, as determined by the Washington center  
33 for real estate research at Washington State University. The index  
34 year shall begin July 1st and end June 30th of each year.

35 (b) "Qualifying residential construction" means the construction of  
36 residential property where the residential property will be listed for  
37 sale for less than the county average sales price for homes.

1           (c)(i) "First-time buyer housing affordability index" means the  
2 index maintained by the Washington center for real estate research at  
3 Washington State University that calculates whether a person who earns  
4 seventy percent of the area median household income can make principal  
5 and interest payments equal to twenty-five percent of household income  
6 on a home priced at eighty-five percent of the county median sales  
7 price for homes, if the person made a ten percent down payment and has  
8 a mortgage with a term of thirty years at the prevailing average fixed  
9 rate of interest;

10           (ii) The first-time buyer housing affordability index shall be  
11 scaled so that a score of one hundred means that a potential first-  
12 time homebuyer with an income of seventy percent of the area median  
13 household income who purchases a home priced at eighty-five percent of  
14 the county median sales price for homes, using a ten percent  
15 downpayment and a thirty-year mortgage at the prevailing average fixed  
16 rate of interest will pay twenty-five percent of household income for  
17 principal and interest. A score of less than one hundred indicates  
18 that this buyer cannot afford this home without paying more than  
19 twenty-five percent of household income.

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