

HOUSE BILL REPORT

HB 2439

As Reported by House Committee On: Finance

Title: An act relating to the support of military families stationed in Washington state through an exemption from the state and local real estate excise taxes for home sales resulting from military relocation orders within three years of home purchase.

Brief Description: Providing support for military families by exempting home sales resulting from military relocation orders from real estate excise taxes.

Sponsors: Representatives Hudgins, Kilmer, McCoy, Morrell, Appleton, Moeller, Rodne, Linville, Conway, P. Sullivan, Morris, B. Sullivan, Green, Ericks, Upthegrove and Ormsby.

Brief History:

Committee Activity:

Finance: 1/20/06, 1/25/06 [DPS].

Brief Summary of Substitute Bill

- Provides an exemption from real estate excise taxes to members of the armed forces who are required to relocate due to military orders, if the selling price of the property is no more than 8 percent greater than the price paid for it.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

Staff: Mark Matteson (786-7145).

Background:

Real estate excise tax. The real estate excise tax is imposed on each sale of real property. Real property includes any interest in land or anything affixed to land. The state tax rate is 1.28 percent. Additional local rates are allowed. The combined state and local rate in most areas is 1.78 percent or less. The highest rate is 2.78 percent in the City of Friday Harbor.

The real estate excise tax applies when a sale occurs and is typically paid by the seller. A sale is defined as any transfer of the ownership of or title to real property, or any transfer of a controlling interest in a corporation or other entity that owns real property. A controlling

interest is 50 percent or more of the voting power of the stock of a corporation, or 50 percent or more of capital, profits, or beneficial interest in a partnership, association, trust, or other entity.

Both the buyer and the seller are required to sign a real estate excise tax (REET) affidavit when a taxable transaction occurs. The affidavit must contain the names and addresses of the buyer and seller, a legal description of the property, a parcel number, and the property selling price.

Several exemptions are allowed from the real estate excise tax, including gifts, inheritances, and transfers to a corporation or partnership that is wholly owned by the transferor, the transferor's spouse, or the transferor's children.

In recent years, residential home values have increased significantly relative to historical growth rates in certain places in the state, driving up the amount of real estate excise taxes owed and collected. In the third quarter of 2005, the median price of a home sold in the state was \$269,300, according to the Washington Center for Real Estate Research. Three years earlier, the median was \$191,600.

Military presence in Washington. According to Department of Defense statistics, there are over 40,000 active duty military personnel stationed in Washington. From time to time, personnel are relocated pursuant to the needs of the military. Enlisted army personnel at Fort Lewis, for example, can expect to remain stationed in Washington between four to six years only, according to Army officials.

Summary of Substitute Bill:

An exemption from real estate excise taxes is provided in certain circumstances to military personnel who are required to relocate pursuant to military orders. The exemption is available only if the selling price of the property is no more than 8 percent greater than the price the person paid for it.

To be eligible for the exemption, the person selling the property must:

- occupy the property as a principal place of residence at the time the orders are issued;
- have purchased the residence within three years preceding the issuance of orders;
- sell the property within twelve months following the issuance of orders; and
- is (or whose spouse is) an active duty member of the military on the date of the sale.

The county treasurer may request verifying documentation to be submitted along with the real estate tax affidavit. The seller must maintain records necessary for the Department of Revenue (Department) to verify eligibility. Such records include permanent change of station orders; an instrument of real property sale or conveyance; documentation as to the person's active duty status; and other identification documentation.

The exemption expires the earlier of the day in which the Department determines that the number of active duty military members in Iraq is less than 20,000 or 10 years from the effective date of the act.

Substitute Bill Compared to Original Bill:

Disallows the REET exemption if the selling price is more than 8 percent greater than the purchase price.

Appropriation: None.

Fiscal Note: Requested on January 4, 2006.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2006.

Testimony For: This bill is to help our military folks, especially enlisted personnel and younger officers with families. Currently, these people have to relocate due to military orders every two to three years. At McChord Air Force Base, there is a significant waiting list for base housing. Many people have to buy homes off base. In the bill, there are high hurdles such that this incentive won't be abused.

My family has had 11 addresses in the past 13 years. My husband is a military pilot currently serving in Iraq. Before locating to Washington, we never experienced a real estate excise tax. If you are not in a quickly appreciating market, then you may not have built up sufficient equity to deal with this kind of tax, and so that's what we're concerned about. Base housing is not always an option. For people like us that have to deal with transition so often, the home environment is one of the things that we feel like we can control. But this is money out of our pocket that we can't reinvest into making our homes comfortable. People who have a longer timeline can sometimes manage to sell the property on their own and avoid the 6 percent agent's fee. But sometimes we only get one month's notice.

Testimony Against: None.

Persons Testifying: Representative Hudgins, prime sponsor; and Christie Carlsen.

Persons Signed In To Testify But Not Testifying: None.