

SENATE BILL REPORT

SB 5183

As Reported By Senate Committee On:
Financial Institutions, Housing & Consumer Protection, January 24, 2006

Title: An act relating to tax relief to promote affordable housing.

Brief Description: Providing tax relief to promote affordable housing.

Sponsors: Senators Franklin, Thibaudeau, Rockefeller, Kastama, Fraser, Keiser, Regala, Weinstein, Hargrove, Doumit, Shin, Brandland, Kline, Kohl-Welles, Poulsen, Jacobsen and McAuliffe.

Brief History:

Committee Activity: Financial Institutions, Housing & Consumer Protection: 1/25/05, 2/1/05, 1/24/06 [DP2S-WM].
Ways & Means: 3/1/05, 1/12/06 [w/oRec-FHC].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & CONSUMER PROTECTION

Majority Report: That Second Substitute Senate Bill No. 5183 be substituted therefor, and the second substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Fairley, Chair; Berkey, Vice Chair; Benson, Brandland, Franklin, Keiser, Schmidt and Spanel.

Staff: Jennifer Arnold (786-7471)

Background: It is believed that Washington State faces a shortage of affordable housing and that certain tax incentives would encourage and promote the new construction of affordable housing, enabling the state to better meet its growing need.

The sales and use tax are taxes on the use of goods or certain services in Washington. The use tax is complimentary to the sales tax and applies in instances where goods or services are used in this state, but the state sales tax was not paid on the purchase, (i.e. garage sales, out-of-state purchases).

Summary of Second Substitute Bill: A sales or use tax exemption is created for certain goods and services used in the construction of low-cost housing. The tax exemption is available to sellers of low-cost single-family dwelling units, who sell such units to a "qualified low-income buyer" for use as that buyer's primary residence. Qualified buyers are also eligible for the exemption, if they construct, contract for construction, or buy a low-cost single-family dwelling unit and use that unit for their primary residence.

To be eligible for the tax exemption, the buyer or seller must have paid the sales or use tax on the materials or labor and services used in the dwelling unit's construction. After the unit is sold in the case of a seller or the occupancy permit is obtained in the case of a buyer, the

taxpayer may apply to the DOR for a 50 percent refund on the state portion of the sales and use tax paid for construction materials; labor and service costs related to construction; and labor and service costs related to fixture installation during construction.

A "qualified low-income buyer" is defined as a buyer who has an income of no more than 80 percent of the higher of: (1) the median family income, adjusted for household size, in the county where the dwelling unit is located; or (2) the state median income. Further, the buyer must be an eligible participant in either a homeownership program by the Washington State Housing Finance Commission (Commission) or a government affordable housing program certified by the Commission.

A "low-cost single-family dwelling unit" is defined a single-family dwelling unit, including a condominium, used as the qualified buyer's primary residence that had a listed sales price or an appraisal value (if constructed by the buyer) that is equal to or less than the applicable purchase price limits for new construction in the county where the property is located, as specified in the Commission's homeownership program.

A taxpayer applying for the exemption must submit the information necessary for the Commission to certify whether the low-cost single-family dwelling unit was sold to, or built by, a qualified low-income buyer to be used as that buyer's primary residence. The DOR must determine eligibility for the tax exemption based on certification by the Commission.

Second Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Requested on January 17, 2005.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on August 1, 2006.

Testimony For: Using tax incentives is a great way to stimulate the market place. This bill would provide considerable benefits by: placing 500 families, earning less than 80 percent of adjusted median income, in new homes; creating 961 jobs in home construction; and providing more than \$120 million in total direct and indirect economic contributions to the state's economy. Consideration also needs to be made for expanding the application of this tax incentive to moderate-income housing, as well. Further, excessive regulation and land supply are issues that, ultimately, should also be addressed in the arena of affordable housing.

Testimony Against: None.

Who Testified: PRO: Trent Matson, Building Industry Association of Washington; Kim Herman, Washington State Housing Finance Commission; Maureen Howard, Habitat for Humanity.