

# HOUSE BILL REPORT

## HB 1532

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### As Reported by House Committee On: Finance

**Title:** An act relating to the exemption of property taxes for nonprofit homeownership development.

**Brief Description:** Concerning the exemption of property taxes for nonprofit homeownership development.

**Sponsors:** Representatives Lytton and Hayes.

#### **Brief History:**

##### **Committee Activity:**

Finance: 1/31/17, 2/14/17 [DPS].

#### **Brief Summary of Substitute Bill**

- Clarifies the property tax exemption for nonprofit homeownership development by specifying that land that is to be leased for 99 years or life to a low-income household is included in the exemption.
- Specifies that the lease of the exempted land to a low-income household terminates the property tax exemption.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

**Minority Report:** Do not pass. Signed by 1 member: Representative Orcutt, Assistant Ranking Minority Member.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Condotta.

**Staff:** Rachelle Harris (786-7137).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

## **Background:**

### Property Tax.

All property in Washington state is subject to property tax each year based on the highest and best use of the property, unless a specific exemption is provided by law. Property tax exemptions are currently made available to qualifying organizations including schools, churches, nonprofit hospitals, nursing homes, museums, public meeting halls, and others.

### Property Tax Exemption for Low-Income Housing Development.

Property that is owned by a nonprofit organization for the purpose of developing residences on the property for low-income households is exempt from state and local property taxes for a limited term. So long as the property remains held for the purpose of low-income housing development, the exemption lasts for seven consecutive tax years or until the nonprofit organization sells the property. Should the nonprofit organization anticipate that they will be unable to sell the property within the seven-year term, they may file for a three-year extension by filing a notice of extension with the Department of Revenue and paying a filing fee.

The property is disqualified from the exemption if:

1. the nonprofit organization fails to sell the property to a low-income household within the applicable exemption period; or
2. the property is converted to a use other than low-income housing development.

In this case, an additional tax equal to all taxes that would have been previously due without the exemption, plus interest, is due. This additional tax is considered a lien on the property.

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## **Summary of Substitute Bill:**

The exemption for real property owned by a nonprofit organization for the purpose of developing residences for low-income households is clarified to specify that the land upon which a residence stands that is to be leased for life or 99 years to the low-income household qualifies for the exemption. The conditions of the duration of the exemption are clarified such that the exemption will end when a lease of the land is executed. The sale of the dwelling-unit by the nonprofit organization is clarified to be the relevant trigger to various conditions of the exemption. The exemption is set to expire on January 1, 2027.

## **Substitute Bill Compared to Original Bill:**

The substitute bill makes clarifying changes to the intent section of the tax preference performance statement to maintain the exemption's application to real property, and to specify that it is the lease of land for life or 99 years that is being added to the exemption. The expiration date is removed so that the exemption will continue to have an automatic 10-year duration.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The current bill will help to clarify the intent of Senate Bill 6211, which was enacted last year. Senate Bill 6211 allowed a nonprofit organization that purchases property for the purposes of developing low-income housing to receive a property tax exemption while they are building the housing. Currently, the exemption expires when the building and title is sold to the new, low-income owners. Habitat for Humanity is an obvious example of an organization that benefits from this exemption.

The way that the Department of Revenue has interpreted the exemption resulted in the Northwest Community Land Trust Coalition being excluded from benefiting from the exemption. Land trusts build and sell affordable housing options under a slightly different model. Land trusts buy land upon which they build homes to ultimately sell to low-income households, much like Habitat for Humanity. In these instances, however, families buy the homes but the land remains held in trust by the land trust organization in order to ensure that the home is ultimately re-sold to another low-income household. Homeowners are still able to accrue equity on their home investment under this model. There are roughly 1,500 land trusts in the state, and they do very innovative work in Washington communities. The homeowner ultimately pays taxes on both the dwelling unit and the land. This bill would remove the stipulation that both the building and the land must transfer to the homeowner outright. It will allow for parity for land trusts who do similar work as Habitat for Humanity and will help ensure that the full intent of the previous legislation is accomplished.

(Opposed) None.

**Persons Testifying:** Jessie Turner, Northwest Community Land Trust Coalition.

**Persons Signed In To Testify But Not Testifying:** None.