

# HOUSE BILL REPORT

## HB 2138

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### As Reported by House Committee On: Finance

**Title:** An act relating to tax relief for the construction of adapted housing for disabled veterans.

**Brief Description:** Concerning tax relief for the construction of adapted housing for disabled veterans.

**Sponsors:** Representatives Kraft, Kirby, Lovick, Klippert, Smith, Haler and McDonald.

**Brief History:**

**Committee Activity:**

Finance: 3/17/17, 3/30/17 [DPS].

#### Brief Summary of Substitute Bill

- Exempts labor and materials for construction of adapted housing for disabled veterans from state sales and use taxes.
- Limits the exemption to \$2,500 for each project.
- Limits the total amount of exemptions for adapted housing to \$125,000 annually.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Lytton, Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Frame, Vice Chair.

**Staff:** Serena Dolly (786-7150).

**Background:**

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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.*

### Adapted Housing for Veterans.

Specially adapted housing is designed to enhance accessibility, minimize barriers, or otherwise allow people with disabilities to move independently. The Department of Veterans Affairs (VA) provides two grants for adapted housing to members of the armed forces and veterans who have certain permanent and total service-connected disabilities. The grants are used to help the veterans purchase or construct an adapted home, or modify an existing home to accommodate a disability. The maximum Specially Adapted Housing (SAH) grant award is \$77,307, and the maximum Special Housing Adaptation (SHA) grant award is \$15,462. Additionally, veterans who receive either the SAH or the SHA grant may be eligible for a supplementary Home Improvements and Structural Alterations (HISA) grant of up to \$6,800. The current or most recent VA Rating Decision issued by the Veterans Service Center of jurisdiction establishes the veteran's or service member's basic eligibility for a SAH Grant.

### Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services (including construction). A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value when used in this state. The state, all counties, and most cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

### Taxation of Construction Activities.

Prime contractors must collect retail sales tax from the purchaser of the construction project on the gross contract price. Billing invoices must disclose the sales tax separately. If the contract requires retainage, sales tax must be computed before deducting such amounts. Retail construction services are sourced to the location where the construction takes place. A contractor is considered the consumer of items purchased for use in the construction process and not used as component parts of the finished structure. Therefore retail sales tax must be paid to the vendors of such items. The purchase of materials by custom contractors that will become part of the completed project are purchases for resale (wholesale). Such purchases are not subject to retail sales tax. Reseller permits allow businesses to purchase items or services for resale without paying retail sales tax. Use tax is due if sales tax has not been paid on items the contractor uses as a consumer. Use tax is generally due on the following: equipment, tools, supplies, and rentals of equipment, even if the cost for these items is passed along to the purchaser of the construction project.

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### **Summary of Substitute Bill:**

Charges for the labor and materials purchased for the construction of adapted housing for disabled veterans are exempt from state sales and use tax, up to a project maximum of \$2,500. The exemption is available as a remittance through the Department of Revenue. The total amount of exemptions is limited to \$125,000 annually.

Qualifying adapted housing projects are those that have been approved by the VA as part of the SAH grant program, or the SHA grant program. "Eligible purchasers" are the veterans who have received grants under these programs.

The tax preference is categorized as one intended to provide tax relief for certain individuals. The Joint Legislative Audit and Review Committee is required to review the preference by evaluating the number of exemption applications, and the number of adapted housing grants awarded. The preference has an automatic 10-year expiration date.

**Substitute Bill Compared to Original Bill:**

The substitute bill limits the exemption to \$2,500 for each project by an eligible purchaser. The total amount of sales and use tax exemptions is limited to \$125,000 annually. The sales and use tax exemption is available as a remittance from the Department of Revenue.

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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) This is a bipartisan bill that provides tax relief for disabled veterans. It allows veterans to construct or adapt housing following their military service. It is similar to a bill passed in 2013 that exempted automobile adaptations for disabled veterans from sales tax.

(Opposed) None.

**Persons Testifying:** Representative Kraft, prime sponsor; Heinz Haskins, Veterans Legislative Coalition; and Jerry Fugich, Department of Washington Veterans of Foreign Wars.

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