

HOUSE BILL REPORT

HB 2875

As Reported by House Committee On:
Finance

Title: An act relating to sales, use, and excise tax exemptions for self-help housing development.

Brief Description: Concerning sales, use, and excise tax exemptions for self-help housing development.

Sponsors: Representatives McBride, Jinkins, Muri, Fey, Ryu, Kilduff, Sawyer, McDonald, Tharinger, Barkis, Stambaugh, Wilcox, Wylie, Kirby, Ortiz-Self, Clibborn and Chapman.

Brief History:

Committee Activity:

Finance: 1/30/18, 2/5/18 [DP].

Brief Summary of Bill

- Provides a sales and use tax exemption for labor and services for the construction, repair, decoration, or improvement of self-help housing.
- Provides a real estate excise tax exemption on the sale of self-help housing by an affordable homeownership facilitator to a low-income household.
- Defines "self-help housing," "affordable homeownership facilitator," and "low-income household."

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives Lytton, Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary and Wylie.

Minority Report: Do not pass. Signed by 1 member: Representative Wilcox.

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

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.

Staff: Richelle Geiger (786-7139).

Background:

Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. 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 tax applies to the value of the property, digital product, or service when used in this state. The state, all counties, and all 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.

Sales and use taxes are due on the following construction services: constructing and improving new or existing buildings and structures; and installing, repairing, cleaning, improving, constructing, and decorating real and personal property for others.

Real Estate Excise Tax.

Real estate excise tax (REET) is assessed on the sale or transfer of real estate. The REET is assessed on the selling price, including the amount of any liens, mortgages, or other debts. The REET is typically paid by the seller of the property, although the buyer is liable if the REET is not paid. The state REET rate is 1.28 percent. City and county rates vary depending on location, ranging from 0.25 percent to 1.5 percent. Certain types of real estate transactions are statutorily exempt from REET.

Summary of Bill:

A sales tax exemption is provided to affordable homeownership facilitators for the purchase of labor and services for the construction, repair, decoration, or improvement of new or existing self-help housing. A sales and use tax exemption is provided to affordable homeownership facilitators for the purchase of tangible personal property that becomes a component of the self-help housing building or other structures. The self-help housing must be in compliance with current state building code for single-family dwellings. The exemption can only be claimed if the buyer provides the seller with an exemption certificate. The exemption cannot be claimed if the housing is built to be occupied by an employee, family member of an employee, or person on the board of trustees or directors of an affordable homeownership facilitator.

Property that benefits from the sales and use tax exemption must qualify as self-help housing for at least five consecutive years from the date the housing is approved for occupancy. Additionally, the self-help housing must be the primary dwelling of the initial low-income purchaser. If these requirements are not met, the full amount of the exempt sales and use tax is due immediately with interest, but not penalties, from the date the housing was approved for occupancy until the date of payment.

A REET exemption is provided on the sale of self-help housing by an affordable homeownership facilitator to a low-income household.

"Self-help housing" is defined as dwelling residences provided for ownership by low-income individuals and families whose equity in the housing is substantially derived from labor.

"Self-help housing" does not include residential rental housing provided on a commercial basis to the general public.

An "affordable homeownership facilitator" is defined as a nonprofit community-based or neighborhood-based organization that acts as a developer of self-help housing and is exempt from federal income tax under Title 26 U.S.C. Sec. 501(c).

"Low-income household" is defined as a single person, family, or unrelated persons living together whose adjusted income is at or below 80 percent of the median family income adjusted for family size, as reported by the United States Department of Housing and Urban Development, for the county in which the property is located.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

(In support) This legislation was brought forward by Habitat for Humanity. It would help with the skyrocketing home development costs that face nonprofit developers of the rare housing projects that specifically support low-income households. This exemption would help build more units in communities across the state.

This exemption is an important, modest, and efficient use of state resources. On average, the exemption would save developers \$7,000 per unit. The Housing Trust Fund, operated by the Washington State Housing Finance Commission and Department of Commerce, currently invests approximately \$500,000 per unit.

Homeowners pay property taxes, and the state investment in this program would be paid back soon after the homeowner obtained the house.

This legislation would increase housing supply and opportunity for homeownership. It would directly increase the number of homes that Habitat for Humanity and other nonprofit developers can provide. Habitat for Humanity projects that they could increase their capacity by 15 percent per year and build 500 additional units over the course of 10 years with the passage of this legislation.

The program would use mortgage payments made by low-income homeowners to pay for the construction of additional affordable housing. This positive cycle allows opportunity to

beget more opportunity. Many clients cannot qualify for standard mortgages and cannot afford the houses that are on the market. The program opens the door to the middle class by giving homeowners an opportunity to save and gain an asset. Giving people the opportunity to affordably own homes enables them to become leaders in their communities.

Habitat for Humanity has a high success rate. According to a recent poll of Habitat for Humanity clients, approximately 80 percent plan to live out their retirement years in their homes.

The fiscal note mentions this exemption may carry potential legal risk. This legislation is modeled after a bill providing a similar exemption for nonprofit developers of farmworker housing that was adopted by the Legislature in 1996. It is not believed that this exemption has been challenged in court.

(Opposed) None.

Persons Testifying: Representative McBride, prime sponsor; Roger Valdez, Seattle for Growth; Maureen Fife, Tacoma/Pierce County Habitat for Humanity; Michone Preston, Habitat for Humanity of Washington State; and Becca Scanlan.

Persons Signed In To Testify But Not Testifying: None.