
Finance Committee

HB 1168

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

Sponsors: Representatives Leavitt, Barkis, Kilduff, Jinkins, MacEwen, Goodman, Macri, Pollet, Callan, Wylie, Chapman, Valdez, Fey, Doglio and Kloba.

Brief Summary of Bill

- Provides a sales and use tax exemption for qualifying purchases of labor, services, and tangible personal property related to 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."

Hearing Date: 1/31/19

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 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.

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.

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.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax and REET exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

A retail 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 retail 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 during the course of constructing, repairing, decorating, or improving self-help housing. 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 and be the primary dwelling of the initial low-income purchaser for at least twenty consecutive years from the date the housing is approved for occupancy. 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 ownership requirement includes labor participation. "Self-help housing" does not include residential rental housing provided on a commercial basis to the general public.

"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) as of October 1, 2019.

"Low-income" is defined as household income as defined by the Department of Revenue (DOR), provided that the definition may not exceed eighty percent of median household income, adjusted for household size, for the county in which the dwelling unit is located.

The bill contains a tax preference performance statement in which the public policy objective is to provide a excise tax relief to encourage continued development of self-help housing. The JLARC is directed to review the total number of taxpayers that claim the preferences and the total amount of tax revenue exempt under this bill, annually. The JLARC may refer to data from the DOR as well as any other available data source.

The bill expires on January 1, 2030.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on October 1, 2019.