FINAL BILL REPORT
SHB 2634

FULL VETO
Synopsis as Enacted

Brief Description: Exempting a sale or transfer of real property for affordable housing to a nonprofit entity, housing authority, or public corporation from the real estate excise tax.

Sponsors: House Committee on Finance (originally sponsored by Representatives Walen, Barkis, Stokesbary, Macri, Chapman, Gildon, Chopp, Robinson, Senn, Leavitt and Tharinger).

House Committee on Finance
Senate Committee on Housing Stability & Affordability
Senate Committee on Ways & Means

Background:

Real Estate Excise Tax.
Real estate excise tax (REET) is due on the sale of real estate and transfer of controlling interest in an entity that owns real property in the state. The tax base is the selling price of real estate, including the amount of any liens, mortgages, and other debts. In the case of the transfer of controlling interest, the tax base is the true and fair value, or selling price, of the real property transferred. The tax is typically paid by the seller of the property, although the buyer is liable for the tax if it is not paid.

Beginning on January 1, 2020, and through June 30, 2022, the REET rate is:
- 1.1 percent if the selling price is equal to or less than $500,000;
- 1.28 percent on the portion of the selling price that is greater than $500,000, but equal to or less than $1.5 million;
- 2.75 percent on the portion of the selling price that is greater than $1.5 million, but equal to or less than $3 million; and
- 3 percent on the portion of the selling price that is greater than $3 million.

Beginning on July 1, 2022, and every fourth year thereafter, the selling price thresholds are adjusted to reflect the lesser of the growth in the Consumer Price Index for Shelter over the past four years, or 5 percent. The Department of Revenue (DOR) must publish updated selling price thresholds by September 1, 2022, and September 1 of every fourth year thereafter. If the growth in Consumer Price Index for Shelter is less than 0 percent, the selling price thresholds are not adjusted for that four year period.

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.

A rate of 1.28 percent is imposed on the sale of real property that is classified as timberland or agricultural land, regardless of the selling price.

<u>Tax Preferences</u>.
All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. In addition, an automatic 10-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Summary:

The sale or transfer of real property to a nonprofit, housing authority, or public corporation is exempt from REET if the grantee intends to use the property for rental housing for low-income persons and receives, or qualifies for, certain eligible real and personal property tax exemptions. Eligible property tax exemptions are:
- the property tax exemption provided to nonprofit organizations that provide rental housing or used space to very low-income households;
- the property tax exemption and payments in lieu of taxes provided to housing authorities; and
- the immunity or exemption from taxation provided to public corporations.

Qualifying grantees must certify their intent, by affidavit at the time of transfer, to receive or qualify for the eligible tax exemption within:
- 1 year, if the grantee intends to operate existing housing as affordable housing;
- 3 years, if the grantee intends to substantially rehabilitate the premises; or
- 5 years, if the grantee intends to develop new affordable housing on the property.

If a qualifying grantee fails to receive, or qualify for, a property tax exemption within this timeline, all unpaid REET becomes due plus interest. Interest is calculated from the date of transfer. In cases where the property is transferred to a new qualifying grantee, only that new grantee is liable for unpaid REET and interest, should it become due.

The preference is exempt from the 10-year expiration requirement for all new tax preferences.

Votes on Final Passage:

House	94	4
Senate	46	2