

SENATE BILL REPORT

SHB 1168

As of April 10, 2019

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

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

Sponsors: House Committee on Finance (originally sponsored by Representatives Leavitt, Barkis, Kilduff, Jenkins, MacEwen, Goodman, Macri, Pollet, Callan, Wylie, Chapman, Valdez, Fey, Doglio and Kloba).

Brief History: Passed House: 3/08/19, 95-1.

Committee Activity: Housing Stability & Affordability: 3/20/19, 3/25/19 [DPA-WM].
Ways & Means: 4/03/19.

Brief Summary of Amended Bill

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

SENATE COMMITTEE ON HOUSING STABILITY & AFFORDABILITY

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Kuderer, Chair; Das, Vice Chair; Zeiger, Ranking Member; Darneille, Saldaña and Warnick.

Staff: Jeff Olsen (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: Self-help housing organizations support low-income individuals and families by assisting them in the development of residential dwellings by using homebuyer and volunteer labor.

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.

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.

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.

Summary of Amended 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 also 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 exemption only applies if the self-help housing is in compliance with current state building codes for single-family dwellings. The exemption may 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 a low-income purchaser for at least five 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.

"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 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 80 percent of median household income, adjusted for household size, for the county in which the dwelling unit is located.

Affordable homeownership facilitators claiming the preference must annually report to DOR. The Joint Legislative Audit and Review Committee is directed to review the total number of taxpayers that claim the tax preference, the amount of tax revenue exempt, and the number of self-help units added.

The bill expires on January 1, 2030.

EFFECT OF HOUSING STABILITY & AFFORDABILITY COMMITTEE AMENDMENT(S):

- Clarifies the tax preference performance statement is not intended to create a private right of action by any party.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Substitute House Bill (Housing Stability & Affordability): *The committee recommended a different version of the bill than what was heard.* PRO: Washington has an affordable housing crisis and many low-income families are struggling to be able to afford a home. Self-help housing organizations are an option that can provide the tools for making home ownership a reality. There is a minimal revenue impact to the state and local jurisdictions, but would allow self-help housing developers who are producing more than 150 units per year to increase production by 10 to 25 percent. This additional housing inventory will add property tax revenues and allow for development to occur sooner. The Housing Finance Commission supports these programs by providing mortgages and other types of financial assistance. Participants that put in their own labor, sometimes hundreds of hours, tend to stay in their homes longer than the average person.

Persons Testifying (Housing Stability & Affordability): PRO: Representative Mari Leavitt, Prime Sponsor; Carly Colgan, South Puget Sound Habitat for Humanity; Kim Herman, Washington State Housing Finance Commission; Chester Baldwin, Habitat for Humanity.

Persons Signed In To Testify But Not Testifying (Housing Stability & Affordability): No one.

Staff Summary of Public Testimony on Bill as Amended by Housing Stability & Affordability (Ways & Means): PRO: The legislation will have a minimal fiscal impact on the state. This bill will allow 40 low-income self-help housing developers, who are producing over 150 housing units a year, to increase production by 15 to 25 percent. It will allow for more buildable property to be developed adding more affordable housing inventory. This additional inventory will increase property tax revenues. In the last couple of years, we have seen quickly rising costs for land and labor with stagnant wages. This bill will allow more low-income individuals to achieve the dream of home ownership. Washington was the second state to adopt the self-help housing model under the USDA. These homeowners put in hundreds of hours to build their home in addition to working their normal jobs. It can take up to nine months and involves many weekends. Most of these families earn less than 80 percent of median income and some less than 50 percent of median income. We help provide lower-interest mortgages and down payment assistance. People that work on their own homes stay in their homes longer. The tax break could save a homeowner up to \$7,000.

Persons Testifying (Ways & Means): PRO: Shawna Dutton, South Puget Sound Habitat for Humanity; Kim Herman, Washington State Housing Finance Commission.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.