
Finance Committee

HB 2063

Brief Description: Providing an exemption from the real estate excise tax for transfers of property to qualifying low-income first-time homebuyers.

Sponsors: Representatives Wylie, Ryu, Reed, Fosse, Reeves, Paul and Shavers.

Brief Summary of Bill

- Provides a real estate excise tax exemption for the sale of a single-family unit to a person who is a first-time homebuyer as defined for the purposes of the Washington State Housing Finance Commission and who is receiving publicly funded down payment assistance.

Hearing Date: 1/25/24

Staff: Tracey Taylor (786-7152).

Background:

State Real Estate Excise Tax.

The state imposes a graduated real estate excise tax on the sale of property that is not timberland or agricultural land. The portion of the selling price up to \$525,000 is taxed at 1.1 percent; the portion that is more than \$525,000 but less than or equal to \$1,525,000 is taxed at 1.28 percent; the portion that is more than \$1,525,000 but less than \$3,025,000 is taxed at 2.75 percent; and any portion of the selling price over \$3,025,000 is taxed at 3 percent. The tax is paid by the seller of the real estate.

The Department of Revenue (DOR) is required to adjust the first price threshold every four years by the lesser of the growth in the Consumer Price Index (CPI) for shelter or 5 percent, rounded to the nearest thousand dollars. The CPI is a measure of the change over time in prices for certain

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

goods, and is often used as a measure of inflation. If the change in the CPI for shelter is zero or negative, then the price threshold must remain the same. If the first threshold does increase, then the remaining thresholds must increase by the same amount. The first update to the price thresholds occurred on January 1, 2023; it resulted in an increase of 5 percent to the first price threshold, which translated to an increase of \$25,000 at each threshold. Timberland and agricultural land are taxed at a flat rate of 1.28 percent.

The tax imposed is due at the time of sale, and is subject to monthly interest if paid more than a month after the sale. The tax is a lien on the property, and its payment is the responsibility of the seller. The DOR may foreclose on the property if the tax remains unpaid.

The revenue from the state real estate excise tax is deposited as follows: 5.2 percent into the Public Works Assistance Account, which is used to make loans and grants to local governments for public works projects; 1.4 percent into the City-County Assistance Account, which provides funding to local governments based on their size and how their sales and property tax revenue compare to the statewide average; 79.4 percent to the State General Fund; and 14 percent into the Education Legacy Trust Account, which is used to support education.

Real Estate Excise Tax Exemptions.

Some transfers of property are exempted from being considered a sale. Because these transfers are not considered sales, they are not subject to real estate excise taxation. These exemptions include, among other things, property transfers made by gift or through inheritance, transfers made pursuant to a dissolution of marriage, or the transfer of a mortgage interest in property.

Certain property sales or transfers related to low-income housing are also exempt from being considered, and thus taxed as, sales. These exemptions cover low-income housing developments that qualify for federal low-income housing tax credits or for tax credits from the Washington State Housing Finance Commission. The exemptions also include sales of self-help housing to households that have an income of less than 80 percent of the median income, adjusted for house size, of the county in which the dwelling is located.

Also exempted are sales or transfers to certain entities that use the property for low-income housing, as long as certain conditions are satisfied. First, the property must qualify for a property tax exemption related to certain properties owned by a qualified entity. A qualified entity is a nonprofit organization that provides low-income rental housing or develops properties for sale to low-income households; a housing authority; a public corporation; or the United States, Washington, a county, or a municipal corporation. Second, the property must actually be used as housing within one to five years by a household that has an income of less than 80 percent of the median income, adjusted for house size, of the county in which the dwelling is located, with the time frame dependent on whether the organization is operating existing housing, renovating housing, or constructing new housing on the site. If this deadline is missed, then the organization must pay the tax that would have been due at the time of the transfer, plus interest.

Washington State Housing Finance Commission.

Created in 1983, the Washington State Housing Finance Commission (the Commission) is a financial conduit, which without lending the credit of the state, can issue non-recourse bonds; participate in federal, state, or local housing programs; make additional funds available at affordable rates to provide housing throughout the state; and encourage the use of Washington forest products in residential construction.

Through its Homeownership Division, the Commission operates two mortgage programs and 11 down payment assistance programs.

For the purposes of the Commission's various programs, a "first-time homebuyer" is defined as an individual or the individual's spouse who had no ownership in a principal residence during the three-year period ending on the date of the purchase of the property, a single parent who has only owned a home with a former spouse while married, an individual who is a displaced homemaker, an individual who has only owned a principal residence not permanently affixed to a permanent foundation, or an individual who has only owned a property that is determined to be inhabitable by a licensed building inspector.

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 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:

An exemption from paying real estate excise tax is provided when the sale of a single-family unit is made to a buyer who meets the definition of a first-time home buyer and is receiving publicly funded down payment assistance.

This act is exempt from the requirements of a TPPA, a JLARC review, and the automatic 10-year expiration.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains multiple effective dates.