

HOUSE BILL REPORT

HB 1338

As Reported by House Committee On: Ways & Means

Title: An act relating to requiring multiparcel real estate transactions to base the real estate excise tax on the greater of assessed value or purchase price.

Brief Description: Requiring multiparcel real estate transactions to base the real estate excise tax on the greater of assessed value or purchase price.

Sponsors: Representative Kretz.

Brief History:

Committee Activity:

Ways & Means: 2/7/11, 2/23/11 [DP].

Brief Summary of Bill

- Requires the greater of the selling price or assessed value of property to be used as the taxable base for the real estate excise tax for certain multi-parcel transactions.

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass. Signed by 26 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Carlyle, Chandler, Cody, Dickerson, Haigh, Haler, Hinkle, Hudgins, Hunt, Kagi, Kenney, Ormsby, Parker, Pettigrew, Ross, Schmick, Seaquist, Springer and Wilcox.

Staff: Jeffrey Mitchell (786-7139).

Background:

Washington imposes a tax on the sale of real property. The tax also applies to transfers of controlling interests in entities that own real property in the state. The tax is referred to as the real estate excise tax (REET).

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.

The tax rate for the state REET is 1.28 percent and is generally applied to the full selling price of property. "Selling price" generally means the true and fair value of the property conveyed. If property has been conveyed in an arm's length transaction between unrelated persons for a valuable consideration, a rebuttable presumption exists that the selling price is equal to the total consideration paid or contracted to be paid to the transferor, or to another for the transferor's benefit.

Cities and counties also have authority to impose several different local real estate excise taxes. The two most widely used local REETs are a 0.25 percent city and county REET for capital improvements and a second 0.25 percent city and county REET for growth management programs. Approximately 20 counties and over 130 cities impose each of these two local REETs.

A majority of the state REET goes to the State General Fund. However, a small portion is earmarked for local public works (6.1 percent) and assistance to certain cities and counties (1.6 percent). Generally, the state REET and any local REET is collected by the treasurer of the county within which the real property was sold.

Summary of Bill:

If a real estate transaction between two parties involves the transfer of five parcels of property or more, the taxable base for purposes of the real estate excise tax is the greater of the combined assessed value of the parcels or the total selling price for the parcels. Separate sales between the same buyer and seller within a 12-month period are aggregated for the purpose of the five parcel requirement.

The bill applies to real estate transfers occurring on or after August 1, 2011.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Some of the large corporate developers are structuring large real estate transactions in a way that allows them to get out of paying the real estate excise tax. It gives these large developers a competitive advantage over the smaller developers that are struggling to survive. It is a fairness issue. The large developers should not be allowed to game the system. The goal is to create an even playing field.

(With concerns) The stated goal of the sponsor can be accomplished with revision. There is a process problem with county treasurers. A county treasurer has to determine the total value of the transaction, which can become very complicated. Sometimes the buyer will assume some of the seller's obligations making a straightforward computation much more complicated. County treasurers are an agent of the state. We process the paperwork and pass the money on to the state, but we would have no way of knowing whether the requirements of the proposed bill are met or not.

(Other) There is agreement with previous comments regarding some of the issues with the bill.

(Opposed) None.

Persons Testifying: (In support) Representative Kretz, prime sponsor.

(With concerns) Scott Hildebrand, Master Builders Association of King and Snohomish Counties; Steve Gano, Building Industry Association of Washington; and Rose A. Bowman, Washington State Association of County Treasurers.

(Other) Bill Clarke, Washington Realtors.

Persons Signed In To Testify But Not Testifying: None.