
Finance Committee

HB 2439

Brief Description: Providing support for military families by exempting home sales resulting from military relocation orders from real estate excise taxes.

Sponsors: Representatives Hudgins, Kilmer, McCoy, Morrell, Appleton, Moeller, Rodne, Linville, Conway, P. Sullivan, Morris, B. Sullivan, Green, Ericks, Upthegrove and Ormsby.

Brief Summary of Bill

- Provides an exemption from real estate excise taxes to members of the armed forces that are required to relocate due to military orders.

Hearing Date: 1/20/06

Staff: Mark Matteson (786-7145).

Background:

Real estate excise tax. The real estate excise tax is imposed on each sale of real property. Real property includes any interest in land or anything affixed to land. The state tax rate is 1.28 percent. Additional local rates are allowed. The combined state and local rate in most areas is 1.78 percent or less. The highest rate is 2.78 percent in the City of Friday Harbor.

The real estate excise tax applies when a sale occurs and is typically paid by the seller. A sale is defined as any transfer of the ownership of or title to real property, or any transfer of a controlling interest in a corporation or other entity that owns real property. A controlling interest is 50 percent or more of the voting power of the stock of a corporation, or 50 percent or more of capital, profits, or beneficial interest in a partnership, association, trust, or other entity.

Both the buyer and the seller are required to sign a real estate excise tax (REET) affidavit when a taxable transaction occurs. The affidavit must contain the names and addresses of the buyer and seller, a legal description of the property, a parcel number, and the property selling price.

Several exemptions are allowed from the real estate excise tax, including gifts, inheritances, and transfers to a corporation or partnership that is wholly owned by the transferor, the transferor's spouse, or the transferor's children.

In recent years, residential home values have increased significantly relative to historical growth rates in certain places in the state, driving up the amount of real estate excise taxes owed and collected. In the third quarter of 2005, the median price of a home sold in the state was \$269,300,

according to the Washington Center for Real Estate Research. Three years earlier, the median was \$191,600.

Military presence in Washington. According to Department of Defense statistics, there are over 40,000 active duty military personnel stationed in Washington state. From time to time, personnel are relocated pursuant to the needs of the military. Enlisted army personnel at Fort Lewis, for example, can expect to remain stationed in Washington between four to six years only, according to Army officials.

Summary of Bill:

An exemption from real estate excise taxes is provided in certain circumstances to military personnel who are required to relocate pursuant to military orders.

To be eligible for the exemption, the person selling the property must:

- Occupy the property as a principal place of residence at the time the orders are issued;
- Have purchased the residence within three years preceding the issuance of orders;
- Sell the property within twelve months following the issuance of orders; and
- is (or whose spouse is) an active duty member of the military on the date of the sale.

The county treasurer may request verifying documentation to be submitted along with the real estate tax affidavit. The seller must maintain records necessary for the Department of Revenue to verify eligibility. Such records include permanent change of station orders; an instrument of real property sale or conveyance; documentation as to the person's active duty status; and other identification documentation.

The exemption expires the earlier of the day in which the department determines that the number of active duty military members in Iraq is less than 20,000 or ten years from the effective date of the act.

Appropriation: None.

Fiscal Note: Requested on January 4, 2006.

Effective Date: The bill takes effect on July 1, 2006.