
Housing Committee

HB 3210

Brief Description: Eliminating the state sales tax on construction labor and services in counties where housing is not affordable for first-time buyers.

Sponsors: Representatives McCune, Schindler, Miloscia, McDonald, Holmquist, Dunn, Buri, Morrell, Linville, Kristiansen, Chase, Pettigrew, Bailey, Campbell and Clibborn.

Brief Summary of Bill

- Eliminates the state sales tax on construction labor and services in counties and cities where the first-time buyer housing affordability index is less than 100.

Hearing Date: 1/31/06

Staff: Robyn Dupuis (786-7166).

Background:

The Washington Center for Real Estate Research calculates the "first-time buyer housing affordability index" using the following assumptions:

- a. the household will purchase a home priced at 85 percent of the median home price in the area with a 10 percent down payment;
- b. the mortgage loan is for 30 years at the prevailing interest rate; and
- c. 25 percent of household income can be used for mortgage payments.

The Washington Center for Real Estate Research collects affordability data on 35 of 39 counties in Washington. Of the 35 counties for which data is available for the last third quarter of 2005, 29 have a first-time buyer affordability index of less than 100. The six counties that have an affordability index of 100 or above are Benton, Cowlitz, Grant, Grays Harbor, Okanogan and Pacific. The four counties for which the affordability index is unknown are Adams, Klickitat, Lincoln and Skamania.

Retail Sales Tax

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods, as well as construction, including labor and services.

The manner in which the retail sales tax applies to construction depends on whether the materials, labor, or services are being provided for resale or final consumption. If a speculative builder or developer acquires title to land for the purpose of building and marketing the residence, the

builder is considered the consumer and state and local retail sales taxes apply to sales made to the builder of building materials, tools, equipment, consumable supplies, and other tangible personal property, as well as sales of labor, services, and materials to the builder by subcontractors.

If, on the other hand, a landowner hires a prime contractor to construct something upon the landowner's land, the landowner is considered the consumer and the prime contractor is required to collect from the landowner state and local retail sales taxes as measured by the price of the full contract. Sales to the prime contractor or subcontractor of building materials are exempt from state and local retail sales taxes, since such sales are considered sales for resale (through the prime contract) to the landowner. Labor and services provided by a subcontractor are similarly considered to be wholesale activities and state and local retail sales taxes do not apply.

Summary of Bill:

The "affordability index" uses the following assumptions:

- a. the household will purchase a home priced at 85 percent of the area median income with a 10 percent down payment;
- b. the mortgage loan is for 30 years at the prevailing interest rate; and
- c. 25 percent of household income can be used for mortgage payments.

State retail sales tax will not be charged for two years on specific construction labor and services in counties or cities where the first-time buyer housing affordability is less than 100 for three quarters in the previous year.

The affordability index will be measured beginning and ending in the third quarter of each calendar year. The two year time period for which the exemption from the state sales tax is in effect begins January 1st of the year following the determination that the county or city's affordability index is less than 100.

For counties meeting the affordability condition, an exemption for the state portion of the retail state sales tax is provided to charges made for labor and services rendered in respect to clearing land, moving earth, site preparation, constructing, repairing, decorating, renovating, expanding, or improving of new or existing buildings, structures, facilities, or any other improvement under, upon, or above real property of or for new residential construction.

Appropriation: None.

Fiscal Note: Requested on January 26, 2006.

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