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**Housing, Community Development &  
Veterans Committee**

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**HB 1581**

**Brief Description:** Funding local housing trust fund programs in certain cities.

**Sponsors:** Representatives Fey, Riccelli, Wylie, Doglio, Jenkins and Ormsby.

**Brief Summary of Bill**

- Authorizes cities to create a local housing trust fund for affordable housing.
- Allows certain cities to impose a local sales tax, credited against the state sales tax, on construction activities.
- Requires the additional tax to be deposited in a local housing trust fund.

**Hearing Date:** 2/5/19

**Staff:** Serena Dolly (786-7150).

**Background:**

Sales and Use Tax.

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 taxes 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.

Taxation of Construction Activities.

Prime contractors must collect retail sales tax from the purchaser of the construction project on the gross contract price. Billing invoices must disclose the sales tax separately. If the contract requires retainage, sales tax must be computed before deducting such amounts. Retail

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construction services are sourced to the location where the construction takes place. A contractor is considered the consumer of items purchased for use in the construction process and not used as component parts of the finished structure. Therefore, retail sales tax must be paid to the vendors of such items.

The purchase of materials by custom contractors that will become part of the completed project are purchases for resale (wholesale). Such purchases are not subject to retail sales tax. Reseller permits allow businesses to purchase items or services for resale without paying retail sales tax. Use tax is due if sales tax has not been paid on items the contractor uses as a consumer. Use tax is generally due on the following: equipment, tools, supplies, and rentals of equipment, even if the cost for these items is passed along to the purchaser of the construction project.

### **Summary of Bill:**

City legislative authorities may establish a local housing trust fund to provide funding for affordable housing. The fund may be used for:

- the construction, rehabilitation, or acquisition of low and very low-income units;
- matching funds for social services directly related to providing housing for special needs tenants in assisted projects;
- technical assistance, design and finance services and consultation, and administrative costs for eligible nonprofit community or neighborhood-based organizations;
- administrative costs for housing assistance groups or organizations when a grant or loan will substantially increase access to other housing funds;
- shelters and related services for the homeless;
- mortgage subsidies, including temporary rental and mortgage payment subsidies to prevent homelessness;
- mortgage insurance guarantee or payments for eligible projects;
- down payment or closing cost assistance for eligible first-time home buyers;
- acquisition of housing units for preservation as low-income or very low-income housing;
- projects making housing more accessible to families with members who have disabilities; and
- remodeling and improvements on certain properties as required to meet building code, licensing requirements, or legal operations when transferred from the parent of a child with developmental disabilities.

The legislative authority in a city with a population of at least 200,000 located in a county with a population of less than 1.5 million may impose a sales and use tax on labor and materials used in the construction or renovation of new or existing buildings. The sales tax imposed may not exceed 6.5 percent and is deducted from the state sales tax collected on construction activities within the jurisdiction. The tax may not exceed \$5 million in any fiscal year, and a city imposing the tax must provide annual matching funds equal to at least \$2.5 million. A city must impose the tax by July 1, 2021, and the tax expires 20 years after it is first imposed.

**Appropriation:** None.

**Fiscal Note:** Available.

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