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**Housing, Community Development &  
Veterans Committee**

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**HB 1938**

**Brief Description:** Creating a local infrastructure investment program to support the development of affordable housing, workforce housing, and revitalization efforts.

**Sponsors:** Representatives Steele, Barkis and Chapman.

**Brief Summary of Bill**

- Allows cities and counties to apply for a remittance of 4.37 percent of the state sales and use tax on construction of local infrastructure to support the development of affordable housing, workforce housing, and revitalization efforts.

**Hearing Date:** 1/14/20

**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 4.0 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:**

#### Local Infrastructure Investment Program.

A city or county may establish a local infrastructure investment program to support affordable housing, workforce housing, or revitalization efforts within a revitalization district. To initiate a program, a city or county must adopt an ordinance containing:

- the local income threshold used to define affordable housing;
- the local requirements used to define workforce housing;
- the local definition of revitalization efforts; and
- the geographic boundaries of the revitalization district.

Before adopting the ordinance, a city or county must provide public notice and hold a public hearing. After passing an ordinance, the city or county must notify the Department of Revenue (DOR) that a program is established.

#### Sales and Use Tax Remittance.

A city or county establishing a program may receive a remittance equal to 4.37 percent of the sales or use tax on the construction of the local infrastructure investment. The tax remittance is credited against the state sales tax due on the same sales and may be claimed once per project.

To collect the sales tax remittance, the city or county must use a web-based platform to provide the DOR with the amount of money spent on the eligible infrastructure investment, a brief description of the type of infrastructure investment, and the eligible project the remittance will support.

**Appropriation:** None.

**Fiscal Note:** Available.

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