
Finance Committee

HB 2452

Brief Description: Reducing the real estate excise tax for multiple-unit housing.

Sponsors: Representatives Barkis, Walen, Shewmake, Gildon and Chambers.

<p>Brief Summary of Bill</p> <ul style="list-style-type: none">• Subjects multiple-unit housing to a flat 1.28 percent real estate excise tax rate.

Hearing Date: 1/23/20

Staff: Nick Tucker (786-7383).

Background:

Real Estate Excise Tax.

Real estate excise tax (REET) is due on the sale of real estate and transfer of controlling interest in an entity that owns real property in the state. The tax base is the selling price of real estate, including the amount of any liens, mortgages, and other debts. In the case of the transfer of controlling interest, the tax base is the true and fair value, or selling price, of the real property transferred. The tax is typically paid by the seller of the property, although the buyer is liable for the tax if it is not paid.

Beginning on January 1, 2020 and through June 30, 2022, the REET rate is:

- 1.1 percent if the selling price is equal to or less than \$500,000;
- 1.28 percent on the portion of the selling price that is greater than \$500,000, but equal to or less than \$1,500,000;
- 2.75 percent on the portion of the selling price that is great than \$1,500,000, but equal to or less than \$3,000,000; and
- 3 percent on the portion of the selling price that is greater than \$3,000,000.

Beginning on July 1, 2022, and every fourth year thereafter, the selling price thresholds are adjusted to reflect the lesser of the growth in the Consumer Price Index for Shelter over the past

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four years, or 5 percent. The Department of Revenue (DOR) must publish updated selling price thresholds by September 1, 2022, and September 1 of every fourth year thereafter. If the growth in Consumer Price Index for Shelter is less than 0 percent, the current selling price thresholds will continue to apply. The DOR must report the updated selling price thresholds to the Legislature within six months of publication.

A rate of 1.28 percent is imposed on the sale of real property that is classified as timberland or agricultural land, regardless of the selling price.

Tax Preferences.

All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference. In addition, an automatic 10-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Summary of Bill:

Multiple-unit housing is subject to a flat 1.28 percent REET rate and is exempt from the graduated REET rate structure.

"Multiple-unit housing" means a building having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multiple-unit housing may result from new construction or rehabilitation or conversion of vacant, underutilized, or substandard buildings to multiple-unit housing.

This act is exempt from the tax preference performance and 10-year expiration requirements.

Appropriation: None.

Fiscal Note: Requested on January 14, 2020.

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