

# SENATE BILL REPORT

## SHB 1168

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As of March 25, 2019

**Title:** An act relating to sales and use and excise tax exemptions for self-help housing development.

**Brief Description:** Concerning sales and use and excise tax exemptions for self-help housing development.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Leavitt, Barkis, Kilduff, Jinkins, MacEwen, Goodman, Macri, Pollet, Callan, Wylie, Chapman, Valdez, Fey, Doglio and Kloba).

**Brief History:** Passed House: 3/08/19, 95-1.

**Committee Activity:** Housing Stability & Affordability: 3/20/19.

### Brief Summary of Bill

- Provides a sales and use tax exemption for qualifying purchases of labor, services, and tangible personal property related to self-help housing.

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### SENATE COMMITTEE ON HOUSING STABILITY & AFFORDABILITY

**Staff:** Jeff Olsen (786-7428)

**Background:** Self-help housing organizations support low-income individuals and families by assisting them in the development of residential dwellings by using homebuyer and volunteer labor.

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 tax 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.

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Sales and use taxes are due on the following construction services: constructing and improving new or existing buildings and structures; and installing, repairing, cleaning, improving, constructing, and decorating real and personal property for others.

**Summary of Bill:** A retail sales tax exemption is provided to affordable homeownership facilitators for the purchase of labor and services for the construction, repair, decoration, or improvement of new or existing self-help housing. A retail sales and use tax exemption is also provided to affordable homeownership facilitators for the purchase of tangible personal property that becomes a component of the self-help housing building or other structures during the course of constructing, repairing, decorating, or improving self-help housing. The exemption only applies if the self-help housing is in compliance with current state building codes for single-family dwellings. The exemption may only be claimed if the buyer provides the seller with an exemption certificate. The exemption cannot be claimed if the housing is built to be occupied by an employee, family member of an employee, or person on the board of trustees or directors of an affordable homeownership facilitator.

Property that benefits from the sales and use tax exemption must qualify as self-help housing and be the primary dwelling of a low-income purchaser for at least five consecutive years from the date the housing is approved for occupancy. If these requirements are not met, the full amount of the exempt sales and use tax is due immediately with interest, but not penalties, from the date the housing was approved for occupancy until the date of payment.

"Self-help housing" is defined as dwelling residences provided for ownership by low-income individuals and families whose ownership requirement includes labor participation. Self-help housing does not include residential rental housing provided on a commercial basis to the general public. "Affordable homeownership facilitator" is defined as a nonprofit community-based or neighborhood-based organization that acts as a developer of self-help housing and is exempt from federal income tax as of October 1, 2019. "Low-income" is defined as household income as defined by the Department of Revenue (DOR), provided that the definition may not exceed 80 percent of median household income, adjusted for household size, for the county in which the dwelling unit is located.

Affordable homeownership facilitators claiming the preference must annually report to DOR. The Joint Legislative Audit and Review Committee is directed to review the total number of taxpayers that claim the tax preference, the amount of tax revenue exempt, and the number of self-help units added.

The bill expires on January 1, 2030.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** The bill takes effect on October 1, 2019.

**Staff Summary of Public Testimony:** PRO: Washington has an affordable housing crisis and many low-income families are struggling to be able to afford a home. Self-help housing organizations are an option that can provide the tools for making home ownership a reality. There is a minimal revenue impact to the state and local jurisdictions, but would allow self-help housing developers who are producing more than 150 units per year to increase production by 10 to 25 percent. This additional housing inventory will add property tax revenues and allow for development to occur sooner. The Housing Finance Commission supports these programs by providing mortgages and other types of financial assistance. Participants that put in their own labor, sometimes hundreds of hours, tend to stay in their homes longer than the average person.

**Persons Testifying:** PRO: Representative Mari Leavitt, Prime Sponsor; Carly Colgan, South Puget Sound Habitat for Humanity; Kim Herman, Washington State Housing Finance Commission; Chester Baldwin, Habitat for Humanity.

**Persons Signed In To Testify But Not Testifying:** No one.