

SENATE BILL REPORT

SB 5025

As of March 4, 2019

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

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

Sponsors: Senators Das, Warnick, Wilson, C., Zeiger, Fortunato, Palumbo, Saldaña, Kuderer and O'Ban.

Brief History:

Committee Activity: Housing Stability & Affordability: 1/21/19, 1/23/19 [DP-WM].
Ways & Means: 3/01/19.

Brief Summary of Bill

- Exempts the building and sale of self-help housing by an affordable homeownership facilitator from retail sales and use tax and the real estate excise tax.

SENATE COMMITTEE ON HOUSING STABILITY & AFFORDABILITY

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Kuderer, Chair; Das, Vice Chair; Zeiger, Ranking Member; Darneille, Fortunato and Saldaña.

Staff: Jeff Olsen (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: The sale of real property is subject to the state real estate excise tax (REET). The tax base is the selling price of the real property, without any deduction for mortgages, liens, or other debts. The tax is typically paid by the seller and the state REET rate is 1.28 percent.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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 apply to the value when used in this state. The state, most cities, and all counties 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.

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.

Summary of Bill: Sales and use tax does not apply to charges made for labor and services rendered by any affordable homeownership facilitator in respect to constructing, repairing, or improving new or existing self-help housing. In addition, sales and use tax does not apply to sales of tangible personal property that becomes an ingredient or component of the buildings or other structures during the course of the constructing, repairing, or improving of self-help housing. The exemption only applies if the housing is built to current building code standards. If self-help housing ceases to be the primary dwelling of the initial low-income purchaser within the five consecutive years from the date the housing is approved for occupancy, the full amount of tax otherwise due is due immediately, plus interest.

The sale by an affordable homeownership facilitator of self-help housing to a low-income household is exempt from REET. The REET exemption expires January 1, 2030.

"Affordable homeownership facilitator" means a nonprofit community or neighborhood-based organization that acts as a developer of self-help housing. "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below 80 percent of the median family income adjusted for household size. "Self-help housing" means dwelling residences provided for ownership by low-income individuals and families whose ownership requirement includes labor participation.

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 (Housing Stability & Affordability): PRO: The tax benefits in the bill create more affordable housing opportunities by exempting the non-profit organizations that develop housing options for low-income households. Habitat for Humanity provides opportunities for homeownership by partnering with participants in building housing. Participants in self-help housing provide sweat equity, and gain skills and a sense of pride in their home and their community. Homeownership increases the tax base and leads to better employment opportunities and health outcomes. The tax benefits in the bill will result in savings of approximately \$10,000 per house, and will result in a 15 percent

increase in projects that can be initiated. Self-help housing programs also exist through the United States Department of Agriculture in rural areas, so the tax benefits will assist those communities as well. Typically participants in self-help housing programs stay in their homes.

Persons Testifying (Housing Stability & Affordability): PRO: Senator Mona Das, Prime Sponsor; Kim Herman, Washington State Housing Finance Committee; Denise Nicole Johnson, citizen; Joshua Townsley, Board.

Persons Signed In To Testify But Not Testifying (Housing Stability & Affordability): No one.

Staff Summary of Public Testimony (Ways & Means): PRO: This legislation would have a minimal impact on revenue for the state of Washington and local jurisdictions. Despite the minimal impact on state revenue, this legislation would allow more than 40 low income self-help housing developers like Habitat for Humanity, who are currently producing more than 150 home ownership units each year, to increase production by 10 to 20 percent over the lifetime of this legislation. In addition, this legislation will allow for more buildable property to be developed, adding more affordable housing inventory. This housing inventory would add additional property tax revenue as opposed to the alternative of the land remaining undeveloped. The bill is good policy and an appropriate addition to the puzzle to solve our affordable housing crisis. The bill would allow more hardworking, low-income households throughout our state to achieve the dream of affordable homeownership.

Persons Testifying (Ways & Means): PRO: Joshua Townsley, Habitat for Humanity of Washington State.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.