Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2219

Brief Description: Providing tax relief for nonprofit development of affordable housing.

Sponsors: Representatives Hackney, Bateman, Chapman, Barkis, Gregerson, Reed, Fosse, Doglio, Pollet and Callan.

Brief Summary of Bill

- Establishes a sales and use tax exemption for the construction and maintenance of affordable housing by nonprofits.

Hearing Date: 1/25/24

Staff: Rachelle Harris (786-7137).

Background:

Retail 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 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 4.0 percent, depending on the location.

Tax Preference Performance Statement.
State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences,

including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

A sales and use tax exemption is created for labor and services provided by eligible nonprofits for the construction, repair, decorating, or improvement of new or existing affordable housing. The exemption also applies use of tangible personal property that becomes a component of the buildings or other structures of affordable housing.

To qualify for the exemption, the buyer (eligible nonprofit) must provide the seller with an exemption certificate as created by the Department of Revenue rule. An eligible nonprofit is an organization that is exempt from federal income tax that operates, owns, or provides affordable housing.

Affordable housing includes housing that is provided to a low-income household at the time of initial occupancy. In rural counties, a low-income household is one with a single person, family, or unrelated people living together with adjusted income at or below 100 percent of the median family income, adjusted for family size in the county where the property is located. In non-rural counties, a low-income household is one with a single person, family, or unrelated people living together with adjusted income at or below 80 percent of the median family income adjusted for family size in the county where the property is located.

A TPPS categorizes the tax preference intended to provide tax relief for nonprofits that develop and maintain affordable housing and to incentivize the construction of affordable housing. The TPPS specifies the public policy objective to reduce the financial burden of constructing new affordable housing and increase the supply in the state.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

Effective Date: The bill takes effect on July 1, 2024.