

HOUSE BILL REPORT

HB 1620

*As Reported By House Committee on:
Housing*

Title: An act relating to tax credits for affordable housing.

Brief Description: Authorizing tax credits for housing projects for lower-income households.

Sponsor(s): Representatives Franklin, Mitchell, Nelson, Wood, Day, Edmondson, Prentice, Ferguson, Paris, Cole, Moyer, Zellinsky, Wynne, Winsley, Wineberry, Heavey, Ogden, P. Johnson, Ludwig, R. Meyers, Locke, Wilson, Jacobsen, R. Johnson, Leonard, Dellwo, Van Luven, Inslee, Riley, Miller, Phillips and Anderson.

Brief History:

Reported by House Committee on:
Housing, March 4, 1991, DPS.

**HOUSE COMMITTEE ON
HOUSING**

Majority Report: *That Substitute House Bill No. 1620 be substituted therefor, and the substitute bill do pass.*

Signed by 7 members: Representatives Nelson, Chair; Franklin, Vice Chair; Mitchell, Ranking Minority Member; Winsley, Assistant Ranking Minority Member; Ballard; Leonard; and Ogden.

Staff: Kenny Pittman (786-7392).

Background: The Business and Occupation Tax (B&O) is imposed on every person for the act or privilege of engaging in business activities in the State. The rate of the tax is based on the rates applied against the value of product of the business, gross proceeds of sales by the business, or gross income of the business.

To encourage public/private partnerships in the development, preservation, or acquisition of housing for lower-income households both the federal and state government have used tax incentives. In return for providing affordable housing units to a specified income group the amount of tax paid by the business, individual, or investor is reduced. The federal Low Income Housing Tax Credit Program, administered

by the Washington State Housing Finance Commission, is based on this concept.

Summary of Substitute Bill: The Department of Revenue is directed to establish a program to provide a business firm tax credits equal to 20 percent of the approved contribution to a qualified affordable housing project. The tax credit could be applied against any Business and Occupation Tax imposed on the business firm by the State.

"Affordable housing projects" are defined as residential rental housing in which either: (a) 20 percent or more of the dwelling units are occupied by households with incomes at or below 50 percent of median income; or (b) 40 percent or more of the dwelling units are occupied by households with incomes at or below 60 percent of median. The median income figures are adjusted for household size for the county where the project is located.

"Business firms" are defined as any incorporated or unincorporated business entity authorized to do business in the State and subject to the state's business and occupation taxes.

"Contributions" are defined as financial assistance, labor, materials, or technical assistance to aid in the construction, rehabilitation, or acquisition of affordable housing projects.

Affordable Housing Requirements

To qualify for the tax credit, the contributions made by the business firm must be made to an affordable housing project that meets the following requirements:

1. The affordable housing project must be located in the state of Washington.
2. The affordable housing project must be owned or managed by a government entity, nonprofit corporation, or a partnership where the majority is owned by a government entity or nonprofit corporation.
3. The dwelling units in the affordable housing project must meet one of the specified occupancy requirements.
4. The gross rents paid by tenants in the specified dwelling units can not exceed 30 percent of the qualifying income, adjusted for household size, for the county where the project is located.

5. The specified dwelling units must be occupied by lower-income persons for a period of at least 15 years.

Program Provisions

An application for tax credits must be made to and approved by the departments of Revenue and Community Development before actual contributions are made by the business firm to an affordable housing project.

The Department of Revenue is authorized to issue up to \$3 million in tax credits in a biennium. No single business firm can receive more than \$500,000 in tax credits during its tax year.

Business firms are authorized to carry forward unused tax credits for a five year period to use tax credits they were unable to use during a single year.

Tax credits can not be granted to any bank, bank and trust company, insurance company, trust company, national bank, savings association, or building and loan association for activities that are part of its normal course of business.

No tax credit for an affordable housing project can be issued after January 1, 2001.

The Department of Revenue shall work jointly with the Department of Community Development to adopt rules for the operation of the program.

Substitute Bill Compared to Original Bill: The definition of an affordable housing project is revised to mean a structure in which either: (a) 20 percent or more of the dwelling units are occupied by households with incomes at or below 50 percent of median income; or (b) 40 percent or more of the dwelling units are occupied by households with incomes at or below 60 percent of median income. The median income figures are adjusted for household size for the county where the project is located.

The gross rent paid by tenants in dwelling units set aside for lower-income tenants can not exceed 30 percent of the qualifying income, adjusted for household size.

The maximum amount of Business and Occupation Tax Credit that can be issued to assist affordable housing projects is lowered from \$5 million to \$3 million per biennium.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: This is a new initiative that will encourage public/private partnerships. The tax credit program will help to offset the loss of federal funds. Business firms will be able to assist nonprofit organizations in providing housing for lower-income households. The tax credit approach will allow the State to efficiently use its tax system to assist housing for lower-income households.

Testimony Against: None.

Witnesses: Mike Ryherd, Low-Income Housing Congress (in favor of the bill); and Bob Jacobson, Senior Lobby (in favor of the bill).