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HOUSE BILL 1863

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State of Washington                      60th Legislature                      2007 Regular Session

By Representatives Dunn and McCune

Read first time 01/30/2007. Referred to Committee on Housing.

1            AN ACT Relating to restoring the American dream by eliminating the  
2 state sales tax on construction labor and services in counties where  
3 the first-time home buyers housing affordability index shows that  
4 housing is not affordable; adding a new section to chapter 82.08 RCW;  
5 and creating a new section.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7            NEW SECTION.    **Sec. 1.** The legislature finds that first-time home  
8 buyers in Washington state have been priced out of the housing market  
9 in many counties. The legislature finds that many organizations,  
10 including local governments, have recognized the affordable housing  
11 crisis for first-time home buyers. The legislature finds that, for  
12 example, as reported in King county's benchmark growth report, "buying  
13 a first home remains extremely difficult for those under one hundred  
14 twenty percent of median income."

15            The legislature further finds that the state sales tax on  
16 construction labor and services contributes to the high cost of housing  
17 in many Washington counties, and that eliminating this tax will reduce  
18 housing prices. The legislature also recognizes that the Washington  
19 state tax structure study committee suggested that exempting

1 construction labor from the state sales tax would improve economic  
2 vitality and harmonize Washington's sales tax provisions with other  
3 nearby states.

4 The legislature intends to make housing more affordable for first-  
5 time home buyers in counties where housing is currently not affordable  
6 for first-time home buyers. The legislature intends to do this by  
7 eliminating the state sales tax on construction labor and services in  
8 counties where the first-time buyer housing affordability index  
9 demonstrates that housing is not affordable for first-time home buyers.

10 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.08 RCW  
11 to read as follows:

12 (1)(a) As used in this chapter, "first-time buyer housing  
13 affordability index" means the index, as determined by the Washington  
14 center for real estate research at Washington State University, that  
15 measures the ability of a typical renter household to afford the  
16 purchase of a typical starter home by assuming: (i) The household will  
17 purchase a home priced at eighty-five percent of area median household  
18 income with a ten percent downpayment; (ii) the home mortgage loan is  
19 for a term of thirty years at the prevailing average fixed rate of  
20 interest; (iii) the potential first-time home buyer earns seventy  
21 percent of the area median household income and twenty-five percent of  
22 household income can be used for principal and interest payments.

23 (b) For purposes of this chapter, a first-time buyer housing  
24 affordability index of: (i) One hundred indicates that a household of  
25 the defined income can afford a home of the defined price; (ii) less  
26 than one hundred indicates that a household of the defined income  
27 cannot afford a home of the defined price without spending more than  
28 twenty-five percent of their income on mortgage payments; and (iii)  
29 greater than one hundred indicates that a household of the defined  
30 income can afford a home of the defined price while spending less than  
31 twenty-five percent of their income on mortgage payments.

32 (2)(a) In any county in which the first-time buyer housing  
33 affordability index, as defined by subsection (1) of this section and  
34 as determined by the Washington center for real estate research at  
35 Washington State University, is less than one hundred for three  
36 quarters in any given year, or in any city located within a county in  
37 which the first-time buyer housing affordability index, as defined by

1 subsection (1) of this section and as determined by the Washington  
2 center for real estate research at Washington State University, is less  
3 than one hundred for three quarters in any given year, for the  
4 following two years, the tax imposed by RCW 82.08.020 does not apply to  
5 the sale of or charge made for labor and services rendered in respect  
6 to clearing land, moving earth, site preparation, constructing,  
7 repairing, decorating, renovating, expanding, or improving of new or  
8 existing buildings, structures, facilities, or any other improvement  
9 under, upon, or above real property of or for new residential  
10 construction within the specified county. This exemption from sales  
11 tax is limited to the state share of the sales tax and does not apply  
12 to any local sales tax.

13 (b) The year-long period measured by the Washington center for real  
14 estate research under (a) of this subsection shall begin and end in the  
15 third quarter of the calendar year. The time period for which the  
16 exemption from the state sales tax under this chapter is in place under  
17 (a) of this subsection shall begin January 1st of the year following  
18 the determination by the Washington center for real estate research.

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