

# HOUSE BILL REPORT

## HB 1141

---

**As Reported by House Committee On:**  
Local Government & Housing

**Title:** An act relating to a sales and use tax rebate for materials and services related to the construction of affordable housing.

**Brief Description:** Concerning a sales and use tax rebate for materials and services related to the construction of affordable housing.

**Sponsors:** Representatives Lias, Sells, Chase, Springer, Ormsby, Simpson, Miloscia, Williams, Nelson, Dickerson, White, Goodman and Hinkle.

**Brief History:**

**Committee Activity:**

Local Government & Housing: 1/19/09, 2/12/09 [DPS].

**Brief Summary of Substitute Bill**

- Provides an exemption in the form of a refund for state sales and use taxes paid by qualifying entities related to the construction of "eligible affordable housing developments."

---

### HOUSE COMMITTEE ON LOCAL GOVERNMENT & HOUSING

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Simpson, Chair; Nelson, Vice Chair; Miloscia, Springer, Upthegrove, White and Williams.

**Minority Report:** Do not pass. Signed by 4 members: Representatives Angel, Ranking Minority Member; Ericksen, Assistant Ranking Minority Member; Cox and Short.

**Staff:** Thamas Osborn (786-7129)

**Background:**

Retail sales and use taxes are imposed by the state, by most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some

---

*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.*

services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 1.4 percent, depending on the location. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

---

### **Summary of Substitute Bill:**

This act creates a tax incentive program administered by the Department of Revenue (DOR) exempting qualifying entities from state sales and use taxes paid in connection with the construction of "eligible affordable housing developments." The state tax exemption applies to sales and use taxes paid with respect to the purchase of tangible personal property and charges for specified categories of labor and services.

"Eligible affordable housing developments" are defined as being any multifamily residential development project that has received federal low-income housing tax credits or funding from the Housing Trust Fund (Trust Fund).

The tax exemption is provided to qualifying entities in the form of a remittance. To receive the remittance, qualifying entities must apply to the DOR in accordance with specified application requirements. The DOR is authorized to determine the form and manner of refund applications and may require the production of the documentation deemed necessary to verify refund eligibility.

The tax exemption authorized by the act does not apply to local retail sales and use taxes imposed by counties and cities, nor does it apply to sales and use taxes imposed by local governmental entities for the funding of high capacity transportation systems.

The Department of Community, Trade and Economic Development must work with the DOR and the Joint Legislative Audit and Review Committee to develop performance measures related to the effectiveness of the tax exemption in increasing the production of affordable housing.

The sales and use tax exemption expires July 1, 2014.

### **Substitute Bill Compared to Original Bill:**

The substitute bill makes the following changes to the original bill:

- Establishes that the tax exemption created by this act does not apply to local retail sales and use taxes imposed by counties and cities.
- Establishes that the tax exemption created by this act does not apply to sales and use taxes imposed by local governmental entities for the funding of high capacity transportation systems.
- Deletes provision authorizing a local jurisdiction to require a tax exempt entity to make payments for improvements, services, and facilities furnished by the

- jurisdiction for the benefit of the housing for which the company received the tax exemption.
- Clarifies the terminology used throughout this act by replacing the phrase "affordable housing" with "eligible affordable housing developments."
  - Redefines eligibility requirements by establishing that such eligibility extends to any entity involved in the development of "eligible affordable housing developments." "Eligible affordable housing developments" are defined as being any multifamily residential development project that has received federal low-income housing tax credits or funding from the Trust Fund. This replaces the eligibility requirement in the bill, which states that a company is eligible for the tax refund for constructing or reconstructing housing provided the company has received a commitment of funding to pay for the property or services in whole or in part, from a federal, state, or local housing program.
  - With respect to the use tax exemption for labor and services, the substitute bill limits such exemption to only the labor and services rendered with respect to the installation of building fixtures. The original bill had no such limitation.
  - Creates specific requirements for applications and the documentation to verify eligibility, as well as remittance requirements that must be followed by the DOR.
- 

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The bill encourages the development of affordable housing by providing a tax incentive to eligible developers. The bill allows an exemption from sales and use taxes paid in relation to the construction of affordable housing. The tax incentive is targeted directly at the builders/developers themselves, which is a direct and efficient way to promote affordable housing construction. The bill will ensure that Trust Fund monies are used most efficiently and not simply returned to state coffers in the form of taxes. Local governments have the option of recouping the lost tax revenue through the imposition of a fee on developers. The bill will most benefit renters and low-income persons. Communities are desperately in need of affordable housing. Hundreds of thousands of people pay more than one-third of their incomes for housing. There is a tremendous need for a bill such as this to provide the incentives necessary to get housing built.

(With concerns) The bill needs to be rewritten with greater specificity so as to ensure that it effectively targets the creation of affordable housing and achieves its goals. Also, once the housing is built, how does the bill ensure that the housing will remain affordable over time? The bill is unclear as to how local jurisdictions can collect the so-called rebate so as to make up for lost tax revenues. Eligibility is too limited, since it would exclude non-profits such as Habitat for Humanity. The bill is generally in need of some fine tuning.

(Opposed) None.

**Persons Testifying:** (In support) Representative Liias, prime sponsor; Eric Schinfield, Puget Sound Regional Council; Nick Federici, Washington Low-Income Housing Alliance; June Robinson, Housing Consortium of Everett and Snohomish; Maureen Howard, Habitat for Humanity of Washington State; and Bill Block, Committee to End Homelessness.

(With concerns) Kim Herman, Washington State Housing Finance Commission; Dave Williams, Association of Washington Cities; and Scott Merriman, Washington Association of Cities.

**Persons Signed In To Testify But Not Testifying:** None.