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**SENATE BILL 6532**

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**State of Washington 65th Legislature 2018 Regular Session**

**By** Senators Mullet, Angel, and Saldaña

AN ACT Relating to creating a Washington affordable housing tax credit program; adding a new chapter to Title 82 RCW; creating a new section; and providing an expiration date.

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

NEW SECTION. **Sec.**  DEFINITIONS. The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Allocation certificate" means a statement issued by the commission certifying that a given development qualifies for the credit and specifying the amount of the credit allowed.

(2) "Commission" means the Washington state housing finance commission or any board, body, commission, department, or officer succeeding the principal functions of the commission or the entity to whom the powers conferred upon the commission are given by law.

(3) "Compliance period" means the period of fifteen years beginning with the first taxable year of the credit period.

(4) "Credit period" means the period of six taxable years beginning with the taxable year in which a qualified development is placed in service. If a qualified development is comprised of more than one building, the development is deemed to be placed in service in the taxable year during which the last building of the qualified development is placed in service.

(5) "Federal tax credit" means the federal low-income housing tax credit provided by Title 26 U.S.C. Sec. 42 of the federal internal revenue code, as amended, as of the effective date of this section.

(6) "Qualified allocation plan" means the qualified allocation plan adopted by the commission pursuant to Title 26 U.S.C. Sec. 42(m) of the federal internal revenue code of 1986, as amended, as of the effective date of this section.

(7) "Qualified basis" means the qualified basis of the qualified development as determined pursuant to Title 26 U.S.C. Sec. 42 of the federal internal revenue code of 1986, as amended, as of the effective date of this section.

(8) "Qualified development" means a "qualified low-income housing project," as that term is defined in Title 26 U.S.C. Sec. 42 of the federal internal revenue code of 1986, as amended, as of the effective date of this section, which is financed with tax-exempt bonds pursuant to Title 26 U.S.C. Sec. 42(i)(2) of the federal internal revenue code of 1986, as amended, as of the effective date of this section and which is located in the state of Washington and is determined by the commission to be eligible for a federal tax credit whether or not a federal tax credit is allocated with respect to said development.

(9) "Qualified taxpayer" means an individual, person, firm, corporation, or other entity that owns an interest, direct or indirect, in a qualified development and is subject to the taxes imposed by RCW 48.14.020 or chapter 82.04 RCW.

(10) "Washington affordable housing tax credit" means the Washington affordable housing tax credit allowed pursuant to section 2 of this act.

NEW SECTION. **Sec.**  CREDIT AGAINST TAX FOR LOW-INCOME HOUSING DEVELOPMENTS. (1) For tax years during the credit period, any qualified taxpayer is allowed a Washington affordable housing tax credit with respect to the taxes imposed by RCW 48.14.020 or chapter 82.04 RCW, as provided in this chapter. In no event may any qualified taxpayer claim a Washington affordable housing tax credit greater than forty percent of the tax due pursuant to RCW 48.14.020 or chapter 82.04 RCW, prior to application of any tax credits.

(2) The commission may allocate a credit to the owner of a qualified development by issuing to the owner an allocation certificate. The commission may determine the time at which such allocation certificate is issued. The credit must be in an amount determined by the commission, subject to the following guidelines:

(a) The credit is necessary for the financial feasibility of such development;

(b)(i) In no event may a credit exceed the amount of federal tax credit awarded to the qualified development;

(ii) The Washington affordable housing tax credit must be earned over the six-year credit period notwithstanding the fact that the federal tax credit is earned over ten years;

(iii) The annual Washington affordable housing tax credit may exceed the annual federal tax credit, if the total Washington affordable housing tax credit earned over six years is not greater than the federal credit period earned over ten years;

(c) All allocations must be made pursuant to the qualified allocation plan; and

(d) The aggregate sum of credits allocated annually may not exceed the limits provided in subsection (6) of this section.

(3) If an owner of a qualified development receiving an allocation of a credit is a partnership, limited liability company, S corporation, or similar pass-through entity, the owner may allocate the credit among its partners, shareholders, members, or other constituent taxpayers in any manner agreed to by such persons and, in the case of multiple tiers of pass-through entities, the credit may be so allocated through any number of pass-through entities in any manner agreed by the owners of such pass-through entities, none of which may be considered a transfer. The owner must certify to the department the amount of credit allocated to each constituent taxpayer or the owner must notify the department that it has assigned the duty of certification to one such constituent taxpayer, who must provide such notification to the department. Each constituent taxpayer is allowed to claim such amount subject to any restrictions set forth in this section.

(4) No credit may be allocated pursuant to this section unless the qualified development is the subject of a recorded restrictive covenant requiring the development to be maintained and operated as a qualified development, and is in accordance with the accessibility and adaptability requirements of the federal tax credits and Title VIII of the civil rights act of 1968, as amended by the fair housing amendments act of 1988, for a period of fifteen taxable years, or such longer period as may be agreed to between the commission and the owner, beginning with the first taxable year of the credit period.

(5) The allocated credit amount may be taken against the taxes imposed by RCW 48.14.020 or chapter 82.04 RCW for each taxable year of the credit period. Any amount of credit that exceeds the tax due for a taxable year may be carried forward as a tax credit against subsequent years' tax liability imposed by RCW 48.14.020 or chapter 82.04 RCW up to eleven tax years following the tax year in which the allocation was made and must be applied first to the earliest years possible. Any amount of the credit that is not used may not be refunded to the taxpayer.

(6) During each calendar year, the commission may allocate a credit, the full amount of which may be claimed against the taxes imposed by this chapter for each taxable year of the six-year credit period. The aggregate amount of all credits allocated by the commission in each calendar year may not exceed:

(a) Seven million dollars for credits allocated pursuant to subsection (1) of this section;

(b) The amount of unallocated credits, if any, for the preceding calendar years; and

(c) The amount of any credit recaptured or otherwise returned to the commission in the calendar year.

(7) Unless otherwise provided in this section or the context clearly requires otherwise, the commission must determine eligibility for a credit and allocate credits in accordance with the standards and requirements set forth in Title 26 U.S.C. Sec. 42 of the federal internal revenue code of 1986, as amended, as of the effective date of this section; however, any combination of federal tax credits and Washington affordable housing tax credits allowed must be the least amount necessary to ensure the financial feasibility of a qualified development.

NEW SECTION. **Sec.**  RECAPTURE. If under Title 26 U.S.C. Sec. 42 of the internal revenue code, as amended, as of the effective date of this section, a portion of any federal tax credits taken on a qualified project is required to be recaptured during the first six years after a project is placed in service, the taxpayer claiming Washington affordable housing tax credits with respect to such project is also required to recapture a portion of such credits. The amount of Washington affordable housing tax credits subject to recapture must be proportionately equal to the amount of federal tax credits subject to recapture. In the event that recapture of any Washington affordable housing tax credits is required in any tax year, the return submitted for that tax year to the department must include the proportion of credit required to be recaptured, the identity of each taxpayer subject to the recapture, and the amount of credit previously allocated to such taxpayer.

NEW SECTION. **Sec.**  FILING REQUIREMENTS. An owner of a qualified development to which a credit has been allocated and each qualified taxpayer to which such owner has allocated a portion of said credit, if any, must file with their state tax return a copy of the allocation certificate issued by the commission with respect to such development and a copy of the certification to the department as to the allocation of the credit among the qualified taxpayers having ownership interests in such development.

NEW SECTION. **Sec.**  RULES. The commission and the department, in consultation with each other, must adopt such rules as are necessary to carry out responsibilities under this chapter.

NEW SECTION. **Sec.**  COMPLIANCE MONITORING. The commission, in consultation with the department, must monitor and oversee compliance with the provisions of this section and must report specific occurrences of noncompliance to the department.

NEW SECTION. **Sec.**  REPORT TO LEGISLATURE. (1) For each allocation year, the commission must, by December 31st of that year, in compliance with RCW 43.01.036, provide a written report to the appropriate committees of the legislature and must make the report available to the public.

(2) With respect to Washington affordable housing tax credits issued pursuant to this chapter, the report must:

(a) Specify the number of qualified developments that have been allocated such tax credits during the allocation year and the total number of units supported by each development;

(b) Describe each qualified development that has been allocated such credits including, without limitation, the geographic location of the development, the household type and any specific demographic information available about residents intended to be served by the development, the income levels intended to be served by the development, and the rents or set-asides authorized for each development; and

(c) Provide housing market and demographic information that demonstrates how the qualified developments supported by the tax credits are addressing the need for affordable housing within the communities they are intended to serve as well as information about any remaining disparities in the affordability of housing within those communities.

NEW SECTION. **Sec.**  This chapter expires January 1, 2029.

NEW SECTION. **Sec.**  Sections 1 through 8 of this act constitute a new chapter in Title 82 RCW.

NEW SECTION. **Sec.**  The provisions of RCW 82.32.808 do not apply to this act.

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