

FINAL BILL REPORT

SHB 2138

C 176 L 17
Synopsis as Enacted

Brief Description: Concerning tax relief for the construction of adapted housing for disabled veterans.

Sponsors: House Committee on Finance (originally sponsored by Representatives Kraft, Kirby, Lovick, Klippert, Smith, Haler and McDonald).

Finance: 3/17/17, 3/30/17 [DPS].

Background:

Adapted Housing for Veterans.

Specially adapted housing is designed to enhance accessibility, minimize barriers, or otherwise allow people with disabilities to move independently. The Department of Veterans Affairs (VA) provides two grants for adapted housing to members of the armed forces and veterans who have certain permanent and total service-connected disabilities. The grants are used to help the veterans purchase or construct an adapted home or modify an existing home to accommodate a disability. The maximum Specially Adapted Housing (SAH) grant award is \$77,307, and the maximum Special Housing Adaptation (SHA) grant award is \$15,462. Additionally, veterans who receive either the SAH or the SHA grant may be eligible for a supplementary Home Improvements and Structural Alterations (HISA) grant of up to \$6,800. The current or most recent VA Rating Decision issued by the Veterans Service Center of jurisdiction establishes the veteran's or service member's basic eligibility for an adapted housing grant.

Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services (including construction). 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 taxes apply to the value when used in this state. The state, all counties, and most 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 3.9 percent, depending on the location.

Taxation of Construction Activities.

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.

Prime contractors must collect retail sales tax from the purchaser of the construction project on the gross contract price. Billing invoices must disclose the sales tax separately. If the contract requires retainage, sales tax must be computed before deducting such amounts. Retail construction services are sourced to the location where the construction takes place. A contractor is considered the consumer of items purchased for use in the construction process and not used as component parts of the finished structure. Therefore retail sales tax must be paid to the vendors of such items. The purchase of materials by custom contractors that will become part of the completed project are purchases for resale (wholesale). Such purchases are not subject to retail sales tax. Reseller permits allow businesses to purchase items or services for resale without paying retail sales tax. Use tax is due if sales tax has not been paid on items the contractor uses as a consumer. Use tax is generally due on the following: equipment, tools, supplies, and rentals of equipment, even if the cost for these items is passed along to the purchaser of the construction project.

Summary:

Charges for the labor and materials purchased for the construction of adapted housing for disabled veterans are exempt from state sales and use tax, up to a project maximum of \$2,500. The exemption is available as a remittance through the Department of Revenue. The total amount of exemptions is limited to \$125,000 annually.

Qualifying adapted housing projects are those that have been approved by the VA as part of the SAH or SHA grant programs. "Eligible purchasers" are the veterans who have received grants under these programs.

The tax preference is categorized as one intended to provide tax relief for certain individuals. The Joint Legislative Audit and Review Committee is required to review the preference by evaluating the number of exemption applications and the number of adapted housing grants awarded. The preference has an automatic 10-year expiration date.

Votes on Final Passage:

House	95	1
Senate	49	0

Effective: July 23, 2017