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**Finance Committee**

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**HB 2875**

**Brief Description:** Concerning sales, use, and excise tax exemptions for self-help housing development.

**Sponsors:** Representatives McBride, Jinkins, Muri, Fey, Ryu, Kilduff, Sawyer, McDonald, Tharinger, Barkis, Stambaugh, Wilcox, Wylie, Kirby, Ortiz-Self, Clibborn and Chapman.

**Brief Summary of Bill**

- Provides a sales and use tax exemption for labor and services for the construction, repair, decoration, or improvement of self-help housing.
- Provides a real estate excise tax exemption on the sale of self-help housing by an affordable homeownership facilitator to a low-income household.
- Defines "self-help housing," "affordable homeownership facilitator," and "low-income household."

**Hearing Date:** 1/30/18

**Staff:** Richelle Geiger (786-7139).

**Background:**

Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. 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 applies to the value of property, digital product, or service when used in this state. The state, all counties, and all 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.

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Sales and use taxes are due on the following construction services: constructing and improving new or existing buildings and structures; and installing, repairing, cleaning, improving, constructing, and decorating real and personal property for others.

#### Real Estate Excise Tax.

Real estate excise tax (REET) is assessed on the sale or transfer of real estate. The tax is assessed on the selling price, including the amount of any liens, mortgages, or other debts. The tax is typically paid by the seller of the property, although the buyer is liable if the tax is not paid. The state REET rate is 1.28 percent. City and county rates vary depending on location, ranging from 0.25 percent to 1.5 percent. Certain types of real estate transactions are statutorily exempt from REET.

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

A sales tax exemption is provided to affordable homeownership facilitators for the purchase of labor and services for the construction, repair, decoration, or improvement of new or existing self-help housing. A sales and use tax exemption is provided to affordable homeownership facilitators for the purchase of tangible personal property that becomes a component of the self-help housing building or other structures. The self-help housing must be in compliance with current state building code for single-family dwellings. The exemption can only be claimed if the buyer provides the seller with an exemption certificate. The exemption cannot be claimed if the housing is built to be occupied by an employee, family member of an employee, or person on the board of trustees or directors of an affordable homeownership facilitator.

Property that benefits from the sales and use tax exemption must qualify as self-help housing for at least five consecutive years from the date the housing is approved for occupancy. Additionally, the self-help housing must be the primary dwelling of the initial low-income purchaser. If these requirements are not met, the full amount of the exempt sales and use tax is due immediately with interest, but not penalties, from the date the housing was approved for occupancy until the date of payment.

A REET exemption is provided on the sale of self-help housing by an affordable homeownership facilitator to a low-income household.

"Self-help housing" is defined as dwelling residences provided for ownership by low-income individuals and families whose equity in the housing is substantially derived from labor. "Self-help housing" does not include residential rental housing provided on a commercial basis to the general public.

An "affordable homeownership facilitator" is defined as a nonprofit community-based or neighborhood-based organization that acts as a developer of self-help housing and is exempt from federal income tax under Title 26 U.S.C. Sec. 501(c).

"Low-income household" is defined as a single person, family, or unrelated persons living together whose adjusted income is at or below 80 percent of the median family income adjusted for family size, as reported by the United States Department of Housing and Urban Development, for the county in which the property is located.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.