

# HOUSE BILL REPORT

## HB 2919

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### As Reported by House Committee On: Finance

**Title:** An act relating to adjusting the amount and use of county fees on the real estate excise tax.

**Brief Description:** Adjusting the amount and use of county fees on the real estate excise tax.

**Sponsors:** Representatives Chopp and Tharinger.

#### **Brief History:**

##### **Committee Activity:**

Finance: 2/4/20, 2/6/20, 2/7/20 [DPS].

#### **Brief Summary of Substitute Bill**

- Increases the percentage of real estate excise taxes (REET) retained by counties with a population of less than 230,000 to 1.48 percent.
- Directs a portion of the REET retained by county with a population of over 2 million to go to the maintenance and operations of permanent supportive housing programs in the county.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

**Staff:** Tracey O'Brien (786-7152).

#### **Background:**

##### Graduated Real Estate Excise Tax.

Beginning January 1, 2020, the real estate excise tax (REET) is imposed at the following rates:

- 1.1 percent if the selling price is equal to or less than \$500,000;

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- 1.28 percent on the portion of the selling price that is greater than \$500,000, but equal to or less than \$1,500,000;
- 2.75 percent on the portion of the selling price that is greater than \$1,500,000, but equal to or less than \$3,000,000; and
- 3 percent on the portion of the selling price that is greater than \$3,000,000.

A rate of 1.28 percent is imposed on the sale of undeveloped land, timberland, agricultural land, and water or mineral rights, regardless of selling price.

Beginning on January 1, 2022, and every fourth year thereafter, the selling price thresholds are adjusted to reflect the lesser of the growth in the Consumer Price Index for Shelter over the past four years, or 5 percent. The Department of Revenue (DOR) must publish updated selling price thresholds by September 1, 2022, and September 1 of every fourth year thereafter. If the growth in Consumer Price Index for Shelter is less than 0 percent, the current selling price thresholds will continue to apply. The DOR must report the updated selling price thresholds to the Legislature within six months of publication.

The DOR must publish guidance to assist sellers in properly classifying real property on the REET affidavit for purposes of determining the proper amount of tax due under this section. Real property with multiple uses must be classified according to the property's predominant use and the DOR's guidance must include factors for use in determining the predominant use of real property. The DOR, rather than county treasurers, are responsible for verifying the seller has properly classified real property reported on a REET affidavit.

#### Revenue Distributions.

Beginning January 1, 2020, and ending June 30, 2023, revenue distributions must be as follows:

- 1.7 percent must be deposited in the Public Works Assistance Account;
- 1.4 percent must be deposited in the City-County Assistance Account;
- 79.4 percent must be deposited in the State General Fund; and
- the remaining amount must be deposited in the Education Legacy Trust Account.

Beginning July 1, 2023, and thereafter, revenue distributions to the Public Works Assistance Account increases to 5.2 percent.

The county treasurer retains 1.3 percent of the REET collected by the county, along with the treasurer's fee of \$5, to defray the costs of collection. These funds are deposited in the county's current expense account.

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

The county treasurer must retain 1.48 percent of the REET collected by the county to defray the costs of collection if the county has a population of less than 230,000.

In a county with a population greater than 2 million, the county treasurer must deposit 75 percent of the amount of REET taxes retained into the county current expense account to

offset the costs of collection. The remaining 25 percent of the REET taxes retained by the county may be used for operations and maintenance of permanent supportive housing programs in the county.

**Substitute Bill Compared to Original Bill:**

The substitute bill requires, as opposed to permits, 25 percent of the REET proceeds retained by a county with a population of over 2 million go to the maintenance and operations of permanent supportive housing programs in the county.

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**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) This is a one Washington bill and the counties are in strong support of this legislation. The Legislature's creation of a graduated REET last year had unintended consequences. Due to the rate reduction for the transactions under \$500,000, most small counties experienced a decrease in REET revenues. Therefore, the smaller counties are not receiving less funds than previously, for the administration of a more complicated graduated REET program. In the meantime, due to the increase rates on the higher value transactions, King County is receiving an amount in excess of the costs of administration. This bill allows King County to redirect the excess funds to the maintenance and operation of the county's supportive housing programs.

(Opposed) None.

**Persons Testifying:** Representative Chopp, prime sponsor; Mike Hoover, Washington State Association of Counties; and Jeff Chapman, Jefferson County.

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