
Finance Committee

HB 2276

Brief Description: Increasing the supply of affordable and workforce housing.

Sponsors: Representatives Berg, Macri, Chopp, Street, Slatter, Reed, Ramel, Farivar, Alvarado, Kloba, Mena, Ormsby, Riccelli, Senn, Davis, Tharinger, Cortes, Stonier, Ortiz-Self, Fitzgibbon, Thai, Peterson, Fosse, Gregerson, Simmons, Taylor, Doglio, Pollet, Bateman, Lekanoff, Goodman, Berry, Santos, Wylie, Bergquist, Fey, Duerr, Ryu, Morgan and Nance.

Brief Summary of Bill

- Increases the "ceiling" for the Tier 1 1.1 percent state real estate excise tax (REET) from \$525, 000 to \$750, 000 beginning January 1, 2025.
- Imposes a new real estate transfer tax (RETT) of 1 percent on the value of the selling price over \$3.025 million.
- Directs the revenue from RETT to be divided between accounts currently receiving REET moneys and the Washington Housing Trust Fund, Apple Health and Homes Account, the Affordable Housing for All Account, the new Developmental Disabilities Housing and Services Account, and the new Housing Stability Account.
- Creates a REET exemption for certain sales or transfers of properties that qualify for a property tax exemption that will be used for a community purpose.

Hearing Date: 1/18/24

Staff: Tracey Taylor (786-7152).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

State Real Estate Excise Tax.

The state imposes a graduated real estate excise tax (REET) on the sale of property that is not timberland or agricultural land. The portion of the selling price up to \$525,000 is taxed at 1.1 percent; the portion that is more than \$525,000 but less than or equal to \$1,525,000 is taxed at 1.28 percent; the portion that is more than \$1,525,000 but less than \$3,025,000 is taxed at 2.75 percent; and any portion of the selling price over \$3,025,000 is taxed at 3 percent.

The Department of Revenue (DOR) is required to adjust the first price threshold every four years by the lesser of the growth in the Consumer Price Index (CPI) for shelter or 5 percent, rounded to the nearest \$1000. The CPI is a measure of the change over time in prices for certain goods and is often used as a measure of inflation. If the change in the CPI for shelter is zero or negative, then the price threshold must remain the same. If the first threshold does increase, then the remaining thresholds must increase by the same amount. The first update to the price thresholds occurred on January 1, 2023. Timberland and agricultural land is taxed at a flat rate of 1.28 percent.

The tax imposed is due at the time of sale and is subject to monthly interest if paid more than a month after the sale. The tax is a lien on the property, and its payment is the responsibility of the seller. The DOR may foreclose on the property if the tax remains unpaid.

The revenue from the state REET is deposited as follows: 5.2 percent into the Public Works Assistance Account, which is used to make loans and grants to local governments for public works projects; 1.4 percent into the City-County Assistance Account, which provides funding to local governments based on their size and how their sales and property tax revenue compare to the statewide average; 79.4 percent to the State General Fund; and 14 percent into the Education Legacy Trust Account, which is used to support education.

Real Estate Excise Tax Exemptions.

Some transfers of property are exempted from consideration as a sale. Because these transfers are not considered sales, they are not subject to the REET. These exemptions include, among other things, property transfers made by gift or through inheritance, transfers made pursuant to a dissolution of marriage, or the transfer of a mortgage interest in property.

Certain property sales or transfers related to low-income housing are also exempt from being considered, and are thus taxed as sales. These exemptions cover low-income housing developments that qualify for federal low-income housing tax credits or for tax credits from the Washington State Housing Finance Commission. The exemptions also include sales of self-help housing to households that have an income of less than 80 percent of the median income, adjusted for house size, of the county in which the dwelling is located.

Also exempted are sales or transfers to certain entities that use the property for low-income housing, as long as certain conditions are satisfied. First, the property must qualify for a property tax exemption related to certain properties owned by a qualified entity. A qualified entity is a nonprofit organization that provides low-income rental housing or develops properties

for sale to low-income households; a housing authority; a public corporation; or the United States, Washington, a county, or a municipal corporation. Second, the property must actually be used as housing within one to five years by a household that has an income of less than 80 percent of the median income, adjusted for house size, of the county in which the dwelling is located, with the time frame dependent on whether the organization is operating existing housing, renovating housing, or constructing new housing on the site. If this deadline is missed, then the organization must pay the tax that would have been due at the time of the transfer, plus interest.

The Washington Housing Trust Fund, The Apple Health and Homes Account, and The Affordable Housing for All Account.

The Washington Housing Trust Fund is used to provide grants and loans for local government, housing authority, behavioral health service organization, nonprofit community, tribal, and regional or statewide housing assistance projects that will provide housing to those with special housing needs and with incomes at or below 50 percent of the median family income for the county or standard metropolitan area where the project is located. It is administered by the Department of Commerce.

The Apple Health and Homes Account is also administered by the Department of Commerce. It is used to support permanent supportive housing programs.

The Affordable Housing for All Account is used to fund affordable housing programs.

Tax Preferences.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

Beginning January 1, 2025, the ceiling for the first tier of the real estate excise tax (REET) is increased from \$525,000 to \$750,000.

Beginning January 1, 2025, a new real estate transfer tax (RETT) of 1 percent is imposed on the value of the selling price of real estate over \$3.025 million and is in addition to any REET paid on the sale. The RETT is imposed and collected in the same manner as REET. The selling price threshold of \$3.025 million for RETT must be adjusted in the same manner and timing as the REET thresholds.

The revenue from the new RETT must be deposited as follows: 93 percent to accounts that are currently receiving REET moneys and 7 percent to the accounts listed in the bill. The following accounts shall divide the 7 percent of REET and RETT revenues as follows:

- 25 percent to the Washington State Housing Trust Fund, 5 percent of which must be solely for housing facilities in rural communities that prioritize serving low-income farmworker housing;
- 25 percent to the Apple Health and Homes Account;
- 15 percent to a new Developmental Disabilities Trust Account;
- 25 percent to the Affordable Housing for All Account for operations, maintenance, and service for permanent supportive housing; and
- 10 percent to the new Housing Stability Account.

The Developmental Disabilities Housing and Services Account is created. This account may be used for providing grants and forgivable loans to housing programs to support people with developmental disabilities. These grants and loans can be used for: preservation; operations and maintenance costs; housing-related services; technical assistance to nonprofit organizations serving or housing populations with intellectual or developmental disabilities; and rental subsidies.

The Housing Stability Account is created. Expenditures from the account may only be used for grants to cover building operations, maintenance, and supportive service costs for low-income households or extremely low-income households where a supplement to rent income is required to cover ongoing operating expenses. Eligible housing projects must have received or will receive funding from the state housing trust fund, or other public capital funding programs. Grants provided must fund overall developments and may be used to fund new or existing housing projects.

Beginning January 1, 2025, the sale of any portion of an affordable housing development by a qualified entity to an organization that meets the requirements for a property tax exemption as a nonprofit organization, housing authority, or public corporation for a community purpose is exempt from REET. A community purpose includes, but is not limited to, the provision of services to affordable housing development tenants, health clinics, senior day cares, food banks, community centers, and early learning facilities.

This act is exempt from the requirement of a TPPS, a JLARC review, and the automatic 10 year expiration for tax preferences.

Appropriation: None.

Fiscal Note: Available.

Effective Date: This bill takes effect 90 days after adjournment of the session in which the bill is passed, except for section 7, which takes effect January 1, 2030.