Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1763

Brief Description: Providing state funding for essential affordable housing programs.

Sponsors: Representatives Parshley, Thomas, Zahn, Ramel, Duerr, Doglio, Pollet and Reed.

Brief Summary of Bill

- Establishes a 6 percent tax on sales of lodging in short-term rentals facilitated through a short-term rental platform.
- Creates the Essential Affordable Housing Local Assistance account.

Hearing Date: 2/18/25

Staff: Rachelle Harris (786-7137).

Background:

Lodging Taxes.
State-shared Lodging Tax.
A city or county legislative authority may impose a 2 percent special excise tax on the sale or charge made for the furnishing of lodging at hotels, motels, and short-term rentals. This tax is credited against the state sales tax that would be imposed on the sale of lodging.

In most cases, a city's lodging tax is credited against the county's lodging tax, so that the rate is 2 percent countywide; however, the county will not receive revenues from the city's jurisdictions. There are two instances where statutory exemptions allow a city and a county to both impose the 2 percent lodging tax, thus reducing the state sales tax on lodging within the city and county to 2.5 percent.

Outside of King County, revenues from the tax can be used solely for the purpose of paying for

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tourism promotion or for the acquisition or operation of tourism-related facilities. In King County, the revenue must be divided between affordable workforce housing; housing, facilities, and services for homeless youth; museums and the arts; and capital or operating programs that promote tourism.

Special Lodging Tax.
An additional excise tax can be imposed on the sale of lodging by a county or most cities at a rate of up to 2 percent. Seattle can impose the tax at a rate of up to 4 percent. This tax is not a credit against the state sales tax and is instead paid by the purchaser. Cities within Snohomish County and Cowlitz County cannot impose the tax because the counties are imposing a previously authorized 4 percent lodging tax. Certain other counties and cities using tax authority that has since been changed are also authorized to continue to collect the tax at the previous, higher rate.

The imposition of the tax on lodging, when taken together with all other taxes, including state and local sales taxes, public facilities district sales taxes, transit district sales taxes, and the convention center tax, cannot exceed a total rate of 12 percent outside of Seattle. In Seattle, the combined taxes cannot exceed 15.2 percent.

<u>Short-Term Rentals and Short-Term Rental Platforms</u>.
A short-term rental (STR) is a lodging use, outside of a hotel, motel, or bed and breakfast, in which a dwelling unit is offered to a guest for a fee, for fewer than 30 consecutive nights, and on an STR platform. An exemption applies for dwelling units in which the owner resides for at least six months during the calendar year and in which fewer than three rooms at a time are rented. An STR platform is a company that financially benefits from providing a means through which owners can offer dwelling units for STR.

Summary of Bill:

Starting January 1, 2026, a statewide excise tax of 6 percent is levied on each retail sale of lodging in STRs that are facilitated through an STR platform. Revenues from the tax are deposited in the newly created Essential Affordable Housing Local Assistance (EAHLA) account. The tax does not count toward the combined rate of other lodging taxes. The STR tax is included in the definition of "trust fund taxes."

Counties receive the amount of the STR tax revenues from sales occurring within unincorporated areas of the county. Cities and towns receive the amount of STR tax revenues from sales occurring within the incorporated area of the city or town.

The EAHLA account is created in the state treasury. Expenditures from the account may be used exclusively for operating and capital costs of affordable housing programs, including homeless housing assistance, temporary shelters, or housing infrastructure projects. Revenues may be used for contracts, loans, or grants to nonprofits or public housing authorities for related services. The county or city can retain up to 20 percent of the revenues for costs incurred to administer programs and services provided.

If revenues from the STR tax are being used for housing infrastructure projects, certain requirements must be met for the project. The housing infrastructure project must be designed to meet the maximum allowed density of the parcels it will serve. If the city or county imposes impact fees for new development, then they must reduce the fees by the proportional costs that are paid by the STR tax. Projects cannot be in areas limited to single family residential housing. The city or county must limit the size of any single-family residential unit constructed to 2,000 square feet or less. If the infrastructure project is within an urban growth area, the city must agree to annex the project area upon completion of the project.

Appropriation: None.

Fiscal Note: Requested on January 30, 2025.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.