

SENATE BILL REPORT

SB 5647

As of Third Reading

Title: An act relating to providing a real estate excise tax exemption for the sale of qualified affordable housing.

Brief Description: Providing a real estate excise tax exemption for the sale of qualified affordable housing.

Sponsors: Senators Alvarado, Frame, Saldaña, Trudeau and Valdez.

Brief History:

Committee Activity: Ways & Means: 2/13/25, 2/27/25 [DP, DNP, w/oRec]; 2/03/26 [DPS, w/oRec].

Brief Summary of First Substitute Bill

- Expands the real estate excise tax exemption for self-help housing to include any type of ownership housing provided by an affordable homeownership facilitator to low-income households.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5647 be substituted therefor, and the substitute bill do pass.

Signed by Senators Robinson, Chair; Stanford, Vice Chair, Operating; Trudeau, Vice Chair, Capital; Frame, Vice Chair, Finance; Gildon, Ranking Member, Operating; Torres, Assistant Ranking Member, Operating; Dozier, Assistant Ranking Member, Capital; Cleveland, Conway, Dhingra, Hansen, Kauffman, Pedersen, Riccelli, Saldaña, Wellman and Wilson, C..

Minority Report: That it be referred without recommendation.

Signed by Senators Schoesler, Ranking Member, Capital; Boehnke, Braun, Hasegawa, Muzzall and Wagoner.

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.

Staff: Alia Kennedy (786-7405)

Background: Real Estate Excise Taxes. Real estate excise tax (REET) is a tax on the sale of real property. All sales of real property in the state are subject to REET unless a specific exemption is claimed. REET also applies to certain transfers of controlling interest in entities that own real property in the state. The seller of the property typically pays the tax, although the buyer is liable for the tax if it is not paid. Unpaid tax can become a lien on the transferred property.

State Real Estate Excise Tax. The state imposes a graduated 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 million is taxed at 1.28 percent; the portion that is more than \$1.525 million but less than \$3.025 million is taxed at 2.75 percent; and any portion of the selling price over \$3.025 million is taxed at 3 percent. Timberland and agricultural land is taxed at a flat rate of 1.28 percent.

The Department of Revenue 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 \$1,000. 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 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.

All revenue from the 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.

Local Real Estate Excise Tax. Local governments may impose a local REET that is in addition to the state REET. The local REET is assessed at a fixed rate and, unlike the state REET, does not vary depending on the selling price of the real estate. Tax rates do vary by taxing district though, with most local jurisdictions imposing the REET at a rate of 0.25-0.50 percent of the selling price. Any exemption from the state REET also applies to the local REET.

Real Estate Excise Tax Exemptions. The sale of self-help housing by an affordable homeownership facilitator to a low-income household is not subject to state or local REET.

"Affordable homeownership facilitator" is defined as a nonprofit community or neighborhood-based organization that is the developer of self-help housing. Self-help housing are residences provided for ownership to low-income individuals and families whose ownership requirement includes labor participation.

Tax Preferences. All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. An automatic ten-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

Summary of First Substitute Bill: The REET exemption for self-help housing is expanded to include any type of ownership housing provided by an affordable homeownership facilitator to low-income households.

The exemption expires January 1, 2030.

The Legislature's public policy objective, as indicated in the tax preference performance statement, is to provide REET relief to developers of ownership housing to encourage continued development of ownership housing.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony (Regular Session 2025): PRO: Homeownership is a key pathway to financial stability and wealth building. Nonprofit home ownership programs like those operated by community land trusts, Habitat for Humanity affiliates, and other mission-driven organizations lower barriers for first-time buyers by keeping homes affordable for generations to come. The real estate excise tax exemption currently only applies to the self-help model for affordable homeownership. This bill ensures fair treatment for home buyers by extending the real estate excise tax exemption to all nonprofit home ownership models.

The state's budget constraints should not be balanced on the income of qualified home buyers in Washington. Allowing organizations that remove land and housing from the speculative housing market is common sense policy. The self-help homeownership model alone cannot meet the state's rapidly growing affordable housing needs. Extending the real estate excise tax exemption to other organizations that provide affordable homeownership

puts more money toward housing for low- and moderate-income people and makes home ownership attainable, affordable, and sustainable. This bill lowers the cost for first-time buyers and provides more housing stability.

Persons Testifying: PRO: Kathleen M Hosfeld, Homestead Community Land Trust | NWCLTC; Rebeca Potasnik, Thurston Housing Land Trust.

Persons Signed In To Testify But Not Testifying: No one.