

HOUSE BILL REPORT

HB 1621

*As Reported By House Committee on:
Housing*

Title: An act relating to sales and use tax exemptions on the construction of multifamily rental housing.

Brief Description: Exempting building materials used in multifamily residential structures from sales and use taxation.

Sponsor(s): Representatives Mitchell, Nelson, Franklin, Ferguson, Haugen, Cooper, Rayburn, Roland, Wood, Wynne, Nealey, Zellinsky, Ogden, Ballard, Tate, Winsley, Paris, Forner, D. Sommers, Brough, Wilson and Leonard.

Brief History:

Reported by House Committee on:
Housing, March 4, 1991, DPS.

**HOUSE COMMITTEE ON
HOUSING**

Majority Report: *That Substitute House Bill No. 1621 be substituted therefor, and the substitute bill do pass.*
Signed by 6 members: Representatives Nelson, Chair; Franklin, Vice Chair; Mitchell, Ranking Minority Member; Ballard; Leonard; and Ogden.

Minority Report: Without recommendation. Signed by 1 member: Representative Winsley, Assistant Ranking Minority Member.

Staff: Kenny Pittman (786-7392).

Background: Under current state law, a retail sales tax is imposed at the state and local level on charges made for materials used in the remodeling, rehabilitation, or new construction of multifamily residential structures. The retail sales tax rate at the state level is 6.5 percent of the retail sales price of the product. The local retail sales tax rate varies but is usually 1.6 percent.

The State also imposes a use tax at the state and local level on charges made on materials that were purchased elsewhere and not subject to the state's retail sales tax, but used for remodeling, rehabilitation, or new construction

projects within the state of Washington. The use tax rates are similar to the retail sales tax rates at the state and local level.

Summary of Substitute Bill: An exemption is created for either: (a) the retail sales tax imposed on building materials used in the remodeling, rehabilitation, or new construction of an affordable housing project or the labor used to incorporate the materials into the building; or (b) the use tax exemption imposed on building materials purchased outside of the state of Washington and used in the remodeling, rehabilitation, or new construction of an affordable housing project.

"Affordable housing projects" are defined as residential rental housing in which: (a) 20 percent or more of the dwelling units in the structure are occupied by households with incomes at or below 50 percent of median income; or (b) 40 percent or more of the dwelling units in the structure are occupied by households with incomes at or below 60 percent of median income. The median income figures are adjusted for household size for the county where the project is located.

To qualify for the retail sales or use tax exemption, the building materials or labor must be for an affordable housing project that meets the following requirements:

1. The affordable housing project must be located in the state of Washington.
2. The affordable housing project must be owned by a nonprofit organization that is eligible to receive assistance through the Washington Housing Trust Fund Program.
3. The affordable housing project must contain two or more residential rental dwelling units.
4. The dwelling units in the affordable housing project must meet one of the specified occupancy requirements. Rental units used on a transient basis are not included.
5. The gross rents paid by tenants in the specified dwelling units can not exceed 30 percent of the qualifying income, adjusted for household size, for the county where the project is located.

The Department of Revenue, in consultation with the Department of Community Development, must develop administrative procedures for the operation of the tax

exemption program. The Department of Revenue must keep a running total of retail sales and use tax exemptions granted and is authorized to issue up to \$3 million in retail sales and use tax exemptions in a biennium.

Substitute Bill Compared to Original Bill: The substitute bill adds the following provisions: (1) the definition of an affordable housing project; (2) the gross rent paid by tenants in dwelling units set aside for lower-income tenants can not exceed 30 percent of the qualifying income, adjusted for household size; and (3) the Department of Revenue must keep a running total of retail sales and use tax exemptions granted for affordable housing projects and is authorized to issue up to \$3 million in retail sales and use tax exemptions in a biennium.

Fiscal Note: Available.

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

Testimony For: This exemption is part of an overall package of legislation to use tax policy to assist in the development of affordable housing. This exemption will lower the development cost of housing for lower-income people. By providing an exemption, of the state's portion of the retail sales or use tax, on the materials and the labor, the cost to develop the housing is lowered by 6.5 percent. Lower development costs means a lower subsidy to the project.

Testimony Against: None.

Witnesses: Mike Ryherd, Low-Income Housing Congress (in favor of bill); and Robert Jacobson, Senior Lobby (in favor of bill).