

Individual State Agency Fiscal Note

Bill Number: H 2680	Bill Title: AN ACT Relating to increasing the supply of affordable and workforce housing by reducing taxes on real property sales under \$3,025,000, modifying the state and local real estate excise tax, and imposing a surcharge	Agency: 140 Department of Revenue
Part I: Estimates [] No Fiscal Impact		

Estimated Cash Receipts to:

Fund	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Affordable Housing for All Real Estate Excise Tax				33,100,000	63,200,000
Apple Health and Homes Real Estate Excise Tax				33,100,000	63,200,000
Educ Legacy Trust Real Estate Excise Tax				200,000	600,000
GF-State Real Estate Excise Tax				1,000,000	3,400,000
Housing Trust Fund Real Estate Excise Tax				33,100,000	63,200,000
NEW Real Estate Excise Tax				19,800,000	37,900,000
NEW2 Real Estate Excise Tax				13,200,000	25,200,000
Publ Works Assist Real Estate Excise Tax				100,000	200,000
Total				133,600,000	256,900,000

Estimated Expenditures from:

Fund	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
FTE Staff Years		3.8	1.9	1.31	.6
Fund					
GF-State 001		721,400	721,400	306,300	117,000
Total		721,400	721,400	306,300	117,000

The revenue and expenditures estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

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OFM Review:	Phone:	Date:
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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

CURRENT LAW:

The state real estate excise tax (REET) is a tax on the sale of real property. REET also applies to transfers of controlling interest (50% or more) in entities that own real property in the state. The rate is 1.28% for real property sales of property with a predominate use of:

- Farm and agricultural land or farm and agricultural conservation land (must be in the current use property tax program)
- Timberland (must be in either the current use or designated forest land property tax programs) including any structures on the land and any standing timber on or sold apart from the land.

For all other types of property, the following graduated rates apply as of January 1, 2023, to the following selling price thresholds:

- 1.10% for the portion of the selling price less than or equal to \$525,000.
- 1.28% for the portion of the selling price greater than \$525,000 and less than or equal to \$1.525 million.
- 2.75% for the portion of the selling price greater than \$1.525 million and less than or equal to \$3.025 million.
- 3.00% for the portion of the selling price greater than \$3.025 million.

Beginning July 1, 2022, and every fourth year thereafter, the Department of Revenue (department):

- Adjusts the selling price threshold of the first tier to reflect the lesser of the growth of the consumer price index for shelter or 5%. If the growth is less than 0%, the selling price threshold does not change.
- Adjusts the selling price threshold of the remaining tiers by any dollar increase in the first tier.
- The updated selling price thresholds apply beginning January 1 of every fourth year, beginning January 1, 2023.

State REET revenue distributions occur as follows:

- 5.2% deposited in the Public Works Assistance Account.
- 1.4% deposited in the City-County Assistance Account.
- 79.4% deposited in the General Fund.
- Remainder deposited in the Education Legacy Trust Account.

PROPOSAL:

STATE REAL ESTATE EXCISE TAX AND REAL ESTATE TRANSFER TAX (Sections 2, 3 and 4)

Beginning January 1, 2026, the graduated rates for state REET are as follows:

- 1.10% for the portion of the selling price less than or equal to \$750,000.
- 1.28% for the portion of the selling price greater than \$750,000 and less than or equal to \$1.525 million.
- 2.75% for the portion of the selling price greater than \$1.525 million and less than or equal to \$3.025 million.
- 3.00% for the portion of the selling price greater than \$3.025 million.

Beginning January 1, 2026, this bill also imposes a new state real estate transfer tax (RETT) on the sale of real property in which the seller must pay REET at a rate of 3% on the portion of the selling price greater than \$3.025 million. The RETT is 1% of the portion of the selling price greater than \$3.025 million and is in addition to the REET paid. The amounts collected from the RETT must be distributed as follows:

- 93.2% must be distributed to the following accounts:
 - 5.2% deposited in the Public Works Assistance Account.
 - 1.4% deposited in the City-County Assistance Account.
 - 79.4% deposited in the General Fund.
 - Remainder deposited in the Education Legacy Trust Account.

- The remaining 6.8% must be distributed as follows:
 - 25% deposited in the Washington Housing Trust Fund.
 - 25% deposited in the Apple Health and Homes Account.
 - 25% deposited in the Affordable Housing For All Account.
 - 15% to the new Developmental Disabilities Housing and Services Account.
 - 10% to the new Housing Stability Account.

ACCOUNT CREATION FOR STATE REAL ESTATE TRANSFER TAX (Sections 5 and 6)

This bill creates the Developmental Disabilities Housing and Services Account in the State Treasury. Money in this account may only be spent after appropriation and must be grants or forgivable loans only used for:

- Housing programs to support people with developmental disabilities.
- Preservation, operations, and housing maintenance costs for people with developmental disabilities.
- Housing-related services for individuals with developmental disabilities.
- Rental subsidies.
- Technical assistance to nonprofit organizations serving individuals with intellectual and developmental disabilities.

This bill also creates the Housing Stability Account in the State Treasury. Money in this account may only be spent after appropriation and must be used for housing operations, maintenance, and service costs for low-income households or extremely low-income households where covering ongoing operating expenses requires a supplement to rent income.

NEW EXEMPTION ON SALES OF REAL ESTATE (Sections 7 and 8)

These sections create an exemption for the sale of qualified space in a development that qualifies for certain property tax exemptions to a nonprofit organization, a housing authority, or a public corporation for use for an exempt community purpose.

The bill defines a qualified space as a portion of an affordable housing development accessible to tenants or the public that constitutes a separate legal parcel of property.

Affordable housing development means subsidized housing provided to low-income households.

Exempt community purpose means any use that provides a service that benefits affordable housing development tenants or the public such as health clinics, senior day care, food banks, community centers, or early learning facilities.

Low-income means household income that does not exceed 80% of the median household income at initial occupancy, adjusted for household size, for the county where the dwelling is located.

The bill defines a nonprofit organization as an organization exempt from taxation under section 501(c)(3) of the Internal Revenue Code.

STUDY LOCAL OPTION GRADUATED REET (Section 9):

This bill requires the department to study the requirements needed to implement and administer a local option graduated REET tax and submit a report to the legislature by January 13, 2025. The study must include administrative recommendations and estimated expenditures required for the department to successfully implement and administer a local option graduated REET.

EFFECTIVE DATE:

The changes to the real estate excise tax, the new state real estate transfer tax, and the new exemption (sections 2 through 7) take effect on January 1, 2026.

The study (section 9) takes effect 90 days after the final adjournment of the session.

II. B - Revenue Impact

ASSUMPTIONS

- The department electronically receives transaction-level REET data from 36 counties. For the three counties not reporting REET data electronically, this estimate assumes transactions similar to the urban or rural counties that report electronically.
- The percent change in the CPI-U for shelter between July 2022 and July 2026 is 11.2%, so the first threshold grows by 5% and the remaining thresholds grow by \$38,000 beginning January 1, 2027.
- Growth mirrors the REET growth reflected in the Economic and Revenue Forecast Council's November 2023 forecast.
- Property sales price growth mirrors the 5-year compound annual growth for existing property values by county.
- The NEW account is the developmental disabilities trust account.
- The NEW2 account is the housing stability account.
- The local government revenue increases below are due to the increase in the county administrative fees.
- This legislation takes effect January 1, 2026, and impacts five months of collections in fiscal year 2026.

DATA SOURCES

- Department of Revenue, Real estate excise tax administration system, fiscal year 2023 data
- Department of Revenue, Property tax data
- County Assessor, Property rolls
- Economic and Revenue Forecast Council, November 2023 forecast
- Office of Financial Management, Designated rural counties as of April 1, 2023
- Bureau of Labor Statistics, CPI for all urban consumers

REVENUE ESTIMATES

This bill increases state revenues by an estimated \$32.3 million in the five months of impacted collections in fiscal year 2026, and by \$101.3 million in fiscal year 2027, the first full year of impacted collections.

This bill also increases local revenues by an estimated \$400,000 in the five months of impacted collections in fiscal year 2026, and by \$1.3 million in fiscal year 2027, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	\$ 0
FY 2026 -	\$ 32,300
FY 2027 -	\$ 101,300
FY 2028 -	\$ 122,300
FY 2029 -	\$ 134,600

Local Government, if applicable (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	\$ 0
FY 2026 -	\$ 400
FY 2027 -	\$ 1,300
FY 2028 -	\$ 1,600
FY 2029 -	\$ 1,800

II. C - Expenditure Impact

ASSUMPTIONS:

This bill affects buyers and sellers of real estate.

FIRST YEAR COSTS:

The department will not incur costs in fiscal year 2024.

SECOND YEAR COSTS:

The department will incur total costs of \$721,400 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 3.8 FTEs.

- Set up, program, and test computer system changes.
- Gather system requirements, implementation meetings, and documentation.
- Update affidavits and identify website publications and information the department may need to create or update.
- Update systems and reports for changes in distribution and revenue accounting.
- Test, review, and adjust accounting reports.
- Conduct study for local option graduated REET and report to legislature.

Object Costs - \$227,200.

- Computer system changes, including contract programming.
- Training and travel.
- Software.

THIRD YEAR COSTS:

The department will incur total costs of \$234,000 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 1.9 FTEs.

- Adopt two administrative rules.
- Amend three administrative rules.
- Test and verify computer system changes.
- Maintain affidavits and tax returns.
- Support and educate counties on the new rates and calculation methods.
- Create special notice and update relevant information on the department's website.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Review and audit real estate excise tax transactions.
- Conduct additional administrative reviews of notices and assessments.

FOURTH YEAR COSTS:

The department will incur total costs of \$72,300 in fiscal year 2027. These costs include:

Labor Costs – Time and effort equate to 0.7 FTE.

- Continued computer system testing, monitoring, and maintenance.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Review and audit real estate excise tax transactions.

ONGOING COSTS:

OFM Form FN (10/95)

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Ongoing costs for the 2027-29 biennium equal \$117,000 and include similar activities described in the fourth-year costs. Time and effort equate to 0.6 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object or Purpose:

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Salaries and Wages		296,700	296,700	193,800	74,400
Benefits		97,700	97,700	63,900	24,400
Personal Service Contracts		226,000	226,000		
Supplies & Material		61,500	61,500	33,500	12,400
Travel		9,100	9,100	2,200	2,200
Office Equipment		30,400	30,400	12,900	3,600
Total		721,400	721,400	306,300	117,000

III. B - FTE Detail:

Job Classification	Salary	FY 2024 FTEs	FY 2025 FTEs	2023 - 2025 Total	2025 - 2027	2027 - 2029
EMS BAND 4	131,684				.01	
EMS BAND 5	153,836				.01	
EXCISE TAX EX 2	58,104				.2	.2
EXCISE TAX EX 3	64,092		1.4	.7	.45	.4
EXCISE TAX EX 4	70,800		.7	.35		
IT B A-JOURNEY	91,968		.5	.25	.15	
IT QA-JOURNEY	91,968		.3	.15		
IT SYS ADM-JOURNEY	96,552		.4	.2		
MGMT ANALYST4	76,188				.07	
TAX POLICY SP 2	78,120				.12	
TAX POLICY SP 3	88,416		.4	.2	.23	
TAX POLICY SP 4	95,184				.07	
WMS BAND 2	98,456		.1	.05	.01	
WMS BAND 3	111,992				.01	
Total			3.8	1.9	1.33	.6

III. C - Expenditures by Program (optional):

	Fiscal Year 2024	Fiscal Year 2025	2023-2025 Total	2025-27 Biennium	2027-29 Biennium
Total					

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

OFM Form FN (10/95)

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Should this legislation become law, the department will use the standard process to amend the following rules:

WAC 458-61A-100, titled: "Real estate excise tax-Overview."

WAC 458-61A-1001, titled: "Graduated real estate excise tax rates-Exceptions to graduated rates-Tax avoidance arrangements."

WAC 458-61A-102, titled: "Definitions."

Should this legislation become law, the department will use the standard process to adopt the following rules:

WAC 458-61A-NEW, titled: "Real estate transfer tax."

WAC 458-61A-NEW, titled: "Exemption - Qualified Space."

Persons affected by this rulemaking would include buyers and sellers of real estate, county assessors, and nonprofit organizations.

Revenue Impact Detail

FUND	SOURCE	CODE	First Biennium		Second Biennium		Third Biennium	
			1st YEAR	2nd YEAR	3rd YEAR	4th YEAR	5th YEAR	6th YEAR
GF-State	Real Estate Excise Tax	0157				1,000,000	1,600,000	1,800,000
Total						1,000,000	1,600,000	1,800,000
OTHER								
Affordable Housing for All	Real Estate Excise Tax	0157			8,100,000	25,000,000	30,100,000	33,100,000
Apple Health and Homes	Real Estate Excise Tax	0157			8,100,000	25,000,000	30,100,000	33,100,000
Educ Legacy Trust	Real Estate Excise Tax	0157				200,000	300,000	300,000
Housing Trust Fund	Real Estate Excise Tax	0157			8,100,000	25,000,000	30,100,000	33,100,000
NEW	Real Estate Excise Tax	0157			4,800,000	15,000,000	18,000,000	19,900,000
NEW2	Real Estate Excise Tax	0157			3,200,000	10,000,000	12,000,000	13,200,000
Publ Works Assist	Real Estate Excise Tax	0157				100,000	100,000	100,000
Total					32,300,000	100,300,000	120,700,000	132,800,000
Net					32,300,000	101,300,000	122,300,000	134,600,000

Revenue Impact - by Biennium

FUND	SOURCE	CODE	1st Biennium	2nd Biennium	3rd Biennium
GF-State	Real Estate Excise Tax	0157		1,000,000	3,400,000
Total				1,000,000	3,400,000
OTHER					
Affordable Housing for All	Real Estate Excise Tax	0157		33,100,000	63,200,000
Apple Health and Homes	Real Estate Excise Tax	0157		33,100,000	63,200,000
Educ Legacy Trust	Real Estate Excise Tax	0157		200,000	600,000
Housing Trust Fund	Real Estate Excise Tax	0157		33,100,000	63,200,000
NEW	Real Estate Excise Tax	0157		19,800,000	37,900,000
NEW2	Real Estate Excise Tax	0157		13,200,000	25,200,000
Publ Works Assist	Real Estate Excise Tax	0157		100,000	200,000
Total				132,600,000	253,500,000
Net				133,600,000	256,900,000