WASHINGTON STATE BUDGET & POLICY CENTER

Progressive real estate tax proposals will strengthen communities

The Affordable Homes Act (HB 2276/SB 6191) provides an opportunity to further balance our tax code and generate reliable revenue for affordable housing accounts

Creating a regular and reliable revenue source for affordable housing programs would increase the supply of affordable housing and ensure that more people in Washington have secure places to live.

We can achieve this – and continue to build on the progress toward balancing our upside-down tax code – by raising revenue from the sale of high-value properties via a real estate transfer tax (RETT) and adjusting the real estate excise tax (REET).

Through this approach

98%

OF REET TAXPAYERS

would feel no tax effect or experience a tax cut.

Understanding HB 2276/SB 6191

House Bill 2276 and Senate Bill 6191 amend the existing REET to be more progressive, by altering the graduated rate structure and introducing a RETT – or surcharge on the sale of high value properties. The REET is an excise tax that is levied on properties at their time of sale.

Currently, the REET has a marginal graduated rate structure. The graduated rate structure creates different tiers of tax rates – so that as the value of a property increases, it is taxed at a higher rate. Because the tax is marginal, only the portion of the property value that falls into a given tier is taxed at that rate, rather than the entire value of the property. The proposed legislation amends the rate structure, so that the bottom tier begins at $750,000 rather than $525,000.

Table 1.

New rates raise ceiling of lowest tax tier, Decrease taxes on lower valued properties

Property Value	Tax Rate
Equal or less than $750K	1.10%
$750K - $1.525M	1.28%
$1.525M - $3.025M	2.75%
Above $3.025M	3%

As an example, a home valued at $1,750,000 falls into three tax tiers. The first $750,000 of the property's value would be taxed at 1.10%, the portion of the sale between $750,000.01 and $1,525,000 taxed at 1.28%, and only the portion of the value above $1,525,000.01 would be taxed at 2.75%.

HB 2276/SB 6191 also proposes implementing a 1% transfer tax on the value of properties sold above $3.025 million. Functionally, this means that the portion of a property sold above $3.025 million would be taxed at 4%, rather than 3%. Together, these amendments to the existing real estate excise tax make the tax provision more progressive – as higher value properties are taxed at higher rates.

The Real Estate Transfer Tax does not affect Washington's REET ranking

HB 2276/SB 6191 would increase the top state-only rate of a REET and RETT payment to 4% for sellers of properties valued over $3.025 million. Currently, property sellers in New York face the next highest state-only REET, with sellers of high value properties paying 4.6%. **Introducing the RETT, shifting Washington's top rate from 3% to 4%, will not affect how Washington ranks among states levying REETs.** Additionally, this tax is only paid at the time of property sale and will not be an ongoing cost for taxpayers.

REET rates across states – Not a 1:1 comparison

Under HB 2276/SB 6191, a $5 million home sold in Washington would be subject to a marginal 3% real estate excise tax and a 1% transfer tax on the value of the home above $3.025 million. The seller of the home would pay $138,825 in combined REET and RETT.

By contrast, many other states with graduated REET structures, like California, apply the qualifying rate to the entire value of the home. In Los Angeles, California, a property sold for just over $5 million would be subject to a 4.45% REET – however because the tax rate applies to the total value of the property – the seller would pay a $222,500 transfer tax.

Generating reliable funding for affordable housing

If passed, HB 2276/SB 6191 would generate much-needed revenue for various affordable housing accounts. The vast majority, 93%, of the revenue generated from the transfer tax would be dedicated to accounts currently receiving funding from the REET. The remaining 7% of revenue would be earmarked as follows:

- 25% to the Washington State Housing Trust Fund (5% solely for housing facilities in rural communities prioritizing low-income farmworkers)
- 25% to the Apple Health and Homes account
- 15% to a new Developmental Disabilities Trust account
- 25% to the Affordable Housing for All account
- 10% to a new Housing Stability account

As Washington looks to address an affordable housing shortage, this progressive revenue stream can generate much-needed routine funding for safe and affordable housing.

"Introducing the RETT, shifting Washington's top rate from 3% to 4%, will not affect how Washington ranks among states levying REETs."

Combined state and local REET rates offer a more complete picture

Comparing state-only REET rates offers an incomplete picture of REET rates nationally, as more substantial REETs are often levied on the local level. In Washington, most localities* level a REET of 0.25% to 0.5%. Most residents' maximum state and local combined REET and RETT rate would be 4.5%. When considering how state and local REET rates combine, other states' top REET rates exceed Washington's maximum combined rate under HB 2276 / SB 6191 of 4.5%.

Therefore, considering combined local and state REET rates, this bill will not – despite what some people are saying – result in Washington's residents paying the second highest REET nationally.

Table 2.

Commonsense proposal would ensure a reasonable REET/RETT rate in Seattle region

Property Value	Tax Rate
Los Angeles, CA	6.06%
San Fransisco, CA	6%
New York, NY	5.98%
Santa Monica, CA	5.71%
Reading, PA	5%
Seattle, WA	**4.5%**
Philadelphia, PA	4.27%
Culver City, CA	4.11%
Dover, DE	4%

* San Juan County is the only locality that levies a local REET above 0.5% — with a local REET rate of 2%.

It is estimated that the proposal will generate

$223.7M in revenue

in its first full biennium

WE URGE LEGISLATORS TO PASS

HB2276/SB 6191

The Washington State Budget and Policy Center is a research and policy organization that works to advance the economic well-being of all Washingtonians.

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