# Real Estate Excise Tax

**Overview –** Washington state levies an excise tax on property transfers known as the real estate excise tax (REET). The tax is collected on the full selling price of the property including any liens, mortgages, or other debts. The tax also applies to transfers of controlling interests in entities that own property in Washington state. Although the seller is liable for the tax, the buyer must pay it if the seller does not. Washington state has one of the highest real estate transfer taxes in the country.

With the recent boom in the housing market, REET has become the fourth largest revenue source for the state operating budget. In fiscal year 2007, REET collections totaled nearly $987 million, but that was down almost 2 percent from the previous year. With the current downturn in housing, REET collections have plummeted. In April 2008 REET collections dropped 56 percent compared to April 2007 collections.

**Tax Rates –** In most areas of the state, the REET is 1.53 or 1.78 percent. In San Juan County, the REET is 2.78 percent. The major components of these taxes are:

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| -- State (distributed to General Fund, Public Works Assistance Account, City-County Assistance Account) | 1.28% |
| -- Counties and cities (dedicated to capital projects) | 0.25% |
| -- Counties and cities (dedicated to capital projects identified on the GMA comprehensive plan) | 0.25% |
| -- Counties (for exclusive use in acquiring and maintaining conservation areas) | 1.00% |
| -- Counties (for affordable housing projects) | 0.50% |

The 0.5 percent tax for affordable housing can only be collected if a county is collecting the conservation areas tax. Since San Juan County is the only county collecting the conservation areas tax, it is the only one that can use the option for affordable housing. There is also a 0.5 percent REET in lieu of the two 0.25 percent local taxes that is used for general government purposes, collected only in the cities of Clarkston and Asotin.

**Legislative History** – The REET was first enacted in 1951 as a county tax. It was switched to a state tax in 1978. The current rates were set in 1993, and the tax was extended to controlling interests in property in 2005 to avoid the practice of structuring commercial and industrial transactions in a certain way to avoid the tax.

HB 2196 in the 2005 Session would have authorized an additional 0.4 percent REET for counties and cities as well as a 0.25 percent REET for school districts. The tax would be in lieu of impact fees and no voter approval would be required. The bill stalled because of strong concerns of how the proposal would work.

**Issues and Outlook** – REET is a volatile revenue source that rises and falls with the housing market. In addition to the General Fund, the Public Works Trust Fund (PWTF), which provides loans to local governments for infrastructure projects, is funded by REET revenues. The PWTF was tapped during the 2005 session to provide some local governments with state assistance for general government expenses. This is a risky revenue source for local governments to rely on. The PWTF was again tapped in 2005 by ESHB 1903, which created a Job Development Fund (JDF) to assist in the financing of certain public infrastructure projects. The JDF was repealed in 2008.

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