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Proposed tax hike hits home sale funds - Change to excise tax would allow districts, cities to assess fees in lieu of what's collected for new construction

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by [Morris Malakoff](#)
Journal Reporter

The Washington Association of Realtors has launched a \$1 million advertising campaign to warn home sellers of a proposed tax increase on the proceeds from their home sales.

A buyer of a new home could find the purchase price increased `` by an average of \$9,000," according to the campaign, although the ads don't specify the size of the home in the example used.

The media campaign began Wednesday, funded in part by a \$750,000 grant from the National Association of Realtors. It is designed to build public opposition to a proposed change in the real estate excise tax, or REET. With advertisements running on local television and radio stations and in area newspapers, the effort is targeting a bill introduced in the last session of the state Legislature by Rep. Judy Clibborn, D-Mercer Island.

It is a measure likely to be reconsidered by legislators when they reconvene in January.

Current tax at set percent

Currently, the state real estate excise tax, paid by the seller at closing, is 1.28 percent of the final price of a property of any type, with counties and cities liable for meeting the requirements of the state's Growth Management Act able to tack on an addition one-half of a percent. In King County, that means an effective tax rate of 1.78 percent on every property transaction.

Under Clibborn's bill, backed by home builders and the Association of Washington Business, school districts would be permitted to assess an additional quarter percent and cities four-tenths of a percent in lieu of the impact fees currently assessed against new residential construction. It would be up to each jurisdiction to decide whether to assess the excise tax or the impact fees.

`` Growth is supposed to pay for its impacts under the Growth Management Act," said Todd Woosley, a housing specialist with the Seattle-King County Association of Realtors, an affiliate of the state and national organizations.
`` This is a completely different animal that is actually a tax increase."

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Clibborn disagrees and sees the excise tax increase as giving options to school districts and cities based on whether they are in older and established areas or in fast-growing suburbs. It is more equitable, she said, as it spreads the burden to all home sellers.

``Impact fees work if you are in a place where there is a lot of new construction," Clibborn said. ``But they do not help much in a place like Seattle where there is less new construction, but the value of homes is rising. People in both places are using roads and schools."

For Bellevue real estate broker Bob Wallace, there is something more sinister at work in the bill.

``This is a blatant attempt by developers building homes in the boondocks to pass the cost of development off on current homeowners," he said. ``People who have owned their homes for years have paid for schools and roads and sewers through their taxes, assessments and levies. Now, they are being asked to pay again."

Wallace, who is a broker of commercial property, also believes that a forgotten part of the tax is that it is on all property sales, giving local governments a healthy cash flow.

``If a person sells a commercial property in downtown Bellevue for \$30 million, they would currently owe \$534,000 on that sale to the state."

If the new rates were fully in effect, that same sale would result in a \$729,000 tax bill.

The impact

The new tax rate would have a dramatic impact on housing prices in King County, where prices are the highest in the state.

For instance, new single-family residential construction in the fast growing Kent School District, be it a small rambler or a faux chateau, currently comes with a \$4,050 impact fee that is divided among the School District, local municipalities and other taxing districts. Multi-family units, whether a duplex or a large apartment or condo complex come with a fee of \$1,762 per unit. The developer pays those fees at the time of application for permits, a major expense that could be months away from being recouped.

Under the Clibborn bill, the schools and other local governments could choose to go with the REET or stay with the impact fees. With the proposed increase in the REET, the builder would be off the hook for the up front impact fees. But every home seller, in the case of a \$300,000 home, could wind up with a \$7,290 tax bill.

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