Property Tax Special Notice

Department of Revenue Washington State

June 9, 2016

Legislative Update – Providing home ownership opportunities for low income households

The 2016 Legislature passed Substitute Senate Bill (SSB) 6211, which takes effect June 9, 2016. It provides a property tax exemption to real property owned by qualifying nonprofit housing developers who create ownership opportunities for low-income households. The exemption begins with tax year 2017 and expires on January 1, 2027.

What the new exemption does

The new law provides an exemption from real property tax for a period up to seven years. This exemption ceases on or at the earlier of:

- The date on which the nonprofit transfers title to the real property;
- The end of the seventh consecutive year; or
- The date the property is no longer held as required.

Three year extension available

The nonprofit may file for an extension of up to three years if the nonprofit believes that the title to the real property will not be transferred to a qualified low-income buyer by the end of the seventh year.

- The nonprofit must file an extension application with the Department on or before March 31 of the sixth consecutive tax year; **and**
- Provide a filing fee equal to the greater of two hundred dollars or one-tenth of one percent of the real market value of the property as of the most recent assessment date.

NOTE: The exemption cannot be continued past expiration date of this tax preference. Please see the timeline below for clarification.

Exemption Timeline				
If the initial application is filed on or before:	The property is eligible for exemption of taxes due and payable in tax year(s):	If the extension application is filed on or before:	The property is eligible for exemption of taxes due and payable in tax year(s):	Potential maximum # of years of exemption (including extension if applicable)
July 1, 2016	2017 - 2023	March 31, 2022	2024 - 2026	10
March 31, 2017	2018 - 2024	March 31, 2023	2025 - 2026	9
March 31, 2018	2019 - 2025	March 31, 2024*	2026	8
March 31, 2019	2020 - 2026	Extension no longer available		7
March 31, 2020	2021 - 2026	Extension no longer available		6
March 31, 2021	2022 - 2026	Extension no longer available		5
March 31, 2022	2023 - 2026	Extension no longer available		4
March 31, 2023	2024 - 2026	Extension no longer available		3
March 31, 2024	2025 - 2026	Extension no longer available		2
March 31, 2025**	2026	Extension no longer available		1

*Last year to apply for extension to the initial 7 year exemption.
**Last year to apply for the exemption

Property eligible for exemption

- The real property must be *owned* by a nonprofit entity as described in RCW 84.36.800 that is exempt from federal income tax under IRS code 501(c)(3); **and**
- The property must be exclusively used to build or remodel one or more residences to be sold to low-income households.

Application to the Department of Revenue is required

To receive this exemption the nonprofit owner must complete and file an application with the Department. The application is available at the Department's website, form number REV 63 0001. The application contains additional information and complete filing instructions. The Department's website is dor.wa.gov, to find the form simply enter the form number in the search box.

Application Filing Deadline

The initial application must be postmarked on or before July 1, 2016, to receive an exemption beginning with taxes due and payable in 2017. Thereafter, the filing deadline is March 31 annually to receive an exemption in the following year.

Financial Statements Required for JLARC

In addition to the application you must submit financial statements to the Joint Legislative Audit and Review Committee (JLARC). This exemption is intended to encourage and expand the ability of nonprofit housing developers to provide homeownership opportunities to low-income households. To measure the effectiveness of the exemption, the participating nonprofit must provide both current and historical financial statements which will be used to collect baseline data and measure the effectiveness of this act.

- Annual Financial Statement: The nonprofit owner must provide an annual financial statement to JLARC for each year the exemption is claimed. This statement must include itemized information detailing all revenues and clearly delineate between those revenues dedicated to the development of affordable housing and all other activities.

  The annual financial statement for the calendar year is due April 30, following the year in which the exemption was eligible to be claimed. (If your exemption begins with taxes due and payable in 2017 then financial statements for calendar year 2017 are due by April 30, 2018.)

- Historical Financial Statements: Equivalent data must be provided to JLARC for the two years immediately prior to the first year in which the exemption is claimed. For example, if you are applying for exemption beginning with taxes due and payable in 2017, provide financial statements for calendar year 2015 and 2016 by April 30, 2018.

Financial statements and related information can be sent directly to JLARC at PO Box 40910, Olympia WA 98509 or by email at JLARC@leg.wa.gov. If you have questions or need additional information about the financial statement requirement, please call JLARC at (360) 786-5171.

Ongoing reporting requirements

- Occupied Property: The nonprofit entity must immediately notify the Department when the exempt real property becomes occupied. A reporting form will be provided for you once your property is qualified for the exemption. The form will also be available on the Department's website.

- Unlike other property tax exemptions under chapter 84.36 RCW, no annual renewal is required to maintain this exemption.

Disqualification from Exemption

The exemption is lost when:

- The nonprofit has not transferred title of the property to a low income household:
  - within seven years of the exemption effective date; or
  - Within ten years of the effective date if a three year extension was claimed.
- The nonprofit entity transfers the property to anyone other than a low income household.

- The nonprofit has converted the use of the property to a purpose other than building residences to be sold to low-income households.

Penalty
If the property is disqualified, the Department will notify the county assessor to return the property to the tax roll. The assessor will remove the exemption as of the date it was granted. All taxes previously exempted will become due and payable plus interest, calculated in the same way as that upon delinquent property taxes.

The additional tax and interest becomes a lien on the property. The lien has priority over any other liens or obligations. The county auditor will not accept an instrument of conveyance unless the lien has been paid.

Definitions:
The following definitions apply:

- "Financial statements" means an audited annual financial statement and a completed United States treasury internal revenue service return form 990 for organizations exempt from income tax.
- "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is less than eighty percent of the median family income, adjusted for family size as most recently determined by the federal department of housing and urban development for the county in which the property is located.
- "Nonprofit entity" means a nonprofit as defined in RCW 84.36.800 that is exempt from federal income taxation under 26 U.S.C. Sec. 501(c)(3) of the federal internal revenue code of 1986, as amended.
- "Residence" means a single-family dwelling unit whether such unit is separate or part of a multiunit dwelling, including the land on which such dwelling stands.

Question & Answers

Q: I missed the July 1, 2016, filing deadline, can I still receive exemption beginning with taxes due and payable in 2017?

A: Yes. Retroactive applications for exemption for previous years are accepted, up to a maximum of three years from the date taxes were due on the property, if the applicant provides the department with acceptable proof that the property qualified for exemption during the pertinent assessment years (2016 and forward) and pays the late filing penalties. A late filing penalty of $10 per month or portion of a month will accrue. The accrual begins the date following the application deadline and continues through the application's actual postmark/email date.

Q: Can I loan or rent the property before it's sold to a low-income household?

A: No. The statute does not allow for the loan or rental of the property while the property is in exempt status. Loan or rental activity is disqualifying and the exempt status will be removed.

Q: My nonprofit organization has land which we are developing into condominiums to be sold to low-income families. Is this land eligible for this exemption?

A: Maybe. If the future low-income owner receives a proportionate undivided interest in the building *and* land then the real property will qualify for the exemption through the transfer date. However, any land not sold to an income qualifying owner will be disqualified and subject to the penalty.

Questions: If you have questions or need additional information, please contact Ras Roberts at (360) 534-1411 or RasR@dor.wa.gov.