

Special Notice

Intended audience: Owners of underutilized commercial properties.

June 25, 2024

Sales and use tax deferral for multifamily housing from existing buildings

Beginning June 6, 2024, cities can create a sales and use tax deferral program for converting underutilized commercial property into multifamily housing.

How do I apply for the deferral program?

You must submit an application to the city before the initiation of construction. Once a conditional certificate of approval is received from the city you must then submit an application for a sales and use tax deferral with the department. Applications submitted to the department without a conditional certificate of approval will not be approved.

Your [application](#) to the department must include:

- A copy of the conditional certificate of program approval issued by the city.
- Estimated construction costs.
- Time schedules for completion and operation.
- A statute of limitations waiver.
- Any other information required by the department.

Applications will not be accepted after June 30, 2034.

What are the deferral program requirements?

General program requirements include:

PO BOX 47478 | OLYMPIA, WASHINGTON 98504-7478 | 360-705-6705 | dor.wa.gov

For tax assistance or to request this document in an alternate format, visit dor.wa.gov or call 360-705-6705. Teletype (TTY) users may use the Washington Relay Service by calling 711.

- The investment project must be completed within three years of approval of the application by the city, or by the extended deadline if the city grants an extension.
- The investment project must be primarily for multifamily housing units.
- At least 10% of the units must be affordable housing for low-income households.
- In a mixed-use project, only the ground floor of a building may be used for commercial purposes with the remainder dedicated to multifamily housing units.

Additional requirements may be added by the city. These requirements must be met for 10 years from the date of the certificate of occupancy.

Do I have to pay the deferred taxes?

No. If all program requirements have been met, the deferred sales/use tax is waived by the department after the tenth year.

However, if requirements are not met, the deferred taxes plus interest are immediately due and payable.

Annual tax performance report

You must file an annual tax performance report with the department for 10 years. The first report is due the year after the year in which the certificate of occupancy is issued. You must continue to file the report in each of the next 9 years. The annual tax performance report is due by May 31 in each of these years.

If you have questions about filing or completing this report, please refer to the instructions at the end of the form or call the Taxpayer Account Administration division at 360-705-6210.

Definitions

Affordable housing means:

- Homeownership housing intended for owner occupancy to low-income households whose monthly housing costs, including utilities other than telephone, do not exceed 30% of the household's monthly income.
- Rental housing for low-income households whose monthly housing costs, including utilities other than telephone, do not exceed 30% of the household's monthly income.
- Initiation of construction means the date that a building permit is issued under the building code adopted under RCW 19.27.031 for construction of the qualified building.
- Initiation of construction does not include soil testing, site clearing and grading, site preparation, or any other related activities that are initiated before the issuance of a building permit for the construction of the foundation of the building.

PO BOX 47478 | OLYMPIA, WASHINGTON 98504-7478 | 360-705-6705 | dor.wa.gov

For tax assistance or to request this document in an alternate format, visit dor.wa.gov or call 360-705-6705. Teletype (TTY) users may use the Washington Relay Service by calling 711.

- If the investment project is a phased project, “initiation of construction” applies separately to each phase.

Investment project means an investment in multifamily housing, including labor, services, and materials incorporated in the planning, installation, and construction of the project. “Investment project” includes investment in related facilities such as playgrounds and sidewalks as well as facilities used for business use for mixed-use development.

Low-income household means a single person, family, or unrelated persons living together whose adjusted income is at or below 80% of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States Department of Housing and Urban Development.

Multifamily housing means a building or a group of buildings having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from rehabilitation or conversion of vacant, underutilized, or substandard buildings to multifamily housing.

Underutilized commercial property means an entire property, or portion thereof, currently used or intended to be used by a business for retailing or office-related or administrative activities. If the property is used partly for a qualifying use and partly for other purposes, the applicable tax deferral must be determined by apportionment of the costs of construction under rules adopted by the department. For the purposes of this definition, “qualifying use” means used or intended to be used by a business for retailing or office-related or administrative activities.

More information

[Engrossed Second Substitute Senate Bill \(E2SSB\) 6175 chapter 332, laws of 2024.](#)

Questions?

- For general questions about deferrals, please email DORDeferrals@dor.wa.gov or call our Deferral Program Lead at 360-534-1443.
- For questions about the availability of a deferral program, please contact your city authority.

PO BOX 47478 | OLYMPIA, WASHINGTON 98504-7478 | 360-705-6705 | dor.wa.gov

For tax assistance or to request this document in an alternate format, visit dor.wa.gov or call 360-705-6705. Teletype (TTY) users may use the Washington Relay Service by calling 711.