

Limit REET foreclosure exemption

Description This proposal would require that real estate excise tax (REET) be paid on transfers of real property occurring in a judicial or non-judicial foreclosure proceeding or a judgment enforcement proceeding, unless:

- The transfer is to a person other than the creditor, and the selling price exceeds the amount of the creditor’s lien, security interest, or judgment encumbering the real property; or.
- The transfer is to the United States, or to this state or a local government of this state.

The transferee/grantee (new owner of the property) would be responsible for payment of the REET.

Current Law The REET is imposed on each sale of real property, including transfers of ownership and transfers of controlling interests in entities that own property in the state. Real property includes any interest in land or anything affixed to land. The state tax rate is 1.28 percent. Additional local rates are allowed. The combined state and local rate in most areas is 1.78 percent.

The REET does not apply to transfers made in foreclosure proceedings or through enforcement of a judgment, including foreclosures that occur through auction without court oversight. (RCW 82.45.010(3(j))). REET also does not apply to a deed given in lieu of foreclosure to satisfy a mortgage or deed of trust.

Original Purpose and Current Analysis To exclude the transfer of real property through foreclosure from the definition of a taxable “sale” for REET purposes.

Citizen Commission Recommendation The Joint Legislative Audit & Review Committee reviewed RCW 82.45.010(3) in 2011 and recommended the preferences be continued. The Citizen Commission endorsed the recommendation without comment.

Revenue Impact This proposal affects approximately 5,000 taxpayers and has the following state impacts:

| Fund | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|------------------------|----------------|----------------|----------------|----------------|
| General Fund | \$29,400,000 | \$30,000,000 | \$31,000,000 | \$32,000,000 |
| City/County Assistance | \$500,000 | \$500,000 | \$500,000 | \$600,000 |
| Education Legacy | \$1,300,000 | \$1,300,000 | \$0 | \$0 |
| Public Works | \$600,000 | \$700,000 | \$2,000,000 | \$2,100,000 |
| Fiscal Year Total | \$31,800,000 | \$32,500,000 | \$33,500,000 | \$34,700,000 |
| Biennial Total | | \$64,300,000 | | \$68,200,000 |

- *Estimates assume a July 1, 2017, effective date with 12 months of collections for FY 2018.*
 - *Estimates reflect the November 2016 Economic and Revenue Forecast Council revenue forecast.*
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