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Excise Tax Increase, Decrease and Shift

There will be a major change in real estate excise tax taking effect January 1, 2020 for the State of Washington. I have provided a link below to the Senate Bill which created this change to a graduated tax rate.

The Excise Tax adjustment will affect what the seller pays. In January 2019 the tax went up for the buyers in our County with the addition of the Affordable Housing Tax (Buyer pays 99% of the .5% tax).

This new tax revision will equate to a decrease in the Excise Tax rate for sales under \$1.5 million and an increase to those over \$1.5 million. Below is a summary of how the rates will change in each category. Right now, the State portion is 1.28% for all sales in San Juan County and the County portion is .5% or 1.78% plus the sellers .005% of the Affordable Housing Tax.

The chart below is for only the Seller's portion of the Excise Tax. The 1% Land Bank tax and the 99% of the .5% Affordable Housing tax are not included as those are due from the buyers.

State Portion:

1.10% on any portion of the sales price of \$500,000 or less;

1.28% on any portion of the sales price above 500,000, up to \$1,500,000;

2.75% on any portion of the sales price above \$1,500,000, up to \$3,000,000;

3.00% on any portion of the sales price above \$3,000,000;

Local Portion: **.5% on the entire sales price.** The .5% tax plus the .005% Affordable Housing tax needs to be added to the State percentages shown above.

Bottom line: Effective January, a \$2M sale will charge the seller's an Excise Tax in the amount of \$42,050 versus \$35,600 under the current rates; a \$6,450 increase.

For a \$3.5M sale, the increase will be \$29,750. Due to the graduated program, the tax increase burden falls on the high-end sales.

Further, an additional \$5.00 State Technology Fee must be included in all excise tax payments.

In San Juan County in 2018 we processed 340 transactions under \$500,000, 175 in the range of \$501,000-\$1.5 and 30 over \$1.5M. As I love numbers, I went back to 2018 and calculated the tax "as is" at 1.78% and then calculated at the proposed graduated rate. Based on 2018 data, the proposed schedule tax will generate an additional \$301,202 to the state level. The County receives their .50% regardless of what the state is collecting.

However; based on 2018 data, if the new tax was in effect, 515 property owners would have paid less and 30 of the property owners would have paid more, approximately 32% more tax.

As it relates to my real estate business, the majority of my transactions are under \$1.5M so congratulations to those selling clients that will receive a tax decrease when they sell after January 2019. For those property owners selling over \$1.5M, two things are certain in life; there is death and taxes.

On a positive note for buyers, as you are funding the new Affordable Housing tax of .50%, if your sales price is under \$1.5M, you will enjoy the reduction in excise tax when you sell the home.

Link to Senate Bill

http://www.sanjuanislands.com/PDF/Senate_Bill_REET.pdf

Link to Sample Calculations

http://www.sanjuanislands.com/PDF/Excise_tax_samples.PNG