

February 5, 1998

**BILL ANALYSIS**

TO: Members, Committee on Trade and Economic Development

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: **HB 2798 - Creating business and occupation tax credits  
to provide housing for low-income and disabled persons.**

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**BACKGROUND:**

In 1997, the Legislature created a task force on financing housing for low-income seniors and persons with disabilities. The purpose of the task force was to develop recommendations on techniques to finance the construction, rehabilitation and repair, or preservation of housing for low-income seniors and persons with disabilities. One of the task force recommendations was to create a pool of flexible funds that could be used to finance housing for low-income seniors and persons with disabilities.

Washington's major business tax is the business and occupation (B&O) tax. The tax is imposed on the gross receipts of business activities conducted within the state, without any deductions for the cost of doing business. Businesses are taxable according to the activities they engage in and therefor may be subject to more than one tax rate. After July 1, 1998, the business and occupation tax will have 10 different rates.

**SUMMARY:**

A one-time auction of \$75 million in business and occupation (B&O) tax credits is authorized. Any person with a B&O tax liability may purchase tax credits. The tax credit must be used within two years of the date of purchase. The tax credits may be transferred to a successor if the business or firm is sold, assigned, conveyed, or otherwise transferred.

Proceeds from the sale of B&O tax credits are placed in a trust account with the Washington State Housing Finance Commission (WSHFC). The WSHFC may only disburse funds to finance housing for low-income seniors and persons with disabilities. The

housing programs must be approved by the WSHFC, the director of the Department of Community, Trade, and Economic Development, and the task force on housing for seniors and persons with disabilities that was created by the Legislature in 1997.

The programs that can be funded with the proceeds from the sale of B&O tax credits include new construction, rehabilitation, the elimination of equity gaps to make projects feasible, preservation of existing federally assisted housing, a rental voucher demonstration program, operating funds for a pilot home equity program, and a housing guarantee program to ensure taxable and tax-exempt debt financing. The housing programs established through the sale of B&O tax credits are administered by the WSHFC, the Department of Community, Trade, and Economic Development, and the State Investment Board.

The purchase of a B&O tax credit by a financial institution qualifies as an investment in affordable housing for purposes of the Community Reinvestment Act (CRA).

The Department of Revenue, in conjunction with appropriate state agencies and the task force, must evaluate the low-income housing and persons with disabilities housing programs financed with monies generated from the sale of B&O tax credits. A report to the Legislature is required by December 1, 2000.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect July 1, 1998.