

# HOUSE BILL ANALYSIS

## SSB 5100

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**Title:** An act relating to professional service corporations.

**Brief Description:** Allowing qualified trusts to hold shares in professional service corporations.

**Sponsors:** Senate Committee on Law & Justice (originally sponsored by Senators Oke and Strannigan).

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### HOUSE COMMITTEE ON LAW & JUSTICE

**Staff:** Trudes Hutcheson (786-7384).

**Background:** Professional service corporations offer the public those services that require a person rendering the service to obtain a license or other legal authorization. Examples include certified public accountants, architects, and physicians.

Only individuals licensed to practice the profession are eligible to be shareholders of a professional service corporation engaged in that practice. No shareholder may sell or transfer his or her shares in the professional service corporation except to another individual who is eligible to be a shareholder of the corporation. If shares are transferred to an ineligible person, the corporation or remaining eligible shareholders may redeem those shares for payment.

In general, a charitable remainder trust (CRT) allows a person to transfer assets to a CRT and receive income from the trust for a term of years, or for life. The remaining assets are then given to the designated charity. Income from the CRT is taxable to the extent it is distributed to the beneficiary. The trustee of a CRT may sell the assets without federal income tax on the gain. A charitable remainder trust can be either an annuity trust, where the trust pays the income beneficiary an annual fixed dollar amount equal to a percentage of the initial value of the assets, or a unitrust, where the trust pays a fixed percentage of the fair market value of the trust's assets as determined annually. A person may transfer his or her shares of a corporation, other than a professional service corporation, into a CRT.

**Summary of Bill:** A shareholder of a professional service corporation may transfer his or her shares into a CRT. A CRT is eligible to own shares if: (a) the beneficiaries of the CRT are all eligible persons or spouses of eligible persons; (b) the trustee is an eligible person and has exclusive authority over the shares of the professional service corporation while the shares are held in the trust; and (c) the

charity meets certain qualifications, such as being domiciled in Washington or maintaining a local chapter in Washington.

**Fiscal Note:** Not requested.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

Office of Program Research