

SB 5631

Bill Analysis

February 24, 1998

Brief Description: Exempting education loan guarantee services from business and occupation tax.

Bill Sponsors: Senators Wood, Jacobsen and Oke.

Staff: Linda Brooks, 786-7153.

Background: Washington's major business tax is the business and occupation (B&O) tax. In 1997 the Legislature eliminated the distinction between financial services, selected business services, and other services and consolidated these activities into a single tax rate. These changes will take place July 1, 1998. After July the principal B&O tax rates will be:

Manufacturing, wholesaling, & extracting	0.484 percent
Retailing	0.471 percent
Services	1.5 percent

The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business.

Loan guaranty agencies pay the 1.5 percent service B&O tax unless exempted. Nonprofit guaranty agencies are exempt from the B&O tax, if they are also exempt from the federal income tax and either:

- 1) Are guarantee agencies under the federal guaranteed student loan program; or
- 2) Issue debt to provide or acquire student loans.

Guaranty agencies operating under the federal guaranteed student loan program protect lenders against losses due to default by borrowers. These guaranty agencies meet certain federal requirements and are reimbursed by the U.S. Secretary of Education for all or part of the amount of the default claims they pay to lenders.

Summary of Bill: Nonprofit agencies providing guarantees for student loans made through programs other than the federal guaranteed student loan programs are exempt from B&O tax,

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if they are also exempt from federal income tax under section 501 (c) (3) of the federal internal revenue code.

Appropriation: None.

Fiscal Note: Available.

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