

HOUSE BILL REPORT

SB 5631

As Reported By House Committee On:

Finance

Title: An act relating to imposition of the business and occupation tax on education loan guarantee services.

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

Sponsors: Senators Wood, Jacobsen and Oke.

Brief History:

Committee Activity:

Finance: 2/24/98, 3/2/98 [DP].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 13 members: Representatives B. Thomas, Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Butler; Conway; Kastama; Mason; Morris; Pennington; Schoesler and Thompson.

Minority Report: Without recommendation. Signed by 1 member: Representative Carrell, Vice Chairman.

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, 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 bill is passed.

Testimony For: In our state there is no nonprofit organization presently guaranteeing student loans outside of the federal student loan guarantee programs. The Higher Education Assistance Foundation is presently in negotiations with lenders to establish this program. It is estimated that 2,000 to 4,000 students would benefit from this new loan guarantee program.

Testimony Against: None.

Testified: Sean O'Neill, Education Assistance Foundation (pro).