

# SENATE BILL REPORT

## SB 6132

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As Reported By Senate Committee On:  
Ways & Means, January 30, 2006

**Title:** An act relating to use tax owed by converting or merging credit unions when converting or merging a federal, foreign, or out-of-state credit union into a state charter.

**Brief Description:** Creating a use tax exemption when converting or merging a federal, foreign, or out-of-state credit union into a state charter.

**Sponsors:** Senators Prentice, Zarelli, Roach, Kohl-Welles, Schoesler, Eide, Rasmussen and Benton.

**Brief History:**

**Committee Activity:** Ways & Means: 1/24/06, 1/30/06 [DP].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Brandland, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Thibaudeau.

**Staff:** Dean Carlson (786-7305)

**Background:** Credit unions doing business in Washington may be chartered by the state or federal government. Federally chartered credit unions are regulated by the National Credit Union Administration (NCUA), under the Federal Credit Union Act. Their share accounts are insured by the National Credit Union Share Insurance Fund (NCUSIF), which is administered by the NCUA. Washington State chartered credit unions are regulated primarily by the Division of Credit Unions of the Washington Department of Financial Institutions. Washington credit unions are organized and regulated under the Washington State Credit Union Act.

There are certain business reasons that a credit union may choose to operate as a state-chartered union or a federally chartered union in Washington. Federally chartered institutions are exempt from paying state taxes, for example, and such institutions that operate in multiple states are governed by a single set of regulations. On the other hand, Washington statutes and regulations allow for a broader field of membership and greater flexibility in business lending than do federal regulations.

As of January 2006, about 79 state credit unions and 61 federal credit unions were in operation in Washington.

Federally chartered credit unions may convert to state chartered credit unions or merge with state chartered credit unions under the state charter. When converting to or merging under the

state charter, a credit union becomes subject to state regulation. Since 1990, nineteen credit unions converted from the federal to the state charter, and 27 mergers between state and federal credit unions under the state charter have taken place.

The use tax is imposed on tangible personal property and certain services used in the state for which retail sales tax has not been paid. This includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The tax is levied at the same rate as the retail sales tax, a 6.5 percent rate by the state. Cities and counties also impose use taxes at the same rate as any local sales tax imposed. Currently, local rates imposed range from 0.5 percent to 2.4 percent. Use tax is paid directly to the Department of Revenue.

Tangible personal property and some services sold or acquired at retail are subject to the retail sales and use taxes unless specifically exempted otherwise. Such exemptions include purchases made by federally-owned entities, such as federally-chartered credit unions. State chartered credit unions are not exempt from the payment of sales and use taxes on tangible personal property and taxable services.

**Summary of Bill:** Personal property, services, and extended warranties that are acquired by a state credit union from a federal, out-of-state, or foreign credit union as a result of a conversion or merger are exempt from use tax.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

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

**Testimony For:** In Washington, federally chartered credit unions are exempt from B&O and sales tax, but State chartered credit unions are only exempt from B&O tax and pay the sales tax. State chartered credit unions are beneficial to the state as they provide the state income through the sales tax and they are more locally controlled. This removes a hurdle for a federally chartered credit union to convert to state charter. Every credit union that converts will receive the exemption, but then will start paying sales taxes. Credit unions should face a monetary penalty for converting to a state charter.

**Testimony Against:** None.

**Testimony Other:** DFI is neutral on the bill. DFI does not view a converting credit union as a new credit union. Credit unions compete head to head with banks. They want to convert to get more customers and to increase business lending. The credit unions don't have to pay taxes, but banks do. It's not healthy for financial institutions to tussle so we will not oppose. We would like a works session on the health of community businesses in the state over the interim.

**Who Testified:** PRO: Stacey Augustine, Washington Credit Union league; Jack Fallis, Global Credit Union; Susan Streifel, Woodstone Credit Union; Gary Gardner, BECU.

OTHER: Denny Eliason, Washington Bankers Association; Brad Tower, Washington Independent Community Bankers; Linda Jekel, Dept. of Financial Institutions.