
Ways & Means Committee

HB 2078

Brief Description: Funding K-3 class size reductions by narrowing and repealing certain tax exemptions.

Sponsors: Representatives Jinkins, Reykdal, Lytton, Billig, Frockt, Moscoso, Fitzgibbon, Tharinger, Ryu, Ladenburg, Stanford, Sullivan, Green, Van De Wege, Moeller, Springer, Pettigrew, Maxwell, Dickerson, Kagi, Ormsby, Upthegrove, Hasegawa, Appleton, Rolfes, McCoy, Carlyle, Lias, Kenney, Eddy, Darneille, Pedersen, Orwall, Hunt, Cody, Kirby, Roberts, Takko, Blake, Seaquist, Goodman, Haigh, Hudgins, Dunshee, Sells, Finn, Clibborn and Morris.

Brief Summary of Bill

- Caps the business and occupation tax deduction for interest on first mortgages and deeds of trust on residential properties to \$100 million per year per taxpayer.
- Eliminates the nonresident sales tax exemption.
- Transfers revenue associated with the repeal/cap on these exemptions to the Education Legacy Trust Account for K-3 class size reductions.

Hearing Date: 4/21/11

Staff: Rick Peterson (786-7150).

Background:

Washington's major business tax is the business and occupation (B&O) tax. 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. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.8 percent for professional and personal services, interest earned on loans by financial institutions and activities not classified elsewhere.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

A B&O tax deduction is available to financial institutions for interest earnings on loans secured by first mortgages or deeds of trust on residential properties. An originating lender that sells mortgage loans onto the secondary market, but continues to service the loans, may deduct the fees for servicing these loans.

Retail sales and use taxes are imposed by the state, cities, and counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the property, digital products, or services were acquired by the user, then use taxes apply to the value of most tangible personal property, digital products, and some services when used in this state. The state sales and use tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 3.0 percent, depending on the location. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

Persons who reside in a state, possession, or Canadian province that imposes a sales tax of less than 3 percent are exempt from Washington retail sales tax on tangible personal property, digital goods, and digital codes purchased for use outside of Washington (i.e., the exemption does not apply to lodging or meals). Residents of the following are eligible: Alaska, Colorado, Delaware, Montana, Oregon, New Hampshire, American Samoa, Commonwealth of Northern Mariana Islands, Guam, Virgin Islands, Alberta, Northwest Territories, Nunavut, and Yukon Territory.

Summary of Bill:

A financial business may not deduct more than \$100 million from business and occupation tax in any calendar year for amounts derived from interest earnings on loans secured by first mortgages or deeds of trust on residential properties.

The nonresident sales tax exemption is eliminated. The sales tax exemption for motor vehicles, boats and trailers to be licensed in another state is retained.

Each June the Department of Revenue will estimate the revenue associated with the limit or repeal of these exemptions. By July 1 the State Treasurer will transfer this amount to the Education Legacy Trust Account to be used for K-3 class size reductions.

Appropriation: None.

Fiscal Note: Requested on April 12, 2011.

Effective Date: The bill contains an emergency clause and takes effect on August 1, 2011.