

SENATE BILL REPORT

EHB 1490

As of March 24, 2011

Title: An act relating to a business and occupation tax deduction for certified community development financial institutions.

Brief Description: Concerning a business and occupation tax deduction for certified community development financial institutions.

Sponsors: Representatives Kenney, Orcutt and Santos.

Brief History: Passed House: 3/02/11, 94-2.

Committee Activity: Financial Institutions, Housing & Insurance: 3/08/11, 3/09/11 [DP-WM].

Ways & Means: 3/24/11.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Hobbs, Chair; Prentice, Vice Chair; Fain, Keiser and Litzow.

Staff: Edward Redmond (786-7471)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dianne Criswell (786-7433)

Background: The Business and Occupation (B&O) tax is Washington's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state, and revenues are deposited in the state General Fund. The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are many exemptions for specific types of business activities as well as certain deductions and credits permitted under the B&O tax statutes.

A Community Development Financial Institution (CDFI) is a specialized financial institution certified by the United States Department of the Treasury to provide loans for community development purposes. A CDFI works in economically distressed markets that are underserved by traditional financial institutions. A CDFI provides financial products such as mortgage financing for low-income homebuyers and not-for-profit developers, flexible

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underwriting and risk capital for community facilities, and technical assistance and commercial loans to small businesses in low-income areas. At present, there are 22 certified CDFIs operating in Washington State.

Summary of Bill: A nonprofit organization certified as a CDFI by the federal CDFI fund may take a B&O tax deduction on interest received on or after August 1, 2011, from loans issued as part of a first-time home buyers program. A nonprofit organization is defined as an organization exempt from federal income tax under 26 U.S.C. Sec. 501(c)(3) of the federal Internal Revenue Code.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony (Financial Institutions, Housing & Insurance): PRO: This bill provides nonprofit CDFI organizations with the ability to deduct the interest they may receive on loans issued as part of a first time homebuyer's program. This program provides services and products in distressed targeted areas; it is there when other financial institutions or support is not available to first time homebuyers. This program gives first time homebuyers the opportunity to realize the American dream of home ownership. The bill is very limited, it will decrease the first time homebuyer's cost of financing, and will open up additional opportunities to reinvest those funds in the community thereby expanding this service to other first time homebuyers. This bill has a very small fiscal note, and its cost will be outweighed by the multitudes of people it will help. Homesight recently learned from the Washington Department of Revenue that the income it earns from interest paid on amortizing second mortgage loans originated as part of its program is taxable under the B&O tax. Because this is a new determination, the proposed tax exemption will not create a reduction in current state revenue; it is an exemption from future taxes.

Persons Testifying (Financial Institutions, Housing & Insurance): PRO: Representative Kenney, prime sponsor; Steve Williams, Homesight.

Staff Summary of Public Testimony on Companion SB 5363 (Ways & Means): PRO: Homesight provides low-interest down-payment assistance loans to allow more low-income families to buy homes in the communities where they have ties, and build financial security for their families through home equity. Through the economic downturn, Homesight maintained a delinquency rate below 2.5 percent and has had no foreclosures. Homesight recently learned from DOR that the second mortgage loans it provides as part of the low-income first-time homebuyer program is taxable under the state B&O tax. The exemption this bill provides is limited to 501(c)(3) nonprofit organizations that are also CDFI certified. At present, Homesight is the only nonprofit CDFI certified entity in the state that provides this service to low-income first-time homebuyers.

Persons Testifying (Ways & Means): PRO: Steve Williams, Tom Jacobi, Homesight.