

SENATE BILL REPORT

SB 5903

As of March 2, 2012

Title: An act relating to creating the revenue act of 2011.

Brief Description: Relating to creating the revenue act of 2011.

Sponsors: Senator Murray.

Brief History:

Committee Activity: Ways & Means:

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dianne Criswell (786-7433)

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.

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.

Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. Sales and use taxes are imposed by the state, counties, and cities. Sales and use tax rates vary between 7 percent and 9.5 percent, depending on location. Further, there is an additional 0.3 percent sales and use tax on retail sales of new or used vehicles.

In 2009 the Legislature authorized a renewable energy sales and use tax exemption in the form of a refund for 100 percent of the state and local sales or use tax paid on machinery and equipment used to create energy from fuel cells, sun, wind, biomass energy, tidal and wave

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energy, geothermal resources, anaerobic digestion, and technology that converts otherwise lost energy from exhaust or landfill gas from July 1, 2009, to June 30, 2011. The sales and use tax exemption is reduced to 75 percent from July 1, 2011, until June 30, 2013. The exemption expires June 30, 2013.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): A financial business that is located in more than 10 states may not deduct from B&O tax amounts derived from interest earnings on loans secured by first mortgages or deeds of trust on residential properties.

Each June the Department of Revenue must estimate the revenue associated with the restriction on the B&O deduction for interest earnings on loans secured by first mortgages or deeds of trust on residential properties. By July 1 of each year, the State Treasurer must transfer this amount to the Education Legacy Trust Account to be used for K-3 class size reductions.

As of July 1, 2012, the renewable energy sales and use tax exemption is not available for machinery or equipment used to generate energy by wind.

Appropriation: None.

Fiscal Note: Requested on March 2, 2012.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2012.