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**Finance Committee**

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**HB 1272**

**Brief Description:** Exempting from business and occupation tax certain amounts received by cooperative finance organizations.

**Sponsors:** Representatives Walsh, Pettigrew, Chandler, Takko, Shea, Blake, Kretz, Kirby, Nealey, Morris, Crouse and Santos.

**Brief Summary of Bill**

- Exempts certain amounts received by cooperative finance organizations from business and occupation tax.

**Hearing Date:** 2/1/13

**Staff:** Jeffrey Mitchell (786-7139).

**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. Businesses must pay B&O tax even though they may not have any profits or may be operating at a loss. Major tax rates are 0.484 percent for manufacturing and wholesaling, 0.471 percent for retailing, and 1.8 percent for services. Several lower rates also apply to specific business activities. As an example, interest income on loans is subject to the 1.8 percent B&O tax rate for services.

Rural electric cooperatives are nonprofit electric utilities that are owned by the customers the cooperatives serve. An electric cooperative is incorporated under the laws of the state in which it operates. Similar to other nonprofit organizations, an electric cooperative is governed by a board of directors elected from its customer membership. Of the approximately 3,112 electric utilities across the county, about 30 percent (912) are electric cooperatives. (The other types of utilities are either investor-owned or publicly-owned utilities.)

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In 1969, electric cooperatives across the country formed the National Rural Utilities Cooperative Finance Corporation (CFC). The primary purpose of CFC is to help rural electric cooperatives access loans and other financial products to acquire, construct, and operate rural utility infrastructure.

**Summary of Bill:**

A B&O tax exemption is provided for income derived from loans by a cooperative finance organization (CFC) to rural electric cooperatives or public utilities. A CFC is defined as a nonprofit organization with the primary purpose of providing, securing, or otherwise arranging financing for rural electric cooperatives.

The bill applies to amounts received by a CFC on or after August 1, 2013.

**Appropriation:** None.

**Fiscal Note:** Requested on January 28, 2013.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.