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**Finance Committee**

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**HB 1231**

**Brief Description:** Removing the expiration date of the business and occupation tax deduction for cooperative finance organizations.

**Sponsors:** Representatives Lytton, Nealey, Springer, Wilcox, Tharinger, Holy, Blake, Muri, Kirby, Haler, Goodman, Shea, Wylie, Rodne, Riccelli, Dent and Morris.

**Brief Summary of Bill**

- Eliminates expiration date for Business and Occupation tax preference for loan repayments received by nonprofit cooperative organizations from rural electric cooperatives.

**Hearing Date:** 1/24/17

**Staff:** Tracey O'Brien (786-7152).

**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 the B&O tax even though they may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services, and activities not classified elsewhere. Several lower rates also apply to specific business activities.

The primary purpose of nonprofit cooperative finance organization is to provide, secure, or otherwise arrange the financing for rural electric cooperatives. A rural electric cooperative provides utility services to rural areas of Washington. Electric cooperatives in Washington are entitled to the same federal preference power as municipal utilities and public utility districts.

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*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.*

The National Rural Utilities Cooperative Finance Corporation (CFC) was incorporated in 1969 as a member-owned, nonprofit, cooperative financing organization. It raises and loans funds to supplement the loan programs for electric cooperatives and mutuals offered by the federal Rural Utilities Service. According to the CFC, its outstanding loans and guarantees totaled \$23.2 billion as of May 31, 2016, for all cooperatives nationwide.

The Washington Rural Electric Cooperative Association identifies 15 rural electric cooperatives in Washington. The cooperatives serve over 280,000 customers and offer electric service at cost. The rates and policies are set by the locally elected board of directors.

In 2013 the Legislature granted a B&O exemption to nonprofit cooperative organizations for the proceeds of loans to rural electric cooperatives, or other nonprofit or governmental providers of utility services. The Joint Legislative Audit & Review Committee (JLARC) is required to include this tax preference in its tax preference review. This exemption expires July 1, 2017. There are currently less than three nonprofit cooperative finance organizations in Washington taking advantage of this tax exemption.

**Summary of Bill:**

The expiration date is removed. The B&O tax preference is exempted from the automatic ten-year expiration for tax preferences, as well as the JLARC's tax preference review.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2017.