

# HOUSE BILL REPORT

## HB 1368

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### As Amended by the Senate

**Title:** An act relating to reauthorizing the business and occupation tax deduction for cooperative finance organizations.

**Brief Description:** Reauthorizing the business and occupation tax deduction for cooperative finance organizations.

**Sponsors:** Representatives Springer, Kretz, Riccelli, Orcutt, Goodman, Maycumber, Wylie, Dent, Steele and Doglio.

**Brief History:**

**Committee Activity:**

Finance: 2/19/19, 2/26/19 [DP].

**Floor Activity:**

Passed House: 4/26/19, 97-0.

**Floor Activity:**

Passed House: 1/30/20, 96-0.

**Brief Summary of Bill**

- Reauthorizes the business and occupation tax deduction for loan repayments received by cooperative finance organizations from rural electric cooperatives or other utility nonprofit or governmental utility providers.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Morris, Orwall, Springer, Stokesbary and Vick.

**Staff:** Richelle Geiger (786-7139).

**Background:**

Business and Occupation Tax.

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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.*

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 taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities. In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability.

#### Rural Electric Cooperatives.

A rural electric cooperative is a nonprofit customer-owned organization that provides utility services to rural areas. 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 locally elected boards of directors.

#### Nonprofit Cooperative Finance Organizations.

A cooperative finance organization is a nonprofit organization with the primary purpose to secure, provide, and arrange financing for rural electric cooperatives.

#### Business and Occupation Tax Deduction.

In 2013 the Legislature granted a B&O tax deduction to nonprofit cooperative finance organizations for the proceeds of loans to rural electric cooperatives or other nonprofit or governmental providers of utility services. The deduction expired on July 1, 2017.

#### **Summary of Bill:**

The B&O tax deduction for loan repayments received by cooperative finance organizations from rural electric cooperatives or other utility nonprofit or governmental utility providers is reauthorized.

A tax preference performance statement is included, stating the Legislature intends to extend the expiration date of the deduction if at least one nonprofit cooperative financing organization is taking advantage of the preference.

#### **EFFECT OF SENATE AMENDMENT(S):**

The Senate amendment changes the effective date of the bill from July 1, 2019 to July 1, 2020.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect July 1, 2019.

**Staff Summary of Public Testimony:**

(In support) The rural electric cooperatives are the only reason why some people in rural areas receive electricity. No other entity is providing power in these areas. There are 13 nonprofit organizations, serving about 280,000 customers.

This bill reauthorizes the B&O exemption on the value of the interest earned by the nonprofit financial organizations on loans to the rural electric cooperatives.

(Opposed) None.

**Persons Testifying:** Representative Springer, prime sponsor; and Grant Nelson, Washington Rural Electric Cooperative Association.

**Persons Signed In To Testify But Not Testifying:** None.