
Finance Committee

HB 2606

Brief Description: Providing a business and occupation tax credit for financial institutions issuing loans for affordable housing programs.

Sponsors: Representatives Young, Eslick, Irwin and Barkis.

Brief Summary of Bill

- Authorizes a business and occupation tax credit for interest received by a financial institution on loans for affordable housing projects.

Hearing Date: 1/30/20

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

Background:

Business & Occupation Tax.

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. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. In general, the credit is \$70 per month for service businesses and \$35 per month for all

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other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue (DOR) and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$28,000 per year, or less than \$46,667 if at least 50 percent of its taxable income is from services or activities not classified elsewhere.

Financial Institutions B&O Tax.

In 2019, the Legislature enacted Substitute House Bill (SHB) 2167. Beginning on January 1, 2020, an additional B&O tax is imposed on specified financial institutions (additional tax). The additional tax is equal to the taxpayer's gross taxable service and other income multiplied by 1.2 percent.

A specified financial institution is a financial institution that is a member of a consolidated financial institution group that reported on its consolidated financial statement for the previous calendar year annual net income of at least \$1 billion, not including net income attributable to noncontrolling interests, as the terms "net income" and "noncontrolling interest" are used in the consolidated financial statement. If financial institutions are no longer required to file consolidated financial statements, "specified financial institution" means any person that was subject to the additional tax in at least two of the previous four calendar years. The DOR must notify the fiscal committees of the Legislature if financial institutions are no longer required to file consolidated financial statements.

Revenue generated from the additional tax must be deposited in the State General Fund.

Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

Summary of Bill:

A B&O credit is authorized for interest received by financial institutions for loans issued to affordable housing projects. A credit may be carried over in the subsequent calendar year, but not over to a second calendar year. Carried over credit must be applied to tax liability prior to the application of new credits. No refunds may be granted for credits.

The requirements for a tax preference performance statement, JLARC review, and an automatic 10 year expiration do not apply.

Appropriation: None.

Fiscal Note: Requested on January 16, 2020.

Effective Date: The bill takes effect on July 1, 2020.