

# SENATE BILL REPORT

## HB 1368

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As Passed Senate - Amended, March 9, 2020

**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:** Passed House: 4/26/19, 97-0; 1/30/20, 96-0.

**Committee Activity:** Ways & Means: 4/27/19, 2/29/20, 3/02/20 [DPA, w/oRec].

Environment, Energy & Technology: 2/26/20, 2/27/20 [DP-WM, w/oRec].

**Floor Activity:**

Passed Senate - Amended: 3/09/20, 48-0.

### 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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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended.

Signed by Senators Mullet, Capital Budget Cabinet; Brown, Assistant Ranking Member, Operating; Honeyford, Assistant Ranking Member, Capital; Becker, Billig, Conway, Dhingra, Hasegawa, Hunt, Keiser, Muzzall, Schoesler, Van De Wege, Warnick and Wilson, L..

**Minority Report:** That it be referred without recommendation.

Signed by Senators Frockt, Vice Chair, Operating, Capital Lead; Braun, Ranking Member; Carlyle, Pedersen and Wagoner.

**Staff:** Jeffrey Mitchell (786-7438)

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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.*

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## SENATE COMMITTEE ON ENVIRONMENT, ENERGY & TECHNOLOGY

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators Lovelett, Vice Chair; Fortunato, Assistant Ranking Member, Environment; Brown, Das, Hobbs, Liias, Nguyen, Rivers, Short and Stanford.

**Minority Report:** That it be referred without recommendation.

Signed by Senators Carlyle, Chair; Wellman.

**Staff:** Greg Vogel (786-7413)

**Background:** Business and Occupation Tax. Washington state imposes a business and occupation (B&O) tax 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. 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.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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

**Staff Summary of Public Testimony on House Bill (Ways & Means):** *The committee recommended a different version of the bill than what was heard.* PRO: Loans from the National Rural Utilities Cooperative Finance Corporation (CFC) to rural electric cooperatives are used for things like infrastructure, improvements, renewable resources and development, building maintenance and upgrades, emergency response, and system reliability. In 2019, nine Washington cooperatives owed debt to the CFC. The CFC is exempt from federal taxation. Washington is the only state that charges a business and occupation tax on interest earned on loans from the CFC to rural electric cooperatives. This bill is a reauthorization of a deduction that expired in 2017.

**Persons Testifying (Ways & Means):** PRO: Grant Nelson, Washington Rural Electric Cooperative Association.

**Persons Signed In To Testify But Not Testifying (Ways & Means):** No one.

**Staff Summary of Public Testimony on House Bill (Environment, Energy & Technology):** PRO: WRECA represents 14 rural electric coops that provide services to over 280,000 rural utility users, covering about 25 percent of the land mass in Washington. The CFC is 100 percent owned by members and is exempt from federal taxation. Washington is the only state that imposes a tax on gross receipts of the organization.

We are focused exclusively on serving the nation's rural electric cooperatives, and supplement the federal Department of Agriculture's loan program. The ability to make loans enables coops to construct and acquire utility infrastructure to provide reliable service to families throughout rural America. The CFC exists solely to provide members cost-based services, and not to maximize income. In addition to providing reliable power, investments stimulate economic development in their local communities.

**Persons Testifying (Environment, Energy & Technology):** PRO: Grant Nelson, Washington Rural Electric Cooperative Association; Kent Lopez, Washington Rural Electric Cooperative Association; Roberta Aronson, Senior VP & General Counsel, National Rural Utilities Cooperative Finance Corporation.

**Persons Signed In To Testify But Not Testifying (Environment, Energy & Technology):** No one.