

HOUSE BILL REPORT

HB 1191

As Reported by House Committee On:
Finance

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, Dent, Santos, Walsh, Ramel, McEntire, Goodman, Barnard, Leavitt, Doglio, Lekanoff and Duerr.

Brief History:

Committee Activity:

Finance: 1/19/23, 1/26/23 [DP].

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.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Stokesbary, Walen and Wylie.

Staff: Tracey Taylor (786-7152).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Business and 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.

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.

The tax expires January 1, 2034.

There is an emergency clause, effective July 1, 2023.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2023.

Staff Summary of Public Testimony:

(In support) This is a well thought out exemption that was renewed unanimously in 2020; however, the Governor vetoed the legislation in response to the anticipated impact of the pandemic on the 2021-23 biennial budget. In Washington, 15 rural electric cooperatives serve over 280,000 members and consumers, providing service to approximately 25 percent of the land in this state.

Rural electric utilities require steady and affordable access to capital, to finance much needed investments in the infrastructure needed to provide essential electric service. However, none of the electric cooperatives in Washington are active in the capital markets or have the necessary relationships with major financial institutions.

Similar to a credit union, the nonprofit National Rural Utilities Cooperative Finance Corporation (CFC) is owned by its membership and provides its members cost-based financial products and services. Unlike credit unions, the CFC is subject to the B&O tax in Washington. Nine rural electric cooperatives in Washington have outstanding debt with the CFC. Washington levies B&O tax on the revenues generated by CFC through interest income on loan provided to its members. By renewing this B&O tax deduction, rural electric cooperatives in Washington can continue to make the necessary investments in order to provide cost-based electricity to Washingtonians.

(Opposed) None.

Persons Testifying: Representative Larry Springer, prime sponsor; Paul Griffin, Washington Rural Electric Cooperative Association; and Steve Walter, Tanner Electric Cooperative.

Persons Signed In To Testify But Not Testifying: None.