
Finance Committee

SB 5166

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

Sponsors: Senators Boehnke, Mullet, Conway, Short and Warnick.

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.

Hearing Date: 3/14/23

Staff: Tracey Taylor (786-7152).

Background:

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

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.

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.