

SENATE BILL REPORT

SB 5493

As of January 25, 2023

Title: An act relating to eliminating a business and occupation tax deduction for financial institutions to fund affordable housing.

Brief Description: Eliminating a business and occupation tax deduction for financial institutions to fund affordable housing.

Sponsors: Senators Kuderer, Wellman, Hasegawa, Lovelett, Lovick, Saldaña and Wilson, C..

Brief History:

Committee Activity: Housing: 1/25/23.

Brief Summary of Bill

- Repeals the business and occupation tax deduction for interest on investments or loans secured by first mortgages or deeds of trust on non-transient residential properties for community banks.

SENATE COMMITTEE ON HOUSING

Staff: Riley Benge (786-7316)

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 business or taxpayer may have more than one B&O tax rate, depending on the types of activities conducted.

Businesses and their affiliates with over \$1 million of taxable service and other activities B&O income in the previous calendar year pay taxes at the service and other activities B&O rate of 1.75 percent. All others pay taxes at the service and other activities B&O rate of 1.5

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percent.

Business and Occupation Tax Deduction for First Mortgage Interest. A B&O tax deduction is available to financial institutions for interest earnings on investments or loans secured by first mortgages or deeds of trust on residential properties. An originating lender that sells mortgage loans onto the secondary market but continues to service the loans, may deduct the fees for servicing these loans. This exemption is limited to community banks, which are located in less than ten states. A financial business that is located in more than ten states may not deduct from B&O tax amounts received from interest earnings on loans secured by first mortgages or deeds of trust on residential properties.

Summary of Bill: Beginning August 1, 2023, the deduction of interest on investments or loans secured by first mortgages or deeds of trust for entities engaged in banking, loan, security, or other financial business is repealed. The statute that limited the deduction to community banks is also repealed. The interest and related fees would become fully taxable.

By October 15, 2024, and each October 15th thereafter, the Department of Revenue (DOR) is directed to estimate any increase in state general fund revenues as a result of repealing this deduction and notify the state treasurer of the estimated amounts. Beginning November 1, 2024, and by each November 1st thereafter, the state treasurer must transfer the estimated amount determined by DOR from the general fund into the housing trust fund. DOR may not make any adjustments to the estimate after the state treasurer makes the fund transfer.

The bill applies to interest received on or after August 1, 2023.

Appropriation: None.

Fiscal Note: Requested on January 19, 2023.

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

Effective Date: The bill takes effect on August 1, 2023.