SENATE BILL REPORT
SB 6445

As of January 22, 2020

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, Das, Wilson, C., Hunt, Nguyen and Saldaña.

Brief History:
Committee Activity: Financial Institutions, Economic Development & Trade: 1/23/20.

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 FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE

Staff: Clint McCarthy (786-7319)

Background: 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. Financial institutions are subject to the 1.5 percent service and other B&O tax rate.

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.

Entities engaged in banking, loan, security, or other financial businesses may deduct interest on investments or loans secured by mortgages or deeds of trust. This exemption is limited to community banks, which are located in less than ten states.

Summary of Bill: Beginning August 1, 2020, 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by first mortgages or deeds of trust for entities engaged in banking, loan, security or other financial businesses is repealed. The statute that limited the deduction to community banks is also repealed.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, 2021, and each October 15th thereafter, the Department of Revenue is directed to estimate any increase in state general fund revenues as a result of repealing this deduction. After informing the state treasurer of any increase, the state treasurer must transfer that amount from the general fund into the housing trust fund beginning November 1, 2021, and by each November 1st thereafter. The Department of Revenue may not make any adjustments to the estimate after the state treasurer makes the fund transfer.

Appropriation: None.

Fiscal Note: Available.

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

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