Department of Revenue Fiscal Note

Bill Number: 6445 SB	Title: Financial instit./B&O tax	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax		91,700,000	91,700,000	238,300,000	267,200,000
Workforce Educationa Investment Account-State 01 - Taxes 05 - Bus and Occup Tax		17,600,000	17,600,000	45,900,000	51,500,000
Total $		109,300,000	109,300,000	284,200,000	318,700,000

Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years		0.3	0.2		
Account					
GF-STATE-State 001-1		34,600	34,600		
Total $		34,600	34,600		

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☒ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

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Agency Preparation:	Melissa Howes	Phone: 360-534-1518	Date: 01/21/2020
Agency Approval:	Don Gutmann	Phone: 360-534-1510	Date: 01/21/2020
OFM Review:	Ramona Nabors	Phone: (360) 902-0547	Date: 01/22/2020

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

CURRENT LAW:
Amounts received as interest on loans secured by first mortgages or trust deeds on nontransient residential properties are subject to tax.

A deduction is provided for those engaging in banking, loan, security or other financial businesses. Interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties may be deducted from the measure of tax.

Interest deductible includes the portion of fees charged to borrowers, including points and loan origination fees, which are recognized over the life of the loan as an adjustment in the taxpayer's accounting records according to generally accepted accounting principles.

A person, or an affiliate of such person, must be located in ten or less states to qualify for the deduction.

PROPOSED LAW:
This proposal repeals the deduction of interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties. With the repeal, this interest and related fees would become fully taxable under the service and other activities tax classification.

By October 15, 2021, and by October 15th of subsequent years, the Department of Revenue (Department) is required to estimate the previous fiscal year increase in state general fund revenue collections resulting from the repeal. The State Treasurer is required to transfer this estimated amount into the housing trust fund beginning November 1, 2021.

EFFECTIVE DATE:
This bill takes effect on August 1, 2020.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS
- Certain banks make mortgage loans, but do not report detailed deduction data related to the first mortgage interest deduction (usually because they apportion their income between states). These banks use the deduction at the same rate as banks reporting the deduction detail.
- The ratio between the banks interest income from government obligations and from the first mortgage interest income reported to the Federal Financial Institutions Examination Council approximates the relationship between the deduction for government obligations and the deduction for first mortgages reported in Washington.
- All impacted businesses are subject to the Workforce Education Surcharge.
- Some financial institutions are subject to the Financial Institutions tax.
- Interest income growth mimics the growth in the Service and Other Activities tax classification, as forecasted by the Economic and Revenue Forecast Council in the November 2019 forecast.
- This bill is effective August 1, 2020 resulting in 10 months of cash collections for Fiscal Year 2021.

DATA SOURCES
- Department of Revenue, Excise Tax Data

- Federal Financial Institutions Examination Council, Call Report Data
- Federal Deposit Insurance Corporation data
- Home Mortgage Disclosure Act Data
- Nationwide Multistate Licensing System, Branch Data

REVENUE ESTIMATES
This bill increases state revenues by an estimated $109,300,000 in the 10 months of impacted collections in Fiscal Year 2021, and by $138,300,000 in Fiscal Year 2022, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):
FY 2020 - $ 0
FY 2021 - $ 109,300
FY 2022 - $ 138,300
FY 2023 - $ 145,900
FY 2024 - $ 154,700
FY 2025 - $ 164,000

There is no Local Government impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:
- Quarterly and annual returns will need to be split due to the effective date of August 1, 2020.

FIRST YEAR COSTS:
The Department will incur total costs of $34,600 in Fiscal Year 2021. These costs include:

Labor Costs – Time and effort equates to 0.3 FTEs.
- Review tax reporting and estimate the increase to the state general fund revenue collection resulting from the repeal.
- Assist taxpayers with reporting, questions, and respond to inquiries.
- Update special notices and the website.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years		0.3	0.2		
A-Salaries and Wages		22,500	22,500		
B-Employee Benefits		6,800	6,800		
E-Goods and Other Services		3,300	3,300		
J-Capital Outlays		2,000	2,000		
Total $		$34,600	$34,600		

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2020	FY 2021	2019-21	2021-23	2023-25
EXCISE TAX EX 2	52,536		0.1	0.1		
TAX POLICY SP 4	86,064		0.2	0.1		
Total FTEs			0.3	0.2		

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

NONE

None.

Part V: New Rule Making Required