Multiple Agency Fiscal Note Summary

Bill Number: 5138 SB	**Title:** Financial instit./B&O tax

Estimated Cash Receipts

Agency Name	2021-23			2023-25			2025-27		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	248,300,000	287,800,000	287,800,000	296,600,000	343,700,000	343,700,000	324,900,000	376,600,000	376,600,000
Total $	**248,300,000**	**287,800,000**	**287,800,000**	**296,600,000**	**343,700,000**	**343,700,000**	**324,900,000**	**376,600,000**	**376,600,000**

Estimated Operating Expenditures

Agency Name	2021-23				2023-25				2025-27			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Office of State Treasurer	Fiscal note not available											
Department of Financial Institutions	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Revenue	.4	78,700	78,700	78,700	.3	49,100	49,100	49,100	.2	40,200	40,200	40,200
Total $	**0.4**	**78,700**	**78,700**	**78,700**	**0.3**	**49,100**	**49,100**	**49,100**	**0.2**	**40,200**	**40,200**	**40,200**

Estimated Capital Budget Expenditures

Agency Name	2021-23			2023-25			2025-27		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Office of State Treasurer	Fiscal note not available								
Department of Financial Institutions	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total $	**0.0**	**0**	**0**	**0.0**	**0**	**0**	**0.0**	**0**	**0**

Estimated Capital Budget Breakout

NONE

FNPID: 61180

FNS029 Multi Agency rollup

Prepared by: Ramona Nabors, OFM	Phone: (360) 902-0547	Date Published: Preliminary 1/20/2021

FNPID: 61180

FNS029 Multi Agency rollup

Individual State Agency Fiscal Note

Bill Number: 5138 SB	Title: Financial instit./B&O tax	Agency: 102-Department of Financial Institutions

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

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.

Legislative Contact:	Jeffrey Mitchell	Phone: 360-786-7438	Date: 01/10/2021
Agency Preparation:	Emily Fitzgerald	Phone: (360) 902-8780	Date: 01/13/2021
Agency Approval:	Levi Clemmens	Phone: (360) 902-8818	Date: 01/13/2021
OFM Review:	Ramona Nabors	Phone: (360) 902-0547	Date: 01/19/2021

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.

This bill eliminates the Business and Occupation tax deduction for financial institutions and uses the resulting revenue to help fund affordable housing. This legislation will not directly impact the operations or revenue collections of the Department of Financial Institutions, and will not have fiscal impact.

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.

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.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

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

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Department of Revenue Fiscal Note

Bill Number: 5138 SB	Title: Financial instit./B&O tax	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2022	FY 2023	2021-23	2023-25	2025-27
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	109,800,000	138,500,000	248,300,000	296,600,000	324,900,000
Workforce Educationa Investment Account-State 01 - Taxes 05 - Bus and Occup Tax	17,500,000	22,000,000	39,500,000	47,100,000	51,700,000
Total $	127,300,000	160,500,000	287,800,000	343,700,000	376,600,000

Estimated Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.4	0.4	0.4	0.3	0.2
Account					
GF-STATE-State 001-1	39,500	39,200	78,700	49,100	40,200
Total $	39,500	39,200	78,700	49,100	40,200

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.

Legislative Contact:	Jeffrey Mitchell	Phone: 360-786-7438	Date: 01/10/2021
Agency Preparation:	Melissa Howes	Phone: 360-534-1518	Date: 01/20/2021
Agency Approval:	Don Gutmann	Phone: 360-534-1510	Date: 01/20/2021
OFM Review:	Ramona Nabors	Phone: (360) 902-0547	Date: 01/20/2021

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.

Note: This fiscal note reflects language in SB 5138, 2021 Legislative Session.

CURRENT LAW:
Amounts received as interest on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties are subject to the Service and Other Activities business and occupation (B&O) tax.

Banking, loan, security and other financial businesses with locations in ten states or less may deduct interest income received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties.

A business is located in a state if the person or an affiliate of the person maintains a branch, office, or one or more employees or representatives in the state and such presence allows borrowers or potential borrowers to contact the branch, office, employee, or representative concerning the acquiring, negotiating, renegotiating, or restructuring of, or making payments on, mortgages issued or to be issued by the person or an affiliate of the person.

Interest amounts 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.

PROPOSAL:
The intent of this bill is to fund affordable housing with revenues generated through the elimination of the deduction for first mortgage interest.

This bill eliminates the deduction for interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties is eliminated.

By October 15, 2022, and by each October 15th thereafter the Department of Revenue (Department) must estimate any increase in the state general fund revenue collections for the immediately preceding fiscal year resulting from the elimination of the deduction for first mortgage interest.

Beginning November 1, 2022, and by each November 1st thereafter the State Treasurer must transfer from the general fund the estimated amount determined by the Department for the immediately preceding fiscal year into the housing trust fund.

EFFECTIVE DATE:
August 1, 2021

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
- Some businesses have first mortgage interest income, but do not report the related deduction data. These businesses are assumed to be netting the interest income with other taxable amounts when reporting their taxable Service & Other Activities income on their excise tax return.
- For those businesses assumed to be netting first mortgage interest amounts, the taxable amounts are estimated using available Washington loan data. It is assumed these businesses use the first mortgage deduction at the same rate as those

businesses who report deduction detail on their excise tax returns.
- The first mortgage deduction data is combined with the deduction for interest income received on government obligations on the excise tax returns. For those businesses that report deduction detail, a ratio was used to determine the amount of the deduction applicable to first mortgage interest.
- Businesses with over $1 million of taxable Service & Other Activities income in the previous calendar year are subject to the Service & Other Activities rate of 1.75%; All others are subject to the Service & Other Activities rate of 1.5%.
- "Specified financial institutions" are subject to an additional 1.2% 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 2020 forecast.
- This bill is effective August 1, 2021, resulting in 10 months of cash collections for Fiscal Year 2022.

DATA SOURCES
- Department of Revenue, 2019 Excise Tax Data
- Federal Financial Institutions Examination Council, 2019 Call Report Data
- Federal Deposit Insurance Corporation 2019 data
- Home Mortgage Disclosure Act 2019 data
- Nationwide Multistate Licensing System Consumer Access (branches)
- Economic and Revenue Forecast Council November 2020 forecast

REVENUE ESTIMATES
This bill increases state revenues by an estimated $127.3 million in the 10 months of impacted collections in Fiscal Year 2022, and by $160.5 million in Fiscal Year 2023, the first full year of impacted collections.

TOTAL REVENUE IMPACT

State Government (cash basis, $000):
FY 2022 - $ 127,300
FY 2023 - $ 160,500
FY 2024 - $ 167,900
FY 2025 - $ 175,800
FY 2026 - $ 184,000
FY 2027 - $ 192,600

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:
This legislation affects 300 taxpayers.

FIRST YEAR COSTS:
The Department will incur total costs of $39,500 in Fiscal Year 2022. These costs include:

Labor Costs - Time and effort equates to 0.39 FTE.
- Test and verify computer systems to implement the repeal of this deduction.
- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Amend one Excise Tax Advisory (ETA).
- Amend one administrative rule.

Object Costs - $6,100.
- Contract computer systems programming.
- Print and mail a special notice to banks and financial institutions.
- Print and mail additional paper returns and correspondence.

SECOND YEAR COSTS:
The Department will incur total costs of $39,500 in Fiscal Year 2023. These costs include:

Labor Costs - Time and effort equates to 0.4 FTE.
- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Analyze reporting data and make reports to the State Treasurer.

ONGOING COSTS:
Ongoing costs for the 2023-2025 Biennium equal $49,100 and include similar activities described in the second year costs. Time and effort equates to 0.3 FTE in Fiscal Year 2024 and 0.2 FTE in Fiscal Year 2025.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.4	0.4	0.4	0.3	0.2
A-Salaries and Wages	19,600	24,600	44,200	31,900	26,400
B-Employee Benefits	7,200	8,900	16,100	11,500	9,600
C-Professional Service Contracts	2,200		2,200		
E-Goods and Other Services	8,100	4,600	12,700	5,200	3,800
J-Capital Outlays	2,400	1,100	3,500	500	400
Total $	$39,500	$39,200	$78,700	$49,100	$40,200

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 2022	FY 2023	2021-23	2023-25	2025-27
EMS BAND 4	119,061	0.0		0.0		
EMS BAND 5	139,090	0.0		0.0		
EXCISE TAX EX 1	43,392	0.1	0.1	0.1	0.1	0.1
EXCISE TAX EX 2	54,108	0.1	0.1	0.1	0.1	
EXCISE TAX EX 3	59,688	0.1	0.1	0.1		
MGMT ANALYST4	70,956	0.0		0.0		
TAX POLICY SP 2	72,756	0.0		0.0		
TAX POLICY SP 3	82,344	0.0		0.0		
TAX POLICY SP 4	88,644	0.0	0.1	0.1	0.1	0.1
WMS BAND 3	101,257	0.0		0.0		
Total FTEs		0.4	0.4	0.4	0.3	0.2

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and dexcribe potential financing methods

NONE

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited rule-making process to amend WAC 458-20-146, titled: "National and state banks, mutual savings banks, savings and loan associations and other financial institutions". Persons affected by this rule-making would include banks that currently receive the deduction for first mortgage interest.