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**Finance Committee**

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**HB 2643**

**Brief Description:** Providing exemptions from state business and occupation tax and state and local property tax for certain nonprofit student loan organizations.

**Sponsors:** Representatives Fromhold, Wallace, Chase, Moeller, Sells and Dunn.

**Brief Summary of Bill**

- Updates and broadens existing B&O and property tax exemptions for nonprofit student loan organizations.

**Hearing Date:** 1/30/08

**Staff:** Don Taylor (786-7388).

**Background:**

B&O Tax

Washington's principal tax on businesses is the state business and occupation (B&O) tax. The B&O tax applies to the gross receipts derived from engaging in business. Although the tax does not reflect the cost of doing business, there are a variety of exemptions, deductions and other tax incentives permitted by law. Major tax rates are 0.484 percent for manufacturing and wholesaling; 0.471 percent for retailing, and 1.5 percent for services; a variety of lower rates also apply to specific business activities. The B&O tax generates about 16 percent of all state tax collections; most of the receipts are deposited in the state general fund.

In 1987 an exemption was adopted that removes nonprofit student loan organizations from B&O tax liability. Such entities that serve as guarantee agencies for student loans or which issue debt for student loan purposes are exempt from business tax.

Property Tax

The property tax is the oldest tax in Washington, predating statehood. The property tax is by far the largest source of revenue for local governments, and the state levy produces a major share of

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state tax revenue; the combined total for 2007 was \$7.7 billion. The tax applies to real and personal property, unless specifically exempted. The average combined levy rate for taxes due in 2007 was \$10.48 per \$1,000 of assessed value. Thus, the owner of property with assessed value of \$300,000 could expect to pay annual property taxes of \$3,144, based on the statewide average rate.

The State Constitution requires that regular property tax levies (those imposed without a vote of the people) cannot exceed 1.0 percent of the fair market value of the property. A statutory limit, adopted by the voters in 2001, restricts the rate of increase in regular levy revenues for all taxing districts to 1.0 percent or the rate of inflation, whichever is lower, unless a higher growth rate is specifically authorized by the voters. Note: this limit does not apply to the taxes paid by owners of individual parcels, nor does it include voter-approved special levies.

In 1987 an exemption was adopted that removes nonprofit student loan organizations from property tax liability. Such entities that serve as guarantee agencies for student loans or which issue debt for student loan purposes are exempt from property tax.

**Summary of Bill:**

Existing B&O and property tax exemptions for nonprofit student loan organizations are amended. References to the Internal Revenue Code are updated and the description of student loans is revised. New language extends the exemptions to organizations that qualify as public charities which provide supporting services to agencies that guarantee loans or issue debt for student loans.

**Appropriation:** None.

**Fiscal Note:** Requested on January 21, 2008.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.