
Community Development & Housing Committee

HB 1490

Brief Description: Concerning a business and occupation tax deduction for certified community development financial institutions.

Sponsors: Representatives Kenney, Orcutt and Santos.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Provides nonprofit certified community development financial institutions with a business and occupation tax deduction on interest received from first-time home buyer program loans.

Hearing Date: 2/2/11

Staff: Jennifer Thornton (786-7147).

Background:

Business and Occupation Taxes.

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. Revenues are deposited in the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

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.

Community Development Financial Institutions.

The US Treasury Department's Community Development Financial Institutions (CDFI) Fund was established by the Riegle Community Development and Regulatory Improvement Act of 1994. The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to CDFIs. The CDFI Fund's mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States.

A CDFI certification is a designation conferred by the CDFI Fund and is a requirement for accessing financial and technical award assistance from the CDFI Fund. A certified CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. They provide a unique range of financial products and services in economically distressed target markets, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

To become certified as a CDFI, an organization must apply and meet each of the following requirements:

- be a legal entity at the time of certification application;
- have a primary mission of promoting community development;
- be a financing entity;
- primarily serve one or more target markets;
- provide development services in conjunction with its financing activities;
- maintain accountability to its defined target market; and
- be a non-government entity and not be under control of any government entity (Tribal governments excluded).

Certification does not constitute an opinion by the CDFI Fund as to the effectiveness or financial viability of the certified organization.

As of December 31, 2010, there were 939 Certified Community Development Financial Institutions nationwide, with 22 in Washington State.

Summary of Bill:

An eligible entity may take a business and occupation (B&O) tax deduction on interest received on or after August 1, 2011, from loans issued as part of a first-time home buyer program.

An "eligible entity" is defined as a nonprofit organization certified as a community development financial institution by the federal community development financial institutions fund.

A "nonprofit organization" is defined as an organization incorporated under the Washington Nonprofit Corporation Act.

Appropriation: None.

Fiscal Note: Requested on 1/28/2011.

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