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HOUSE BILL 2048

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State of Washington                      63rd Legislature                      2013 Regular Session

By Representatives Pollet and Roberts

Read first time 04/18/13. Referred to Committee on Finance.

1            AN ACT Relating to eliminating the investment income business and  
2 occupation tax deduction for corporations and other business entities;  
3 amending RCW 82.04.4281; creating a new section; and providing an  
4 effective date.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6            NEW SECTION.    **Sec. 1.** The legislature finds that Washington law  
7 provides a business and occupation tax deduction for investment income  
8 for corporations and other business entities. The legislature further  
9 finds that this deduction costs the state hundreds of millions of  
10 dollars over a biennium. The legislature further finds that the  
11 practical effect of this deduction is to discourage investment in the  
12 state because Washington companies that invest money and create jobs in  
13 Washington pay business and occupation taxes on revenues generated from  
14 their reinvestment, while Washington companies that invest money in  
15 out-of-state markets do not pay tax on revenues generated from these  
16 investments. The legislature further finds that increasing fairness in  
17 the state tax system by closing tax loopholes is essential to  
18 encouraging productive economic investment in the state. The  
19 legislature further finds that the lost revenue from this deduction is

1 an expenditure that conflicts with, and harms, the state's  
2 constitutional obligation to significantly increase funding for our  
3 public schools and our children's education. The legislature further  
4 finds that tax loopholes that incentivize companies to invest money  
5 out-of-state instead of reinvesting in Washington, creates an  
6 inequitable tax burden on those companies that reinvest revenues into  
7 Washington. Therefore, it is the intent of the legislature to bring  
8 equity to the state tax system by closing a loophole that benefits  
9 companies that generate revenue from investments made outside of the  
10 state and to ensure they pay their fair share of the cost of services  
11 and infrastructure the state provides.

12 **Sec. 2.** RCW 82.04.4281 and 2007 c 54 s 9 are each amended to read  
13 as follows:

14 (1) In computing tax there may be deducted from the measure of tax:

15 (a) Amounts derived by an individual from investments;

16 (b) Amounts derived as dividends or distributions from the capital  
17 account by a parent from its subsidiary entities; and

18 (c) Amounts derived from interest on loans between subsidiary  
19 entities and a parent entity or between subsidiaries of a common parent  
20 entity, but only if the total investment and loan income is less than  
21 five percent of gross receipts of the business annually.

22 ~~(2) ((The following are not deductible under subsection (1)(a) of  
23 this section:~~

24 ~~(a) Amounts received from loans, except as provided in subsection  
25 (1)(c) of this section, or the extension of credit to another,  
26 revolving credit arrangements, installment sales, the acceptance of  
27 payment over time for goods or services, or any of the foregoing that  
28 have been transferred by the originator of the same to an affiliate of  
29 the transferor; or~~

30 ~~(b) Amounts received by a banking, lending, or security business.~~

31 ~~(3) The definitions in this subsection apply only to this section.~~

32 ~~(a) "Banking business" means a person engaging in business as a  
33 national or state chartered bank, a mutual savings bank, a savings and  
34 loan association, a trust company, an alien bank, a foreign bank, a  
35 credit union, a stock savings bank, or a similar entity that is  
36 chartered under Title 30, 31, 32, or 33 RCW, or organized under Title  
37 12 U.S.C.~~

1       ~~(b) "Lending business" means a person engaged in the business of~~  
2 ~~making secured or unsecured loans of money, or extending credit, and~~  
3 ~~(i) more than one half of the person's gross income is earned from such~~  
4 ~~activities and (ii) more than one half of the person's total~~  
5 ~~expenditures are incurred in support of such activities.~~

6       ~~(e)) For the purposes of this section, the terms "loan" and~~  
7 ~~"extension of credit" do not include ownership of or trading in~~  
8 ~~publicly traded debt instruments, or substantially equivalent~~  
9 ~~instruments offered in a private placement.~~

10       ~~((d) "Security business" means a person, other than an issuer, who~~  
11 ~~is engaged in the business of effecting transactions in securities as~~  
12 ~~a broker, dealer, or broker-dealer, as those terms are defined in the~~  
13 ~~securities act of Washington, chapter 21.20 RCW, or the federal~~  
14 ~~securities act of 1933. "Security business" does not include any~~  
15 ~~company excluded from the definition of broker or dealer under the~~  
16 ~~federal investment company act of 1940 or any entity that is not an~~  
17 ~~investment company by reason of sections 3(c)(1) and 3(c)(3) through~~  
18 ~~3(c)(14) thereof.))~~

19       NEW SECTION.   **Sec. 3.** This act takes effect August 1, 2013.

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