

January 26, 1998

**BILL ANALYSIS**

TO: Members, Committee on Trade and Economic Development

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: **HB 2751 - Providing tax incentives for community  
development financial institutions.**

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**BACKGROUND:**

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state, without any deductions for the cost of doing business. Businesses are taxable according to the activities they engage in and therefor may be subject to more than one tax rate. After July 1, 1998, the business and occupation tax will have 10 different rates. The major tax rates are:

- 0.471% Retailing;
- 0.484% Manufacturing and wholesaling; and
- 1.50% Real estate brokers and services.

The state imposes an insurance premiums tax on authorized insurers. The insurance premiums tax is in lieu of a business and occupation tax. The tax is based on 2 percent of the net premiums received by authorized insurers, except title insurers and fraternal benefit societies, after deduction of premiums that are returned to policyholders.

**SUMMARY:**

A credit is provided against the business and occupation (B&O) tax or the insurance premiums tax that is equal to 20 percent of a qualified deposit made by a business to a community development financial institution. A qualified deposit is a deposit that does not earn interest, or an equity investment, that is equal to or greater than \$50,000 and is made for a minimum duration of 60 months.

The business must obtain approval from the Department of

Financial Institutions prior to claiming the tax credit. The businesses' request must include information on the proposed deposit that contains a description of terms and conditions of the deposit or equity investment. Only qualified deposits made after July 1, 1998 are eligible for the tax credit.

The amount of tax credit available to a business is limited to the amount of their tax liability. Any used tax credits can be carried forward a maximum of two years. The total tax credits available on a statewide basis cannot exceed \$5 million per calendar year.

Penalty provisions for early withdrawal of part or all of the qualified deposit are as follows: (1) A business is liable for the entire amount of the tax credit if the qualified deposit is either totally withdrawn or reduced below \$50,000 before the agreed upon period; and (2) If the amount withdrawn does not reduce the deposit below \$50,000 then the business is required to pay the amount of the tax credit associated with amounts that are withdrawn. All tax liability that is due as a result of withdrawals by the business must be paid within 30 days of the withdrawal.

***Community development financial institution***— means a private financial institution located in the state of Washington that is certified by the Department of Financial Institutions, that has community development as its primary mission, and lends in a designated area. A community development financial institution may include a community development bank, a community development loan fund, a community development credit union, a microenterprise fund, a community development corporation-based lender, and a community development venture fund.

***Designated area***— means: (1) a designated community empowerment zone; (2) a county with an unemployment rate that is 20 percent higher than the statewide unemployment rate for the prior three-year period; or (3) a rural natural resources impact area.

Appropriation: None.

Fiscal Note: Requested January 21, 1998.

Effective Date: The bill takes effect July 1, 1998 and expires July 1, 2002.