
**Financial Institutions &
Insurance Committee**

HB 2364

Brief Description: Creating a use tax exemption when converting or merging a federal, foreign, or out-of-state credit union into a state charter.

Sponsors: Representatives Santos, Orcutt, McIntire, Hunter, Armstrong, Morrell and Roach.

Brief Summary of Bill

- Personal property, services, and extended warranties that are acquired by a state credit union from a federal, out-of-state, or foreign credit union as a result of a conversion or merger are exempt from use tax.

Hearing Date: 1/12/06

Staff: Jon Hedegard (786-7127).

Background:

Credit unions. A credit union is a financial cooperative organization of individuals who have a common bond, such as a place of employment, residence, or membership in a labor union. Credit unions accept deposits from members, pay interest (in the form of dividends) on the deposits out of earnings, and use their funds mainly to provide consumer installment loans to members.

Credit unions doing business in Washington may be chartered by the state or federal government. Federally chartered credit unions are regulated by the National Credit Union Administration (NCUA), under the Federal Credit Union Act. Their share accounts are insured by the National Credit Union Share Insurance Fund (NCUSIF), which is administered by the NCUA. Washington State chartered credit unions are regulated primarily by the Division of Credit Unions of the Washington Department of Financial Institutions. Washington credit unions are organized and regulated under the Washington State Credit Union Act.

There are certain business reasons that a credit union may choose to operate as a state-chartered union or a federally chartered union in Washington. Federally chartered institutions are exempt from paying state taxes, for example, and such institutions that operate in multiple states are governed by a single set of regulations. On the other hand, Washington statutes and regulations allow for a broader field of membership and greater flexibility in business lending than do federal regulations.

As of January 2006, about 79 state credit unions and 61 federal credit unions were in operation in Washington.

Conversions and mergers of credit unions. Federally chartered credit unions may convert to state chartered credit unions or merge with state chartered credit unions under the state charter. When converting to or merging under the state charter, a credit union becomes subject to state regulation. Since 1990, nineteen credit unions converted from the federal to the state charter, and 27 mergers between state and federal credit unions under the state charter have taken place.

Use tax. The use tax is imposed on items and certain services used in the state for which retail sales tax has not been paid. This includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The tax is levied at the same rate as the retail sales tax, a 6.5 percent rate by the state. Cities and counties also impose use taxes at the same rate as any local sales tax imposed. Currently, local rates imposed range from 0.5 percent to 2.4 percent. Use tax is paid directly to the Department of Revenue.

All items or services sold or acquired at retail are subject to the retail sales and use taxes unless specifically exempted otherwise. Such exemptions include purchases made by federally-owned entities, such as federally-chartered credit unions.

In 2004, the Board of Tax Appeals issued a decision that found that a credit union that converts from the federal to the state charter loses its federal exemption and so owes use tax on property for which sales tax had not been paid.

Summary of Bill:

Personal property, services, and extended warranties that are acquired by a state credit union from a federal, out-of-state, or foreign credit union as a result of a conversion or merger are exempt from use tax.

Appropriation: None.

Fiscal Note: Requested on December 29, 2005.

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