
**Financial Institutions &
Insurance Committee**

HB 2938

Brief Description: Addressing credit card applications and rates.

Sponsors: Representatives Chase, Williams, Haigh, Green, Eickmeyer, Miloscia, Appleton, Hasegawa, Lantz, B. Sullivan and Hunt.

Brief Summary of Bill

- Increases the tax rate on the gross income generate from credit card interest rates that exceed the state usury rate.
- Creates a vocational education account (Account) that may only be used for the enhancement of expenditures on vocational education.
- Deposits the taxes from the increased credit card tax rate into the Account.
- Makes the sending of unsolicited credit cards by a state chartered financial institution a violation of the Consumer Protection Act.

Hearing Date: 1/31/06

Staff: Jon Hedegard (786-7127).

Background:

Business and occupations tax.

The business and occupation (B&O) tax is Washington's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the state general fund. Different tax rates apply to the separate categories of business activity. Credit card lending is taxed at 1.5 percent.

Consumer Protection Act.

The Washington Consumer Protection Act (Act) declares that unfair and deceptive practices in trade or commerce that harm the public interest are illegal. The Act gives the Office of the Attorney General the authority to bring lawsuits against businesses and to ask the court for injunctions and restitution for consumers. It also allows individuals to hire their own attorneys to bring consumer protection lawsuits. If the consumer prevails in court, the Act allows the court to award triple damages, up to \$10,000, as well as attorney's fees.

Summary of Bill:

State and federally chartered financial institutions are charged a B&O tax rate tax rate of three percent on the gross income derived from the application of an interest rate that exceeds the maximum rate or amount allowed under the state usury rate in RCW 19.52.020. The higher tax is only applicable to the income that exceeds the amount that would have been derived under the maximum amount of interest allowed under RCW 19.52.020.

As an example, if a credit card company charges 16 percent interest and the maximum rate under RCW 19.52.020 is 12 percent interest, the tax would be as follows:

- the gross income on the amount earned due to an interest rate up to 12 percent is taxed at a rate of 1.5%;
- the gross income on the amount earned due to an interest rate over 12% (in the example the amount earned between 12 percent and 16 percent) is taxed at 3 percent.

The vocational education enhancement account is created in the custody of the State Treasurer. All receipts from section 2(1)(a) of this act must be deposited into the account. Expenditures from the account may be used only for enhancement of expenditures on vocational education. Only the superintendent of public instruction or the superintendent's designee may authorize expenditures from the account. The account is subject to the allotment procedures under chapter 43.88 RCW, but an appropriation is not required for expenditures.

A financial institution may not mail an unsolicited credit card application to a prospective borrower unless the prospective borrower who has asked in writing for the credit card application. A violation is a violation of the Consumer Protection Act, chapter 19.86 RCW.

Appropriation: None.

Fiscal Note: Available.

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