

# HOUSE BILL REPORT

## HB 2928

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to reauthorizing the business and occupation tax deduction for cooperative finance organizations.

**Brief Description:** Reauthorizing the business and occupation tax deduction for cooperative finance organizations.

**Sponsors:** Representative Lytton.

**Brief History:**

**Committee Activity:**

Finance: 2/2/18 [DPS].

**Brief Summary of Substitute Bill**

- Reauthorizes the business and occupation tax deduction for loan repayments received by nonprofit cooperative finance organizations from rural electric cooperatives.
- Provides a tax preference performance statement.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

**Staff:** Tracey O'Brien (786-7152).

**Background:**

Business and Occupation Tax.

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, without any deduction for the costs of doing business. Businesses must pay the B&O tax even though

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they may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several lower rates also apply to specific business activities.

Rural Electric Cooperatives.

A rural electric cooperative provides utility services to rural areas of Washington. The Washington Rural Electric Cooperative Association identifies 15 rural electric cooperatives in Washington. The cooperatives serve over 280,000 customers and offer electric service at cost. The rates and policies are set by locally elected boards of directors.

Nonprofit Cooperative Finance Organizations.

The primary purpose of a nonprofit cooperative finance organization is to provide, secure, or otherwise arrange financing for rural electric cooperatives. The National Rural Utilities Cooperative Finance Corporation (CFC) was incorporated in 1969 as a member-owned, nonprofit, cooperative financing organization. It raises and loans funds to supplement the loan programs for electric cooperatives and mutuals offered by the federal Rural Utilities Service. According to the CFC, its outstanding loans and guarantees for all cooperatives nationwide totaled \$23.2 billion as of May 31, 2016.

Business and Occupation Tax Deduction.

In 2013, the Legislature granted a B&O tax deduction to nonprofit cooperative finance organizations for the proceeds of loans to rural electric cooperatives or other nonprofit or governmental providers of utility services. The Joint Legislative Audit & Review Committee (JLARC) is required to include this tax preference in its tax preference review. This deduction expired on July 1, 2017.

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**Summary of Substitute Bill:**

The B&O tax deduction for loan repayments received by cooperative finance organizations from rural electric cooperatives or other utility nonprofits is reauthorized. A tax preference performance statement is included, with the metric of at least six nonprofit cooperative financing organizations taking advantage of the preference.

**Substitute Bill Compared to Original Bill:**

The substitute bill changes the metric for the JLARC review to at least one cooperative financing organization utilizing the deduction.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on July 1, 2018.

**Staff Summary of Public Testimony:**

(In support) None.

(Opposed) None.

**Persons Testifying:** None.

**Persons Signed In To Testify But Not Testifying:** None.