

HOUSE BILL REPORT

HB 1931

As Reported By House Committee On:
Financial Institutions & Insurance

Title: An act relating to community development financial institutions.

Brief Description: Providing tax incentives for community development financial institutions.

Sponsors: Representatives Santos, Veloria, Reardon, Eickmeyer, Murray, Ogden, Schual-Berke, Wolfe, Lovick, Kessler, Ruderman and Lantz.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/23/99, 2/25/99 [DP].

Brief Summary of Bill

- Provides tax credits for qualified deposits to community development financial institutions.
- Limits total such tax credits available to \$5 million per calendar year.
- Imposes penalties for early withdrawal.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 10 members: Representatives Benson, Republican Co-Chair; Hatfield, Democratic Co-Chair; Bush, Republican Vice Chair; McIntire, Democratic Vice Chair; DeBolt; Keiser; Quall; Santos; Sullivan and Talcott.

Minority Report: Do not pass. Signed by 2 members: Representatives Barlean and Cairnes.

Staff: Anntonette Alberti (786-7117).

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 therefore may be subject to more than one tax rate. The B&O tax has 10 different rates. The major tax rates are:

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

The state imposes an insurance premiums tax on authorized insurers. The insurance premiums tax is in lieu of a B&O 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 of Bill:

A credit is provided against the 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 business's 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, 1999, are eligible for the tax credit.

The amount of tax credit available to a business is limited to the amount of its tax liability. That means that if a business earns a credit that is greater than the amount it owes in taxes, the state does not have to pay the difference back to the business. However, any such unused 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. The tax credits will be awarded on a first come, first served basis.

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.

This act expires July 1, 2004.

"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 distressed area; or (3) a rural natural resources impact area.

Appropriation: None.

Fiscal Note: Available.

Effective Date: This bill contains an emergency clause and takes effect on July 1, 1999.

Testimony For: This bill will provide \$125,000,000 in private investments over five years for community development organizations. Community development financial institutions (CDFIs) provide small or unconventional loans to community development projects. CDFIs rely upon donations and low interest bearing deposits to provide very low interest loans for community development. If this bill passes borrowers like microbusinesses, cooperatives, low income housing developers, community based health and human service providers, and others will benefit. Depositors will also benefit because they will get a tax break for making a philanthropic deposit. The state will benefit because community development is a public good. Although \$25,000,000 per year does not stretch very far, it will improve the lives of many citizens of Washington state.

Testimony Against: None.

Testified: (In support) Representative Sharon Tomiko Santos, prime sponsor.