
Finance Committee

HB 2577

Brief Description: Removing the expiration date of the business and occupation tax deduction for cooperative finance organizations.

Sponsors: Representatives Lytton, Nealey, Springer, Dent, Wylie, Holy, Riccelli, Rodne and Jinkins.

Brief Summary of Bill

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

Hearing Date: 1/19/18

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 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

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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.

Summary of Bill:

The expiration date of the B&O tax preference is removed. A tax preference performance statement is included, with the metric of at least six nonprofit cooperative financing organizations taking advantage of the preference.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2018.