

HOUSE BILL REPORT

SB 5166

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: Senators Boehnke, Mullet, Conway, Short and Warnick.

Brief History:

Committee Activity:

Finance: 3/14/23, 3/16/23 [DP].

Brief Summary of Bill

- Reauthorizes the business and occupation tax deduction for loan repayments received by cooperative finance organizations from rural electric cooperatives or other utility nonprofit or governmental utility providers.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 12 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Chopp, Ramel, Santos, Springer, Stokesbary, Thai, Walen and Wylie.

Staff: Tracey Taylor (786-7152).

Background:

Business and Occupation Tax.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

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 taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O 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 preferential rates also apply to specific business activities. In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability.

Rural Electric Cooperatives.

A rural electric cooperative is a nonprofit customer-owned organization that provides utility services to rural areas. 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.

A cooperative finance organization is a nonprofit organization with the primary purpose to secure, provide, and arrange financing for rural electric cooperatives.

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 deduction expired on July 1, 2017.

Summary of Bill:

The B&O tax deduction for loan repayments received by cooperative finance organizations from rural electric cooperatives or other utility nonprofit or governmental utility providers is reauthorized.

A Tax Preference Performance Statement is included, stating the Legislature intends to extend the expiration date of the deduction if at least one nonprofit cooperative financing organization is taking advantage of the preference.

The tax expires January 1, 2034.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2023.

Staff Summary of Public Testimony:

(In support) Rural broadband expansion requires investment in infrastructure. Rural electric cooperatives provide service to 25 percent of the state's landmass. Unlike the rest of the state which has about 30 customers per square mile, rural electric cooperatives have approximately six customers per square mile. Nonprofit cooperative financing organizations allow rural electric cooperatives to make the necessary investments in maintaining and expanding the electrical grid and broadband in Washington. This legislation has been considered and approved by the Legislature in the past; however, due to budget concerns following the outbreak of COVID-19 in 2020, the governor vetoed the bill. It is time to reinstate this B&O deduction.

(Opposed) None.

Persons Testifying: Senator Matt Boehnke, prime sponsor; and Paul Griffin, Washington Rural Electric Cooperative Association.

Persons Signed In To Testify But Not Testifying: None.