

# SENATE BILL REPORT

## SB 5166

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As Reported by Senate Committee On:  
Environment, Energy & Technology, January 27, 2023

**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:** Environment, Energy & Technology: 1/20/23, 1/27/23 [DP-WM].

**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.

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### SENATE COMMITTEE ON ENVIRONMENT, ENERGY & TECHNOLOGY

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators Nguyen, Chair; Lovelett, Vice Chair; MacEwen, Ranking Member; Boehnke, Lovick, Short, Trudeau and Wellman.

**Staff:** Gregory Vogel (786-7413)

**Background:** Business and Occupation Tax. Washington State imposes a business and occupation (B&O) tax 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.

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*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.*

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. 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. A taxpayer may be eligible to use 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 represents approximately 20 small mutual electric companies and rural electric cooperatives throughout 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 its members.

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.

The Legislature reauthorized the tax deduction in 2020, but the legislation was vetoed by the Governor due to COVID-19 budgetary concerns.

**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.

The tax preference expires January 1, 2034.

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.

**Appropriation:** None.

**Fiscal Note:** Requested on January 7, 2023.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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

**Staff Summary of Public Testimony:** PRO: We are asking the Legislature to reauthorize this exemption and help rural co-ops around the state. The language is identical to the previous House bill that passed unanimously out of the House and Senate but was vetoed due to COVID budgetary concerns. The bill would put Washington in line with the rest of states that recognize federal tax exempt status on these receipts. The bill helps not-for-profit members to do what they need to do to provide electricity for the state, whether in the San Juans or up in the Okanogan.

**Persons Testifying:** PRO: Senator Matt Boehnke, Prime Sponsor; Paul Griffin, Washington Rural Electric Cooperative Association; Troy Berglund, Benton Rural Electric Association.

**Persons Signed In To Testify But Not Testifying:** No one.