
Finance Committee

HB 1506

Brief Description: Imposing a business and occupation tax on state-chartered credit unions that merge with a commercial bank.

Sponsors: Representatives Walen, Ormsby and Scott.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Removes business and occupation tax exemption for a state-chartered credit union that merges with or acquires a bank regulated by the Department of Financial Institutions.

Hearing Date: 2/18/25

Staff: Tracey Taylor (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 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 and wholesaling; and 1.5 percent (businesses with taxable income of less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere. There are many specialized B&O tax rates and preferential rates that apply to specific business activities.

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In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. The credit is \$160 per month for taxpayers that report at least 50 percent or greater of their total B&O taxable amount under service and other activities, real estate brokers, and contests of chance and \$55 per month for all other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue and has annual gross proceeds of sales, gross income, or value of products for all of the B&O tax classifications of less than \$125,000 per year.

Credit Unions.

Credit unions doing business in Washington may be chartered by the state or federal government. The Department of Financial Institutions (DFI) regulates state-chartered credit unions. State law provides for the organization, regulation, and examination of state-chartered credit unions. The Director of the DFI (Director) may, by rule, provide relief from certain state laws and rules to small credit unions, which are defined as credit unions with up to \$10 million in total assets.

State-chartered credit unions have all of the powers and authorities held by federal credit unions on December 31, 1993, or a subsequent date not later than July 28, 2019. State-chartered credit unions may have all of the powers and authorities held by federal credit unions after that date if the Director finds that the exercise of the power and authority serves the convenience and advantage of credit union members and maintains the fairness of competition and parity between state-chartered credit unions and federal credit unions. State-chartered credit unions also have all powers and authorities of out-of-state credit unions, except membership, subject to certain requirements.

Federal and state-chartered credit unions are exempt from the B&O taxes.

Summary of Bill:

Beginning October 1, 2025, if a state-chartered credit union merges with or acquires a bank regulated by the DFI, the credit union is no longer exempt from the B&O tax. The B&O tax will be 1.2 percent of the gross income of the state-chartered credit union.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.