

HOUSE BILL REPORT

HB 2089

As Reported by House Committee On:
Finance

Title: An act relating to supporting wildfire mitigation by modifying RCW 82.04.29005, concerning taxes on loan interest.

Brief Description: Supporting wildfire mitigation by modifying RCW 82.04.29005, concerning taxes on loan interest.

Sponsors: Representatives Scott, Springer, Parshley, Ryu, Simmons, Berry, Street, Thomas, Ormsby, Obras, Reeves, Macri, Fosse, Hill, Pollet and Salahuddin.

Brief History:

Committee Activity:

Finance: 1/23/26, 2/9/26 [DPS].

Brief Summary of Substitute Bill

- Directs the revenue generated by the removal of the business and occupation (B&O) tax deduction into the Wildfire Response, Forest Restoration, and Community Resilience Account.
- Requires high volume mortgage lenders to pay the B&O tax on interest income received on investments or loans secured by first mortgages or trust deeds on nontransient residential properties.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Berg, Chair; Street, Vice Chair; Mena, Ramel, Santos, Scott, Springer, Wylie and Zahn.

Minority Report: Do not pass. Signed by 5 members: Representatives Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell, Chase and

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.

Penner.

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), 1.75 percent (businesses with taxable income of \$1 million to \$5 million), and 2.1 percent (businesses with taxable income over \$5 million) 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.

An additional B&O tax is imposed on businesses in Washington with at least \$250 million in Washington taxable income. The tax is 0.5 percent of the business's annual Washington taxable income in excess of \$250 million and is in addition to the other B&O taxes imposed on the income. This surcharge expires December 31, 2029.

Beginning January 1, 2027, the rate for the following business activities increases to 0.5 percent:

- standard manufacturing, extracting, wholesaling, and retailing;
- retail or wholesale sales of digital goods, digital codes, and digital automated services;
- childcare;
- radioactive waste cleanup;
- research and development by nonprofits;
- insurance agents;
- treatment of chemical dependency;
- salmon canners;
- manufacturing, wholesaling, and retailing of commercial airplanes or components of such airplanes;
- manufacturing and retailing of tooling, specifically for use in manufacturing of commercial airplanes or components of such airplanes;
- printing materials, other than newspapers, and of publishing periodicals and magazines;
- highway contractors and government contractors;
- cold storage warehousing; and

- radio and television broadcasting.

In addition, the B&O tax rate for contests of chance is increased to 1.8 percent.

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 (DOR) and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$125,000 per year.

Banking, lending, and other financial businesses located in 10 states or less may deduct interest received on investments or loans secured by first mortgages or trust deeds on nontransient residential properties. This deduction includes the portion of fees charged to borrowers, including points and loan origination fees.

Wildfire Response, Forest Restoration, and Community Resilience Account and Reporting.

In 2021 the Legislature created the Wildfire Response, Forest Restoration, and Community Resilience Account (Account). Account funds must be appropriated and used to monitor, track, and implement certain wildfire preparedness, prevention, and protection purposes. Funds in the account may not be used for emergency fire costs or suppression costs. The Department of Natural Resources (DNR) may solicit recommendations on how to use funds in the account from the Forest Health Advisory Committee and the Wildland Fire Advisory Committee (Advisory Committees). The Advisory Committees must use environmental justice or equity focused tools to identify highly impacted communities when making recommendations for investments from the Account.

Summary of Substitute Bill:

This act is to be known and cited as the Wildfire Alleviation Support Act.

High volume mortgage lenders must pay the B&O tax on amounts received as interest on loans primarily secured by first mortgages or trust deeds on nontransient residential properties. A "high volume mortgage lender" is defined as a financial institution subject to the financial institution B&O surcharge and that has an annual closed mortgage origination

volume of at least \$10 billion reported under the federal Home Mortgage Disclosure Act in the previous calendar year. The previous requirement that the financial institution be located in 10 or more states is removed.

Beginning October 15, 2027, the DOR must annually estimate the increase to the State General Fund in revenue collections due to the removal of this threshold. Beginning November 1, 2027, the State Treasurer must transfer the amount estimated by the DOR to the Wildfire Response, Forest Restoration, and Community Resilience Fund (Fund).

Substitute Bill Compared to Original Bill:

The substitute bill makes changes to the intent language and changes the persons who must pay the B&O tax on interest on the specified loans secured by high volume mortgage lenders.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 9, 2026.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2026.

Staff Summary of Public Testimony:

(In support) It is the intent of this legislation to create a dedicated funding stream for the important investments contemplated when House Bill 1168 was enacted. These investments in wildfire preparedness will reduce the costs down the road if a wildfire occurs in a community. Originally, the B&O tax deduction for mortgage interest was designed to benefit community banks; however, most of the revenue impact for this tax preference is utilized by large financial institutions. By closing this loophole, we can provide ongoing funding for the important work done through the Fund.

(Opposed) As introduced, we are not sure this bill achieves the intent, but are working to get the necessary changes made. Similar language was vetoed by the Governor in the past. It is an important public policy to ensure that loans are still available to borrowers.

(Other) We are working on language to ensure community banks are not impacted by the changes in this bill.

Persons Testifying: (In support) Representative Shaun Scott, prime sponsor; Pat Sullivan, Department of Natural Resources; and Seamus Petrie, Washington Public Employees Association.

(Opposed) Brad Tower, Community Bankers of Washington.

(Other) Megan Managan, Washington Bankers Association.

Persons Signed In To Testify But Not Testifying: None.