

SENATE BILL REPORT

SHB 2089

As of February 24, 2026

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: House Committee on Finance (originally sponsored by Representatives Scott, Springer, Parshley, Ryu, Simmons, Berry, Street, Thomas, Ormsby, Obras, Reeves, Macri, Fosse, Hill, Pollet and Salahuddin).

Brief History: Passed House: 2/13/26, 52-40.

Committee Activity: Ways & Means: 2/24/26.

Brief Summary of Bill

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

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

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

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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, including an additional 1.5 percent surcharge on the income of specified financial institutions subject to service and other activities business and occupation tax. A specified financial institution is a financial institution that is a member of a consolidated financial institution group that reported an annual net income of at least \$1 billion on its consolidated financial statement for the previous calendar year, not including net income attributable to noncontrolling interests.

State law provides a B&O tax deduction for financial businesses with respect to certain investments or loans secured by first mortgages (First Mortgage Deduction). More specifically, banking, lending, and other financial businesses located in ten states or less may deduct interest received on investments or loans secured by first mortgages or trust deeds on non-transient residential properties. The First Mortgage Deduction includes the portion of fees charged to borrowers, including points and loan origination fees. If a financial business is located in more than ten states, it does not qualify for the First Mortgage Deduction and must pay B&O tax on the income under the applicable B&O service and other rate.

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 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 Bill: 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 non-transient residential properties. A high volume mortgage lender is a business:

- subject to the financial institution B&O surcharge; or
- has an annual closed mortgage origination volume of at least \$10 billion, as reported under the federal Home Mortgage Disclosure Act in the previous calendar year.

The previous requirement that the financial institution be located in ten or more states is

removed.

Beginning October 15, 2027, the Department of Revenue (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 DOR to the Wildfire Response, Forest Restoration, and Community Resilience Fund.

The legislation is to be known and cited as the Wildfire Alleviation Support Act.

Appropriation: None.

Fiscal Note: Available.

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

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

Staff Summary of Public Testimony: PRO: This bill is good revenue policy, good fiscal policy, and good substantive policy. It's a progressive action to close a tax loophole that's obsolete. The bill provides strong and consistent funding into the future for an important policy priority. We are supportive of anything that generates new revenue to support funding for a wildland fire prevention. This bill is narrowly tailored and can do a lot of work to reverse cuts in investments in wildfire funding made to the Department of Natural Resources. We've been looking for an ongoing source of wildfire funding and while this bill doesn't get us the amount necessary to keep our communities safe from wildfire, it is a very good start.

OTHER: Maintaining consistent wildfire funding is critical for the ongoing work of reducing the severity and frequency of wildfires. Wildfires are an issue of statewide importance and no single sector should be required to bear the brunt of the burden for wildfire funding. It should be a general fund obligation. We echo the comment that it is a statewide concern and there shouldn't be single funding source tied to it. We appreciate the accommodations that the current bill still adheres to the original intent of the 2012 legislative changes, which first imposed this particular tax on certain mortgage interest. We are a little bit reluctant to support attacks on mortgage interests at a time when housing is somewhat on affordable but again, we appreciate the accommodations and think that the current level of taxation in the bill is consistent with the original intent. We truly appreciate the thoughtful conversations on the intent to not capture community banks and our understanding is that the version that you are working on now does not apply to community banks, which continue to provide the essential service of offering mortgages in Washington State.

Persons Testifying: PRO: Seamus Petrie, Washington Public Employees Association;

Nick Federici, Community Wildfire Solutions; Pat Sullivan, Department of Natural Resources.

OTHER: Matt Doumit, Washington Forest Protection Association; Brad Tower, Community Bankers of Washington; Megan Managan, Washington Bankers Association.

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