

HOUSE BILL REPORT

EHB 2270

As Passed House:
March 15, 2005

Title: An act relating to excise tax relief for public development authorities.

Brief Description: Exempting payment for certain services provided by public development authorities from business and occupation taxation.

Sponsors: By Representatives McIntire and Murray.

Brief History:

Committee Activity:

Finance: 3/4/05, 3/7/05 [DP].

Floor Activity:

Passed House: 3/15/05, 60-36.

Brief Summary of Engrossed Bill

- Exempts certain amounts received by certain public development authorities from the business and occupation tax.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 5 members: Representatives McIntire, Chair; Hunter, Vice Chair; Conway, Hasegawa and Santos.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern and Ericksen.

Staff: Mark Matteson (786-7145).

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes. An example is the exemption for municipal corporations with respect to grants received from the state or federal government.

Public development authorities. Public development authorities (PDAs) are authorized to improve the administration of authorized federal grants or programs, to improve governmental efficiency and services, and to improve the general living conditions in the urban areas of the state. The PDA legislation was initially enacted to authorize counties, cities, and towns a mechanism to participate in and implement federally-assisted programs, including revenue sharing, without creating potential conflict with respect to constitutional restrictions regarding the lending of credit.

Many local governments have established public corporations for a variety of public purposes, such as the implementation of community and affordable housing programs.

PDAs are provided immunity from property taxation, but in general are subject to leasehold excise taxes on leases of property to private entities. Amounts received by PDAs from non-governmental entities for the provision of services, depending on how the PDA is organized, may be taxable under the B&O tax.

Summary of Engrossed Bill:

An exemption from the B&O tax is provided for amounts received by a PDA for providing services to a limited liability company, if the PDA is the sole managing members; a limited partnership, if the PDA is the sole general partner; or a single asset entity required under a governmental housing assistance program, if the entity is controlled by the PDA.

Appropriation: None.

Fiscal Note: Requested on March 3, 2005.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: We support this bill. While public development authorities have been formed for a number of purposes, we are not authorized to impose taxes. Funds must be sought from other public entities and other sources. We seek to be as self-sufficient as possible. To pursue our goals relating to affordable housing, we participate in a number of public-private partnerships in order to inject private funds and discipline into the affordable housing process. This exemption would allow us to plow scarce dollars back into this process.

Testimony Against: None.

Persons Testifying: Chuck Weinstock, Capitol Hill Housing.

Persons Signed In To Testify But Not Testifying: None.