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**Ways & Means Committee**

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**HB 2794**

**Brief Description:** Narrowing a business and occupation tax deduction for banking, loan, security, and other financial businesses.

**Sponsors:** Representatives DeBolt, Sullivan, Anderson, Carlyle, Kretz, Springer, Smith, Hudgins, Short, Dickerson, Angel, Darneille, Warnick, Cody, Ross, Hinkle, Kristiansen, Haler, Parker, Ladenburg, Billig, Moscoso, Hansen, Pollet, Tharinger, Jinkins, Pearson, Wylie, Hunt, Kenney and Roberts.

**Brief Summary of Bill**

- Eliminates the business and occupation tax deduction for interest on first mortgages and deeds of trust on residential properties for financial institutions that operate in more than 10 states.
- Requires the Joint Legislative Audit and Review Committee to review the first mortgage tax deduction by June 30, 2015, as part of its tax preference review process.

**Hearing Date:** 2/29/12

**Staff:** Jeffrey Mitchell (786-7139).

**Background:**

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. 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. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.8 percent for professional and personal services, interest earned on loans by financial institutions, and activities not classified elsewhere.

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A B&O tax deduction is available to financial institutions for interest earnings on loans secured by first mortgages or deeds of trust on residential properties. An originating lender that sells mortgage loans onto the secondary market, but continues to service the loans, may deduct the fees for servicing these loans.

Legislation enacted in 2006 requires a periodic review of most excise and property tax preferences to determine if their continued existence or modification serves the public interest. The enabling legislation assigns specific roles in the review process to two different entities. The job of scheduling tax preferences, holding public hearings, and commenting on the reviews is assigned to the Citizen Commission for Performance Measurement of Tax Preferences (Commission). The responsibility for conducting the reviews is assigned to the staff of the Joint Legislative Audit and Review Committee (JLARC). The Commission develops a schedule to accomplish a review by JLARC of each tax preference at least once every 10 years.

**Summary of Bill:**

A financial business that is located in more than 10 states may not deduct from business and occupation (B&O) tax amounts derived from interest earnings on loans secured by first mortgages or deeds of trust on residential properties.

The Joint Legislative Audit and Review Committee is directed to review the first mortgage deduction by June 30, 2015, as part of its tax preference review process.

**Appropriation:** None.

**Fiscal Note:** Requested February 27, 2012

**Effective Date:** The bill takes effect July 1, 2012.