

Multiple Agency Fiscal Note Summary

Bill Number: 5493 SB	Title: Financial instit./B&O tax
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Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Office of State Treasurer	(59,100,000)	(59,100,000)	0	(151,500,000)	(151,500,000)	0	(165,300,000)	(165,300,000)	0
Department of Revenue	133,200,000	153,700,000	153,700,000	158,200,000	182,500,000	182,500,000	172,700,000	199,100,000	199,100,000
Total \$	74,100,000	94,600,000	153,700,000	6,700,000	31,000,000	182,500,000	7,400,000	33,800,000	199,100,000

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Office of State Treasurer	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Revenue	.5	113,300	113,300	113,300	.3	76,000	76,000	76,000	.3	76,000	76,000	76,000
Total \$	0.5	113,300	113,300	113,300	0.3	76,000	76,000	76,000	0.3	76,000	76,000	76,000

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Office of State Treasurer	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

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Prepared by: Cheri Keller, OFM	Phone: (360) 584-2207	Date Published: Final
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Individual State Agency Fiscal Note

Bill Number: 5493 SB	Title: Financial instit./B&O tax	Agency: 090-Office of State Treasurer
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

ACCOUNT	FY 2024	FY 2025	2023-25	2025-27	2027-29
General Fund-State 001-1		(59,100,000)	(59,100,000)	(151,500,000)	(165,300,000)
Washington Housing Trust Fund-State 532-1		59,100,000	59,100,000	151,500,000	165,300,000
Total \$					

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Riley Bengé	Phone: 360-786-7316	Date: 01/19/2023
Agency Preparation: Dan Mason	Phone: (360) 902-8990	Date: 01/25/2023
Agency Approval: Dan Mason	Phone: (360) 902-8990	Date: 01/25/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/25/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

SB 5493 requires the state treasurer to transfer estimated amounts determined by the department of revenue from the general fund into the Washington housing trust fund.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

By October 15, 2024, and by each October 15th thereafter the Department of Revenue must estimate any increase in the state general fund revenue collections for the immediately preceding fiscal year resulting from the repeal of RCW 82.04.4292. Beginning November 1, 2024, and by each November 1st thereafter, the state treasurer must transfer from the general fund the estimated amount determined by DOR for the immediately preceding fiscal year into the Washington housing trust fund.

The estimates in this fiscal note were provided by the department of revenue.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 5493 SB	Title: Financial instit./B&O tax	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	59,100,000	74,100,000	133,200,000	158,200,000	172,700,000
Workforce Education Investment Account-State 01 - Taxes 05 - Bus and Occup Tax	9,100,000	11,400,000	20,500,000	24,300,000	26,400,000
Total \$	68,200,000	85,500,000	153,700,000	182,500,000	199,100,000

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.6	0.4	0.5	0.3	0.3
GF-STATE-State 001-1	66,700	46,600	113,300	76,000	76,000
Total \$	66,700	46,600	113,300	76,000	76,000

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Riley Bengé	Phone: 60-786-7316	Date: 01/19/2023
Agency Preparation: Beth Leech	Phone: 60-534-1513	Date: 01/24/2023
Agency Approval: Valerie Torres	Phone: 60-534-1521	Date: 01/24/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 01/24/2023

Request # 5493-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

Banking, lending, security and other financial businesses with locations in ten states or less may deduct interest income received on investments or loans primarily secured by first mortgages or trust deeds on non-transient residential properties.

Interest amounts deductible include the portion of fees charged to borrowers, including points and loan origination fees, which are recognized over the life of the loan as an adjustment in the taxpayer's accounting records according to generally accepted accounting principles.

PROPOSAL:

This bill repeals the deduction for interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties from the measure of tax.

By October 15, 2024, and by each October 15th thereafter the Department of Revenue (department) must estimate any increase in the state general fund revenue collections for the immediately preceding fiscal year resulting from the repeal of the deduction for first mortgage interest.

Beginning November 1, 2024, and by each November 1st thereafter the State Treasurer must transfer from the general fund the estimated amount determined by the department for the immediately preceding fiscal year into the housing trust fund.

EFFECTIVE DATE:

This bill takes effect on August 1, 2023.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- Some financial institutions make mortgage loans, but do not report detailed deduction data related to the first mortgage interest deduction. These financial institutions net the interest amounts with other taxable amounts.
- Review of department audits show that taxpayers who net out the first mortgage deduction generally underreport service and other activities B&O income by 6.25%.
- Taxpayers combines the first mortgage deduction data and the deduction for interest received on government obligations when reporting to the department. For those financial institutions that report deduction detail, this estimate uses a ratio to determine the amount of the deduction applicable to first mortgage interest.
- Businesses and their affiliates with over \$1 million of taxable service and other activities B&O income in the previous calendar year pay taxes at the service and other activities B&O rate of 1.75%. All others pay taxes at the service and other activities B&O rate of 1.5%.
- Specified financial institutions pay an additional 1.2% tax.
- Interest income growth mimics the growth in the service and other activities B&O tax, as forecasted by the Economic and Revenue Forecast Council in the November 2022 forecast.

DATA SOURCES:

- Department of Revenue, excise tax data
- Federal Financial Institutions Examination Council, call report data 2021
- Federal Deposit Insurance Corporation data 2021

- Home Mortgage Disclosure Act data 2021
- Nationwide Multistate Licensing System (NMLS)
- Economic and Revenue Forecast Council, November 2022 forecast

REVENUE ESTIMATES

This bill increases state revenues by an estimated \$68.2 million in the 10 months of impacted collections in fiscal year 2024, and by \$85.5 million in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	\$ 68,200
FY 2025 -	\$ 85,500
FY 2026 -	\$ 89,300
FY 2027 -	\$ 93,200
FY 2028 -	\$ 97,400
FY 2029 -	\$ 101,700

Local Government, if applicable (cash basis, \$000): None

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This legislation will affect 300 banks and other financial businesses.

FIRST YEAR COSTS:

The department will incur total costs of \$66,700 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 0.59 FTE.

- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Respond to data requests and questions, compile statistics, create tax system models, and manage data.
- Amend one Excise Tax Directive.
- Amend one administrative rule.

SECOND YEAR COSTS:

The department will incur total costs of \$46,600 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 0.4 FTE.

- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Respond to data requests and questions, compile statistics, create and maintain tax system models, and manage data.
- Estimate the amount of funds to be transferred and report to the Washington state treasurer.

THIRD YEAR COSTS:

The department will incur total costs of \$38,000 in fiscal year 2026. These costs include:

Labor Costs - Time and effort equate to 0.3 FTE.

- Respond to data requests and questions, compile statistics, create and maintain tax system models, and manage data.
- Estimate the amount of funds to be transferred and report to the Washington state treasurer.

ONGOING COSTS:

Ongoing costs for fiscal year 2027 equal \$38,000 and include similar activities described in the third-year costs. Time and effort equate to 0.3 FTE.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.6	0.4	0.5	0.3	0.3
A-Salaries and Wages	41,300	31,100	72,400	51,000	51,000
B-Employee Benefits	13,500	10,200	23,700	16,800	16,800
E-Goods and Other Services	8,100	4,100	12,200	6,400	6,400
J-Capital Outlays	3,800	1,200	5,000	1,800	1,800
Total \$	\$66,700	\$46,600	\$113,300	\$76,000	\$76,000

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
EMS BAND 5	147,919	0.0		0.0		
EXCISE TAX EX 2	55,872	0.1	0.1	0.1		
EXCISE TAX EX 3	61,632	0.1		0.1		
MGMT ANALYST4	73,260	0.0		0.0		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.3	0.3	0.3	0.3	0.3
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.6	0.4	0.5	0.3	0.3

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the expedited rule-making process to amend WAC 458-20-146, titled: “National and state banks, mutual savings banks, savings and loan associations and other financial institutions”.

Persons affected by this rulemaking would include financial institutions that currently utilize the interest deduction.



Multiple Agency Ten-Year Analysis Summary

Bill Number 5493 SB	Title Financial instit./B&O tax
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This ten-year analysis is limited to the estimated cash receipts associated with the proposed tax or fee increases.

Estimated Cash Receipts

	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	2024-33 TOTAL
Office of State Treasurer	0	0	0	0	0	0	0	0	0	0	0
Department of Revenue	68,200,000	85,500,000	89,300,000	93,200,000	97,400,000	101,700,000	106,200,000	110,900,000	115,900,000	121,000,000	989,300,000
Total	68,200,000	85,500,000	89,300,000	93,200,000	97,400,000	101,700,000	106,200,000	110,900,000	115,900,000	121,000,000	989,300,000



Ten-Year Analysis

Bill Number 5493 SB	Title Financial instit./B&O tax	Agency 090 Office of State Treasurer
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

No Cash Receipts **Partially Indeterminate Cash Receipts** **Indeterminate Cash Receipts**

Name of Tax or Fee	Acct Code												
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Agency Preparation: Dan Mason	Phone: (360) 902-8990	Date: 1/25/2023 8:04:26 am
Agency Approval: Dan Mason	Phone: (360) 902-8990	Date: 1/25/2023 8:04:26 am
OFM Review:	Phone:	Date:



Ten-Year Analysis

Bill Number 5493 SB	Title Financial instit./B&O tax	Agency 140 Department of Revenue
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

No Cash Receipts

 Partially Indeterminate Cash Receipts

 Indeterminate Cash Receipts

Estimated Cash Receipts

Name of Tax or Fee	Acct Code	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	2024-33 TOTAL
Business & occupation tax	001	59,100,000	74,100,000	77,400,000	80,800,000	84,500,000	88,200,000	92,100,000	96,100,000	100,500,000	104,900,000	857,700,000
Business & occupation tax	24J	9,100,000	11,400,000	11,900,000	12,400,000	12,900,000	13,500,000	14,100,000	14,800,000	15,400,000	16,100,000	131,600,000
Total		68,200,000	85,500,000	89,300,000	93,200,000	97,400,000	101,700,000	106,200,000	110,900,000	115,900,000	121,000,000	989,300,000
Biennial Totals		153,700,000	182,500,000	199,100,000	217,100,000	236,900,000	989,300,000					

Narrative Explanation (Required for Indeterminate Cash Receipts)

CURRENT LAW:

Banking, lending, security and other financial businesses with locations in ten states or less may deduct interest income received on investments or loans primarily secured by first mortgages or trust deeds on non-transient residential properties.

Interest amounts deductible include the portion of fees charged to borrowers, including points and loan origination fees, which are recognized over the life of the loan as an adjustment in the taxpayer's accounting records according to generally accepted accounting principles.

PROPOSAL:

This bill repeals the deduction for interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties from measure of tax.

By October 15, 2024, and by each October 15th thereafter the Department of Revenue (department) must estimate any increase in the state general fund revenue collected for the immediately preceding fiscal year resulting from the repeal of the deduction for first mortgage interest.



Ten-Year Analysis

Bill Number	Title	Agency
5493 SB	Financial instit./B&O tax	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

Beginning November 1, 2024, and by each November 1st thereafter the State Treasurer must transfer from the general fund the estimated amount determined by the department for the immediately preceding fiscal year into the housing trust fund.

EFFECTIVE DATE:

This bill takes effect on August 1, 2023.

ASSUMPTIONS:

- Some financial institutions make mortgage loans, but do not report detailed deduction data related to the first mortgage interest deduction. These financial institutions net the interest amounts with other taxable amounts.
- Review of department audits show that taxpayers who net out the first mortgage deduction generally underreport service and other activities B&O income by 6.25%.
- Taxpayers combine the first mortgage deduction data and the deduction for interest received on government obligations when reporting to the department. For those financial institutions that report deduction detail, this estimate uses a ratio to determine the amount of the deduction applicable to first mortgage interest.
- Businesses and their affiliates with over \$1 million of taxable service and other activities B&O income in the previous calendar year pay taxes at the service and other activities B&O rate of 1.75%. All others pay taxes at the service and other activities B&O rate of 1.5%.
- Specified financial institutions pay an additional 1.2% tax.
- Interest income growth mimics the growth in the service and other activities B&O tax, as forecasted by the Economic and Revenue Forecast Council in the November 2022 forecast.

DATA SOURCES:

- Department of Revenue, excise tax data
- Federal Financial Institutions Examination Council, call report data 2021
- Federal Deposit Insurance Corporation data 2021
- Home Mortgage Disclosure Act data 2021
- Nationwide Multistate Licensing System (NMLS)
- Economic and Revenue Forecast Council, November 2022 forecast

REVENUE ESTIMATES

This bill increases state revenues by an estimated \$68.2 million in the 10 months of impacted collections in fiscal year 2024, and by \$85.5 million in fiscal year 2025, the first full year of impacted collections.



Ten-Year Analysis

Bill Number 5493 SB	Title Financial instit./B&O tax	Agency 140 Department of Revenue
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

<p>TOTAL REVENUE IMPACT:</p> <p>State Government (cash basis, \$000):</p> <p>FY 2024 - \$ 68,200</p> <p>FY 2025 - \$ 85,500</p> <p>FY 2026 - \$ 89,300</p> <p>FY 2027 - \$ 93,200</p> <p>FY 2028 - \$ 97,400</p> <p>FY 2029 - \$ 101,700</p> <p>Local Government, if applicable (cash basis, \$000): None</p>

Agency Preparation: Beth Leech	Phone: 360-534-1513	Date: 1/24/2023 3:37:14 pm
Agency Approval: Valerie Torres	Phone: 360-534-1521	Date: 1/24/2023 3:37:14 pm
OFM Review:	Phone:	Date: