Multiple Agency Fiscal Note Summary

Bill Number: 5493 S SB	Title: Financial instit./B&O tax

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
Department of Revenue	93,500,000	103,400,000	103,400,000	111,000,000	122,900,000	122,900,000	121,100,000	134,000,000	134,000,000
Total $	**93,500,000**	**103,400,000**	**103,400,000**	**111,000,000**	**122,900,000**	**122,900,000**	**121,100,000**	**134,000,000**	**134,000,000**

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
Joint Legislative Audit and Review Committee	.1	17,800	17,800	17,800	.0	9,000	9,000	9,000	.0	9,000	9,000	9,000
Office of State Treasurer	Fiscal note not available											
Department of Revenue	.6	192,500	192,500	192,500	.2	44,000	44,000	44,000	.1	25,200	25,200	25,200
Housing Finance Commission	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total $	**0.7**	**210,300**	**210,300**	**210,300**	**0.2**	**53,000**	**53,000**	**53,000**	**0.1**	**34,200**	**34,200**	**34,200**

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Office of State Treasurer	Fiscal note not available								
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Housing Finance Commission	.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

FNPID 67572

Prepared by: Cheri Keller, OFM	Phone: (360) 584-2207	Date Published: Revised 2/23/2023

Individual State Agency Fiscal Note

Bill Number: 5493 S SB	Title: Financial instit./B&O tax	Agency: 014-Joint Legislative Audit and Review Committee

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.0	0.1	0.0	0.0
Account					
General Fund-State 001-1	13,300	4,500	17,800	9,000	9,000
Total $	13,300	4,500	17,800	9,000	9,000

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 Benge	Phone: 360-786-7316	Date: 02/10/2023
Agency Preparation:	Pete van Moorsel	Phone: 360-786-5185	Date: 02/14/2023
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 02/14/2023
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 02/15/2023

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.

The bill limits the existing B&O tax deduction that financial institutions may claim for interest earned on first mortgages to interest paid on qualified loans. Qualified loans are defined as loans to borrowers with income at or below certain limits.

Each year, DOR must report to the State Treasurer its estimates of the new revenue attributable to the limitation of the tax preference. The State Treasurer must transfer that amount to the Housing Trust Fund.

Investments or loans for which a deduction is claimed must be reported to JLARC by April 15, 2024, and each following year.

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.

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.

JLARC staff would work with the Department of Revenue immediately after passage of the bill to ensure project contacts are established and data necessary for JLARC staff's future evaluation needs are identified and collected.

This bill does not include a tax preference performance statement, nor an expiration date. This fiscal note assumes the review would occur in 2033, ten years after the bill takes effect. This is outside of the range of this fiscal note, which therefore reflects only the costs associated with establishing data collection and other work to prepare for the future review of the preference.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2023 legislative session.

This audit will require an estimated 2 audit months.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately $22,100 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	13,300	4,500	17,800	9,000	9,000
		Total $	13,300	4,500	17,800	9,000	9,000

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.1		
A-Salaries and Wages	8,600	2,900	11,500	5,800	5,800
B-Employee Benefits	2,700	900	3,600	1,800	1,800
C-Professional Service Contracts					
E-Goods and Other Services	1,800	600	2,400	1,200	1,200
G-Travel	200	100	300	200	200
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	13,300	4,500	17,800	9,000	9,000

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Research Analyst	126,694	0.1		0.1		
Support staff	89,671					
Total FTEs		0.1		0.1		0.0

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 S SB	Title: Financial instit./B&O tax	Agency: 140-Department of Revenue

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	41,500,000	52,000,000	93,500,000	111,000,000	121,100,000
Workforce Education Investment Account-State 01 - Taxes 05 - Bus and Occup Tax	4,400,000	5,500,000	9,900,000	11,900,000	12,900,000
Total $	45,900,000	57,500,000	103,400,000	122,900,000	134,000,000

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.0	0.3	0.7	0.2	0.1
Account					
GF-STATE-State 001-1	161,300	31,200	192,500	44,000	25,200
Total $	161,300	31,200	192,500	44,000	25,200

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:

X 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.

X Requires new rule making, complete Part V.

Legislative Contact:	Riley Benge	Phone: 360-786-7316	Date: 02/10/2023
Agency Preparation:	Beth Leech	Phone: 360-534-1513	Date: 02/23/2023
Agency Approval:	Valerie Torres	Phone: 360-534-1521	Date: 02/23/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/23/2023

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.

Note: This fiscal note reflects language in SSB 5493, 2023 Legislative Session.

COMPARISION OF SUBSTITUTE BILL WITH ORIGINAL BILL:
This substitute bill limits the first mortgage deduction instead of repealing it. It also changes the process for the Department of Revenue (department) to estimate the increase in state general fund revenue collections for the preceding fiscal year resulting from the change to the first mortgage deduction.

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 limits the deduction for interest received on investments or loans primarily secured by first mortgages or trust deeds on non-transient residential properties to qualified loans.

It also requires investments or loans that serve as the basis for this deduction to be reported to the Joint Legislative Audit and Review Committee (JLARC) by April 15, 2024, and annually thereafter.

Qualified borrower means:
- For loans on property located in counties with median incomes greater than the state's median income, as most recently published by the U.S. Department of Housing and Urban Development for the fair market rent area, metropolitan statistical area, or county, a qualified borrower is one whose income is at or below 80% of the median family income for the fair market area, metropolitan statistical area, or county in which the property is located.
- For loans on property located in counties with median incomes at or below the state's median income, as most recently published by the U.S. Department of Housing and Urban Development for the fair market rent area, metropolitan statistical area, or county, a qualified borrower is one whose income is at or below 80% of the state median family income.
- For loans purchased by the Washington State Housing Finance Commission as a participating lender in the commission's homeownership program, on property located in counties with median incomes greater than the state's median income, as most recently published by the U.S. Department of Housing and Urban Development for the fair market rent area, metropolitan statistical area, or county, a qualified borrower is one whose income is at or below 120% of the median family income for the fair market area, metropolitan statistical area, or county in which the property is located.
- For loans purchased by the Washington State Housing Finance Commission as a participating lender in the commission's homeownership program, for properties located in counties with median incomes at or below the state's median income, as most recently published by the U.S. Department of Housing and Urban Development for the fair market rent area, metropolitan statistical area, or county, a qualified borrower is one whose income is at or below 120% of the state median family income.

Qualified loan means a loan primarily secured by first mortgages or trust deeds on non-transient residential property to a qualified borrower.

By December 15, 2024, the department must estimate any increase in the state general fund revenue collections for the immediately preceding fiscal year resulting from limiting the deduction for first mortgage interest.

Beginning December 15, 2025, and by each December 15th thereafter, the department must increase the previous estimate by multiplying the previous estimate by one plus the growth factor.

Growth factor means the average increase, as a percentage rounded to the nearest thousandth, in collections of business and occupation (B&O) tax on service and other activities between July 1, 2013, and June 30, 2024, based on data available as of January 1, 2025.

Beginning January 1, 2025, and by each January 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.

The department may not make any adjustments to the estimated amounts after the State Treasurer has made the distribution to 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.
- A ratio was calculated using the total Washington loans that would qualify for an interest deduction under this proposal and the total amount of Washington loans to estimate the amount of interest that would be deductible under this proposal.
-Those loans purchased by the Washington State Housing Finance Commission as a participating lender in the commission's homeownership program are included in the HMDA data for bank loans in Washington.
- 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)
- U.S. Department of Housing and Urban Development, median income data
- Economic and Revenue Forecast Council, November 2022 forecast

REVENUE ESTIMATES
This bill increases state revenues by an estimated $45.9 million in the 10 months of impacted collections in fiscal year 2024, and by $57.5 million in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):

FY 2024 -	$ 45,900
FY 2025 -	$ 57,500
FY 2026 -	$ 60,100
FY 2027 -	$ 62,800
FY 2028 -	$ 65,500
FY 2029 -	$ 68,500

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.
- Expenditures assume that those claiming the first mortgage interest deduction will provide supporting worksheet loan details. The department will report the details annually to JLARC.

FIRST YEAR COSTS:
The department will incur total costs of $161,300 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 0.99 FTE.
- Set up, program, and test a new first mortgage interest deduction and supporting worksheet which will collect information necessary for reporting to JLARC.
- Monitor reporting to assure taxpayers are utilizing the new deduction appropriately.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Process and organize information provided on the deduction worksheet and prepare the report to JLARC.
- 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 reported to the Washington state treasurer.
- Amend one excise tax directive.
- Amend one administrative rule.

Object Costs - $44,000.
- Contract computer system programming.

SECOND YEAR COSTS:
The department will incur total costs of $31,200 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 0.3 FTE.
- Monitor reporting to assure taxpayers are utilizing the new deduction appropriately.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

- Examine accounts and make corrections as necessary.
- Process and organize information provided on the deduction worksheet and prepare the report to JLARC.
- 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 the 2025-27 biennium equal $44,000 and include similar activities described in the second-year costs. Time and effort equate to 0.2 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	1.0	0.3	0.7	0.2	0.1
A-Salaries and Wages	72,500	20,300	92,800	29,400	17,000
B-Employee Benefits	23,900	6,700	30,600	9,600	5,600
C-Professional Service Contracts	44,000		44,000		
E-Goods and Other Services	14,300	3,300	17,600	3,800	2,000
J-Capital Outlays	6,600	900	7,500	1,200	600
Total $	$161,300	$31,200	$192,500	$44,000	$25,200

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	0.1	0.1	
IT SYS ADM-JOURNEY	92,844	0.1		0.1		
MGMT ANALYST4	73,260	0.3		0.2		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.3	0.1	0.2	0.1	0.1
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		1.0	0.3	0.7	0.2	0.1

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.

Individual State Agency Fiscal Note

Bill Number: 5493 S SB	**Title:** Financial instit./B&O tax	**Agency:** 148-Housing Finance Commission

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

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 Benge	Phone: 360-786-7316	Date: 02/10/2023
Agency Preparation:	Lucas Loranger	Phone: 206-254-5368	Date: 02/15/2023
Agency Approval:	Fenice Taylor	Phone: 206-287-4432	Date: 02/15/2023
OFM Review:	Gwen Stamey	Phone: (360) 790-1166	Date: 02/15/2023

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.

No Fiscal Impact: Because the Commission is a non-appropriated, non-allocated agency, all the costs associated with the contemplated legislation connected to the Commission will flow through the Commission's operating funds, therefore the Commission believes it has no fiscal impact on the state's budget. Additionally, we do not expect the proposed legislation to have any impact on the Commission's operations.

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.

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.