

Limit B&O tax deduction for first mortgage interest to community banks (banks located in 10 or fewer states)

Description This proposal limits the first mortgage interest income deduction to community banks. As a result, only banks operating in more than 10 states will pay B&O tax on first mortgage interest income.

Current Law RCW 82.04.4292 provides a deduction for interest received by financial institutions on loans primarily secured by first mortgages on most residential properties.

- Deductible income includes the portion of fees charged to borrowers, such as points and loan origination fees, which are recognized over the life of the loan as an adjustment to yield.
- Also included are amounts received for servicing such loans provided certain conditions are met by the business.

Revenue Impact

General Fund Impacts (\$ millions):

| Fiscal Year 2012 | Fiscal Year 2013 | 2011-2013 Biennium |
|---------------------|---------------------|-----------------------|
| \$0 | \$18.1 | \$18.1 |

Notes:

- *Estimates assume a July 1, 2012, effective date, representing 11 months of collections for FY 2013.*
- *Estimates reflect the November 2011 Economic & Revenue Forecast Council revenue forecast.*

Expenditure Impact

| Fiscal Year 2012 | Fiscal Year 2013 | 2011-2013 Biennium |
|---------------------|---------------------|-----------------------|
| \$4,100 | \$2,600 | \$6,700 |