



State of Washington
Department of Revenue

Excise Tax Advisory

Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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CONVERSION DATE: July 1, 1998

**This ETA is cancelled effective February 2, 2009 and reissued under the 3000 series.
See ETA 3001 for a cross-reference to the new series.**

DEDUCTIBILITY OF INTEREST RECEIVED ON INVESTMENTS OR LOANS
PRIMARILY SECURED BY FIRST MORTGAGES OR TRUST DEEDS ON
NONTRANSIENT RESIDENTIAL PROPERTIES

Issued July 17, 1974

RCW 82.04.430(11) allows the following deduction from the measure of the business and occupation tax:

(11) By those engaged in banking, loan, security or other financial businesses, amounts derived from interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties;

For the interest to be deductible, the investments or loans must be:

- (1) Primarily secured by first mortgages or trust deeds on
- (2) Nontransient residential properties

There are two types of nontransient residential property: (1) Properties zoned for residential use, and (2) property not so zoned but with a residence located on it.

Any investment or loan primarily secured by property of type (1) will qualify the interest for the deduction. In situations involving property of type (2), where the value of a residence and the value of the

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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property are lumped together for purposes of a loan, the value of the residence must exceed that of the property in order for the deduction to be applicable.

The Department has concluded that "nontransient residential property" includes but is not limited to:

Single family residences (one to four units)

Apartments

Permanent care nursing homes (occupants normally stay for more than 30 days)

Permanent care convalescent homes (occupants normally stay for more than 30 days)

Nontransient trailer park sites

Construction loans for residential property including nontransient trailer park sites.

The term does not include:

Hotels

Motels

Transient apartments (under 30 days)

Churches

Neither of the above lists is meant to be exclusive.

The Department has also taken the position that property used for both residential and business purposes shall not be considered nontransient residential property if that part of the value of the property attributable to the business use exceeds 20 percent of the total value of the property.