



Excise Tax Advisory

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

NUMBER: 3078.2009

ISSUE DATE: February 2, 2009

Taxability of Interest from Participation Loans

Is interest collected by one financial institution for another to which it sold an undivided interest in a loan taxable to the former institution?

Restated, the question is: In a participating loan situation must the collecting institution pay business and occupation tax on that portion of the interest collected for the participating institution? For purposes of this excise tax advisory, a participation loan is a loan or portion thereof sold by one financial institution to another.

In the situation described above, if the contract between the borrower and the lending institution authorizes the lending institution to sell or assign the loan, the lending institution sells or assigns an undivided interest in the loan to another, and the lending institution acts merely as a conduit in collecting the assigned interest, then, the sold or assigned interest (the percentage related to the undivided interest) is not interest income to the lending institution and is, therefore, taxable only to the assignee.

This excise tax advisory does not address the effect if the lending institution actually remits to the participating institution an amount less than the participating institution's proportional share of the interest income.

All ETAs were cancelled on February 2, 2009 and those which had a continued use were rewritten and reissued using a new numbering system. The new ETAs are numbered using the following format 3nnn.yyyy. The Department of Revenue issued ETA 3001.2009 which includes a cross reference table showing the old and new ETA numbers for those ETAs that were rewritten.

Please direct comments to:
Department of Revenue
Interpretation and Technical Advice
Division
P O Box 47453
Olympia, Washington 98504-7453
(360) 570.6124 eta@DOR.wa.gov

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