

HOUSE BILL REPORT

SSB 5899

As Reported by House Committee On:
Community & Economic Development & Trade
Finance

Title: An act relating to providing a business and occupation tax credit for qualified employment positions.

Brief Description: Providing a business and occupation tax credit for qualified employment positions.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Franklin, Kastama, Shin, Marr, McAuliffe, Haugen, Brown, Berkey, Prentice, Fairley, Regala, Keiser, Eide, Rockefeller, Murray, Hatfield, Hargrove, Sheldon, Oemig and Kline).

Brief History:

Committee Activity:

Community & Economic Development & Trade: 3/23/09, 3/25/09 [DP];
Finance: 4/2/09, 4/3/09 [DP].

Brief Summary of Substitute Bill

- Authorizes a credit against the state's business and occupation tax for in-state businesses with 10 or fewer employees that create a new position for which a health care plan is offered.
- Makes the credit amount contingent upon the level of wages and benefits in each qualified employment position.
- Caps the annual credit statewide at \$5 million and prohibits the Department of Revenue from accepting applications after June 30, 2011.

HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE

Majority Report: Do pass. Signed by 8 members: Representatives Kenney, Chair; Maxwell, Vice Chair; Smith, Ranking Minority Member; Chase, Liias, Orcutt, Parker and Probst.

Staff: Meg Van Schoorl (786-7105)

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Depending on the types of activities conducted, a business may have more than one B&O tax rate. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, as well as activities not classified elsewhere.

The B&O tax credits for new job creation are currently provided for: manufacturing, research and development, or computer service firms in rural counties or community empowerment zones (CEZs); international services jobs created after July 1, 1998, in a CEZ or in a city over 80,000 that designates a CEZ-like area; and for manufacturers of semi-conductor materials that meet certain conditions.

The state's Minimum Wage Act requires employers to pay their employees no less than the state minimum wage rate. Pursuant to Initiative 688, the Department of Labor and Industries adjusts the state minimum wage rate for inflation each year. The state minimum wage rate is \$8.55 per hour in 2009.

Summary of Bill:

A business located within the state with 10 or fewer employees that creates a new employment position for which a health care plan is offered is eligible for a credit against the B&O tax.

The amount of the credit depends upon the amount of wages: \$4,000 for each qualified employment position with annual wages and benefits above \$40,000; and \$2,000 for each qualified position with annual wages and benefits between 150 percent of minimum wage and \$40,000.

These tax credits may not be claimed by businesses that receive the B&O tax credits for new semi-conductor materials manufacturing jobs, for certain new international services jobs in specific areas, or for new manufacturing, research and development, or computer service jobs in rural counties or community empowerment zones. A recipient may not use the tax credits to decertify a union or to displace existing jobs in any community in the state.

Methods are prescribed for calculating the amount of the credit. A process and timeline is provided for applying for the credit and for reporting to the Department of Revenue (DOR). Recipients must keep certain records to verify eligibility. If a business does not submit an adequate report, the DOR may declare the taxes immediately payable. If the business is found ineligible because it failed to create the required number of qualified employment positions, the DOR must assess interest, but not penalties, until the taxes and interest are repaid. If the business is found not eligible for other reasons, the taxes are immediately

payable. Applications, reports, and other information received by the DOR are not confidential and are subject to disclosure.

The DOR must keep a running total of all credits allowed each fiscal year. Credits are capped at \$5 million per year. If all or part of an application for credit is disallowed due to the cap being reached, the disallowed portion must be carried over to the next fiscal year. A credit may be carried over until used. No applications may be accepted by the DOR after June 30, 2011.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Small businesses are the backbone of our economy. As is typical for economically-difficult times like these, we are seeing an uptick in applications for business licenses. This is a limited, two-year tax relief measure, modeled after successful, existing B&O tax credit programs for new jobs in rural areas and the CEZs. The goal is to get the economy moving and to help businesses create good jobs. The two-tier credit approach seems reasonable. The health care requirement in the bill is a good goal; however, while 100 percent of our businesses would like to provide health care, only about 50 percent can afford to offer it.

(Opposed) None.

Persons Testifying: Senator Kilmer, prime sponsor; and Troy Nichols, National Federation of Independent Businesses.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Condotta, Conway, Ericks, Santos and Springer.

Staff: Joseph Archuleta (786-7192)

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Community & Economic Development & Trade:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill does two things: (1) it cushions the current economic decline, and (2) it takes action to get the economy growing and create jobs. This bill will stimulate private job growth, versus public job growth, which is common in government economic stimulus programs. Right now there is an increase in the issuance of business licenses and the B&O tax is a very challenging tax for small start-up businesses. There are several businesses that would like to hire, but with the economy they are anxious about doing so. This tax credit would provide an incentive to hire now.

(Opposed) None.

Persons Testifying: Senator Kilmer, prime sponsor; Troy Nichols, National Federation of Independent Business; Terry Byington, Tech America; Bruce Kendall, Tacoma-Pierce County Economic Development Board; and Ryan Petty, City of Tacoma.

Persons Signed In To Testify But Not Testifying: None.