

SENATE BILL REPORT

SB 6705

As of February 5, 2010

Title: An act relating to modifying business and occupation tax credits.

Brief Description: Modifying business and occupation tax credits.

Sponsors: Senator Kastama.

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 1/27/10.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Staff: Karen Campbell (786-7448)

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 cost of doing business. Revenues are deposited in the State General Fund.

The B&O tax allows a credit for operational research and development (R&D) expenditures in high-technology businesses that exceed 0.92 percent of gross income. Beginning in the calendar year 2010, a person claiming the high technology R&D credit may calculate the credit based on 1.5 percent of the qualified expenditures. This credit expires on January 1, 2015.

Semiconductor manufacturers in Washington State currently pay the manufacturing B&O tax. Businesses may claim a \$3,000 B&O tax job credit for each manufacturing production position that takes place in a new building exempt from sales and use tax under this exemption. This credit is good for up to eight years.

A B&O tax credit for computer software job creation is authorized for businesses engaged in computer software manufacturing or programming in rural counties. Businesses may claim \$1,000 as a credit against the tax for each new job created for up to five years. The credit expires January 1, 2011.

A credit against the B&O tax is provided for manufacturing, R&D, or computer service firms that create new jobs in rural counties or community empowerment areas. Rural counties are

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defined as those with an average population density of less than 100 persons per square mile. The amount of the credit is \$2,000 for each new job created, unless the new position is paid wages (including benefits) of more than \$40,000 annually in which case the credit is \$4,000.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): Effective July 1, 2010, the B&O tax credit rate for high-technology businesses is reduced to 1.25 percent of qualified expenditures except for R&D projects conducted under contract with a public educational or research institution or made in an innovation partnership zone. For those businesses, the rate remains 1.5 percent. This credit expires on January 1, 2015.

The credit against the B&O tax for semiconductor manufactures is changed. The credit is \$4,000 for each employment position with wages and benefits greater than \$50,000 annually and \$2,000 for each employment position with wages and benefits between \$30,000 and \$50,000 annually.

The credit against the B&O tax for computer software job creation is changed. The credit for each new job created after January 1, 2010, is \$4,000 for positions with wages and benefits greater than \$50,000 annually. The credit is \$2,000 for each job created with wages and benefits between \$30,000 and \$50,000 annually. The new position must be filled by an individual that has been a resident of the rural county for a minimum of one year prior to the hiring decision. The credit expires January 1, 2013.

The tax credit against the B&O tax provided for manufacturing, research and development, or computer service firms that create new jobs in rural counties or community empowerment areas is changed. The credit is \$2,000 for each new job created if the new position receives wages and benefits between \$30,00 and \$50,000 annually. The credit is \$4,000 if the new position receives wages and benefits greater than \$50,000 annually. The new position must be filled by an individual that has been a resident of the rural county for a minimum of one year prior to the hiring decision.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.