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**Technology & Economic Development  
Committee**

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**HB 1693**

**Brief Description:** Providing tax relief for new businesses in high growth business sectors.

**Sponsors:** Representatives Habib, Magendanz, Morris, Tarleton and Ryu.

**Brief Summary of Bill**

- Establishes a new deduction from the business and occupation tax for new businesses in certain sectors.
- Requires the Department of Commerce to submit annual reports to the legislature detailing the effectiveness of the tax preference, with reference to performance benchmarks.

**Hearing Date:** 2/12/13

**Staff:** Jasmine Vasavada (786-7301).

**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. Revenues are deposited in the State General Fund.

The classification and rate of the B&O tax is based on the type of business activity. The most common types of activities include retailing, wholesaling, manufacturing, and services and other activities, such as sales commissions. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are many exemptions for specific types

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of business activities, and certain deductions and credits are permitted under the B&O tax statutes.

**Summary of Bill:**

A new deduction is provided from the B&O tax for certain new businesses.

"New business" means a business that registered with the Department of Revenue within 24 months of the end of the current tax reporting period, and does not include:

- a business that has been restructured, reorganized, or transferred, for the primary purpose of claiming the deduction authorized under this section;
- a new branch location or other facility by an existing entity; or
- a business that is substantially similar to a business currently operated, or operated within the past five years, by the same principals.

Only certain types of businesses are eligible for the tax relief. These are businesses engaged primarily in:

- industrial machinery manufacturing;
- commercial and service industry machinery manufacturing;
- computer and electronic product manufacturing;
- software publishing;
- data processing, hosting, and related services;
- internet publishing and broadcasting and web search portals; computer systems design and related services; or research and development in physical, engineering, and life services.

The maximum deduction is \$2 million per year. Businesses must apply to the Department of Revenue for the deduction, who must rule on an application within 20 days. Businesses may apply quarterly for the period beginning on or after July 1, 2013, or annually for the period beginning January 1, 2013.

Persons claiming the tax deduction must provide to the Department of Commerce any data requested. A taxpayer who does not comply with the reporting requirements may not claim the credit. A taxpayer has 90 days from the time the department notifies the taxpayer of noncompliance to come into compliance with reporting requirements. Failure to do so precludes the taxpayer from claiming the credit.

The Department of Commerce shall report annually to the legislature the progress achieved in reaching the intended outcomes specified in this section. The report shall include specific data, including the number of employees hired by the business receiving the credit, and performance milestones, including the relative growth in Washington versus in other states of industries receiving the tax relief.

**Appropriation:** None.

**Fiscal Note:** Requested on February 7, 2013.

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