

February 4, 1998

BILL ANALYSIS

TO: Members, Committee on Trade and Economic Development
FROM: Kenny Pittman, Research Analyst (786-7392)
RE: HB 2850 - Providing tax credits for businesses doing
new hiring in distressed communities.

BACKGROUND:

The state of Washington has developed various incentives that are designed to assist in job creation or retention in distressed areas. The incentives available to businesses located in distressed areas include sales and use tax exemptions on equipment purchases and building construction, tax credits for employee training, and tax credit for job creation. A distressed area is a geographic area characterized by high unemployment rates, low median household income levels, or substantial job loss in major industries.

Washington's major business tax is the business and occupation (B&O) tax. The tax is imposed on the gross receipts of business activities conducted within the state, without any deductions for the cost of doing business. Businesses are taxable according to the activities they engage in and therefor may be subject to more than one tax rate. After July 1, 1998, the business and occupation tax will have 10 different rates.

SUMMARY:

A credit is provided against the business and occupation (B&O) tax that is equal to the first year wages paid for each qualified employment position created by a business within a distressed area.

The business must request approval of the tax credit before actual hiring of the employee. The application must include, but is not limited to the location of the employee, the residency of the employee, the businesses' average employment at the facility, estimated or actual wages of the position, and other information required by the Department of Revenue.

A business may not use the tax credit to either decertify a union or to relocate existing jobs in a community in the state. The maximum tax credit that can be taken in the businesses' tax year is the lessor of the wages paid for the qualified employment position or the businesses' total tax liability. No tax credits may be carried forward to future years.

The business must submit a report on the number of qualified employment positions created to the Department of Revenue on December 31 of each year. Penalty provisions for a businesses' failure to meet tax credit program requirements are as follows: (1) A business may be liable for the amount of the tax credit for failure to submit a report or that submits an inadequate report; and (2) A business is liable for the amount of the tax credit for failure to create the qualified employment position. The department must access interest, but not penalties, on businesses that fail to create the required qualified employment position.

Qualified employment position- means: (1) A new permanent full-time employee that is employed at a wage of at least \$8 per hour; (2) An employee that resides in the county where the employment occurs; (3) A new position that adds to the total employment level of the business. The increase may not be a result of prior staff reduction, retirement, dismissal, or personnel turnover.

Appropriation: None.

Fiscal Note: Requested January 28, 1998.

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