

February 4, 1998

BILL ANALYSIS

TO: Members, Committee on Trade and Economic Development

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: **HB 2852 - Exempting new businesses in distressed areas from business and occupation tax.**

BACKGROUND:

The state of Washington has developed various incentives that are designed to assist in job creation or retention in economically distressed areas. The incentives available to businesses located in distressed areas include a sales and use tax exemption on equipment purchases and building construction, a tax credit for employee training, and a tax credits 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 business and occupation (B&O) tax exemption is provided to a new small business that has gross receipts of less than \$5 million per year and is located in an economically distressed area. The business is exempt from all B&O tax liability for the first 36 months of operation. The business is not eligible for the B&O tax exemption after 36 months of operation.

New small business— means as business that obtained or was

required to obtain a certificate of registration as a business with any state, federal, or foreign agency for the first time during the 36 months immediately preceding the date the exemption is claimed and has gross receipts of less than \$5 million per year from all business activities. The term new small business does not include a business that has been restructured, reorganized, or transferred, a new branch location or other facility, or a business that is substantially similar to a business operating or operated within the past 10 years by the same principals.

Appropriation: None.

Fiscal Note: Requested January 28, 1998.

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