

February 19, 1999

BILL ANALYSIS

TO: Members, Committee on Economic Development, Housing, and Trade
FROM: Kenny Pittman, Research Analyst (786-7392)
RE: **HB 1444 - Exempting new businesses in distressed areas from business and occupation tax.**

Brief Summary of Bill

- Provides a business and occupation (B&O) tax exemption for new small businesses that are located in an eligible area for the first three years of operation.

BACKGROUND:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is levied on the gross proceeds of sale or the gross income of a business, without any deduction for the cost of doing business. The tax rate varies depending on the type of activities the business is engaged in and therefore may be subject to more than one rate.

SUMMARY:

A business and occupation (B&O) tax exemption is provided for new small business for the first three years of operation. The exemption would apply to new businesses that (i) are located in an eligible area; (ii) have gross proceeds of sales or gross income of the business that is less than \$5 million per year; and (iii) have been organized less than 36 months.

An eligible area is defined as (i) a county with an average unemployment rate that exceeds the statewide average unemployment rate for the same three year period by 20 percent; or

(ii) a county with a median household income that is less than 75 percent of the state median household income for the previous three years; or (iii) a designated community empowerment zone.

A new small business does not include a business that has been restructured, reorganized, or transferred, unless the majority of the activities are significantly different from the previous activities, or a new branch location or other facility, or a business that is substantially similar to a business currently operated, or operated within the past ten years by the same principals.

Appropriation: None.

Fiscal Note: Requested February 10, 1999.

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