

February 18, 1999

BILL ANALYSIS

TO: Members, Committee on Economic Development, Housing & Trade

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

RE: **HB 1479 - Providing tax incentives to encourage job opportunities in rural areas of the state.**

Brief Summary of Bill

- Provides a B&O tax credit of \$1,000 per job for new software manufacturing or software programming jobs created in distressed counties.
- Provides a B&O tax credit to businesses located in distressed counties that provide information technology help desk– services to third parties.
- Increases the 0.04 percent distressed county sales and use tax credit to 0.08 percent.

BACKGROUND:

Washington has developed various incentives that are designed to assist in job creation or retention in economically distressed areas. Eligibility for the various tax incentive programs are usually limited to businesses in manufacturing, research and development, or computer-related service industries. There are currently seven categories of eligibility for distressed area tax incentives. These include retail sales and use tax and/or business and occupation tax relief programs.

The business and occupation (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 classification of the business activity.

In 1997, the Legislature passed legislation that allowed distressed counties to levy a 0.04 percent sales tax on all retail sales in the county. The tax is credited against the state sales tax. Revenues from this tax may be used to finance public facilities in the distressed county.

SUMMARY:

. Business and Occupation (B&O) Tax Credits.

A \$1,000 per job business and occupation (B&O) tax credit is provided for new manufacturing or software programming jobs created by firms in a distressed county after July 1, 1999. The tax credit is available to the firm if the activity is conducted in a distressed county and the employment position is located in a distressed county. The tax credit may be taken annually for a period up to six consecutive years if the employment position is maintained. A distressed county is defined as: (i) a county with an average unemployment rate that exceeds the state's 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.

A business and occupation (B&O) tax credit is provided to businesses in distressed counties that provide information technology help desk services to third parties. The tax credit is equal to 100 percent of the firm's B&O tax liability for the first seven years of operation and 68 percent of the tax liability, thereafter, if the county retains its distressed county status. An existing firm located in a distressed county can take the credit if they have been in business less than seven years. A distressed county is defined as: (i) a county with an average unemployment rate that exceeds the state's 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.

. Distressed County Sales and Use Tax Credit

The 0.04 percent distressed counties local option sales and use tax credit is increased to 0.08 percent. The tax is credited against the state's sales tax; therefore, consumers will not see an increase in their tax rates. A public facility is defined to mean bridges, roads, domestic and industrial water, sanitary sewer, storm sewer, railroad, electricity, natural gas, buildings or structures, and port facilities. The definition of distressed county is expanded to include a county with a median household income that is 75 percent of the state median household income for the three years before the tax is first imposed.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The B&O tax credits take effect July 1, 1999. The additional 0.04 percent sales tax credit for distressed counties takes effect January 1, 2001.