

FINAL BILL REPORT

ESHB 2260

C 311 L 99

Synopsis as Enacted

Brief Description: Promoting the creation and the retention of jobs.

Sponsors: By House Committee on Finance (Originally sponsored by Representatives Eickmeyer, Alexander, Mulliken, Kessler, McMorris, Grant, Parlette, Doumit, Clements, Linville, Mielke, Koster, DeBolt, Cox, Pennington, Dunn, Crouse, Sump, Ericksen, Veloria, Mastin, Hankins, Murray, Van Luven, Skinner, Schoesler, Hatfield, Conway, Kenney, Rockefeller, Thomas, Lantz, Barlean and Haigh).

House Committee on Finance

Senate Committee on Agriculture & Rural Economic Development

Senate Committee on Ways & Means

Background:

In 1997, legislation was enacted to allow a distressed county to impose a 0.04 percent local sales and use tax. The tax is credited against the state's 6.5 percent sales and use tax. Therefore, the consumer does not see an increase in the amount of tax paid. Revenue from the distressed counties' local option sales and use tax must be used to finance public facilities. The legislation did not define a public facility. A distressed county is defined as a county with an average unemployment rate that exceeds the state's average unemployment rate by 20 percent for the previous three-year period. Twenty-three counties are eligible.

Referendum 49, approved by voters in 1998, allocated 1.377 percent of the motor vehicle excise tax (MVET) to the counties authorized to impose the 0.04 local sales and use tax option. This portion of the MVET is distributed to distressed counties in the same proportion as the 0.04 percent local option sale and use tax.

The state business and occupation tax (B&O) is imposed 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. The primary rates are 0.471 percent for retailing activity, 0.484 percent for wholesaling and manufacturing, and 1.5 percent for service activity.

The sales tax is imposed on retail sales of most items of tangible personal property and some services. The charge for labor and services rendered to construct, repair, raze, or move buildings or structures is subject to sales tax. The combined state and local sales tax rate is between 7 and 8.6 percent, depending on location.

On October 16, 1998, President Clinton declared a landslide in the city of Kelso a federal disaster area. According to Federal Emergency Management Office documents, the landslide is expected to ultimately destroy or make unlivable 137 homes.

Summary:

The distressed county local option sales and use tax is directed to rural counties. The tax rate is increased from 0.04 percent to 0.08 percent for rural counties, except that before January 1, 2000, the rate may not exceed 0.04 percent in rural counties with population densities between 60 and 100 persons per square mile. A rural county is defined as a county with a population density of less than 100 persons per square mile. (Thirty-one counties will be eligible for this local option sales and use tax.)

The revenues can only be used for public facilities that are listed as an item in the county's overall economic development plan, or the economic development section of the county's comprehensive plan, or the comprehensive plan of a city, or the county's or city's capital facilities plan.

"Public facility" means bridges; roads; domestic and industrial water, sanitary sewer, and storm sewer facilities; earth stabilization; railroad; electricity; natural gas; buildings; structures; telecommunications, transportation, and commercial infrastructure; and port facilities.

The allocation of the distressed county's 1.377 share of the motor vehicle excise tax is limited to the counties authorized to collect the 0.04 local option sales tax on January 1, 1999.

An annual \$1,000 business and occupation (B&O) tax credit is provided to computer software manufacturing and programming businesses for each new job created in a rural county. The tax credit terminates on December 31, 2003.

A B&O tax credit is provided to businesses that provide information technology "help desk" services to third parties in a rural county. The credit equals 100 percent of the business and occupation tax. The tax credit terminates on December 31, 2003.

A public utility tax credit is provided for light and power businesses that donate to an electric utility rural economic development revolving fund. The credit is equal to 50 percent of the donation and is limited to \$25,000 per year per business. Total credits are limited to \$350,000 per year. The tax credit is terminated on December 31, 2005.

Labor and service charges associated with moving houses out of a federal landslide disaster area, demolishing houses located in a federal landslide disaster area, and

removing debris from a federal landslide disaster are exempt from sales tax. These sales tax exemptions apply retroactively to March 1, 1998, and expire on July 1, 2000.

Votes on Final Passage:

House 96 0
Senate 44 0 (Senate amended)
House (House refused to concur)
Senate (Senate receded)
Senate 45 0 (Senate amended)
House 96 0 (House concurred)

Effective: May 14, 1999 (Section 501)
August 1, 1999 (Sections 1, 101, 201, 301 through 305, 401, 402, 601,
and 605)