HOUSE BILL REPORT
ESHB 2260

As Passed Legislature

Title: An act relating to tax incentives in rural counties.

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).

Brief History:

Committee Activity:

Finance: 3/8/99 [DPS].

Floor Activity:

Passed House: 3/16/99, 96-0.
Senate Amended.
Passed Senate: 4/15/99, 44-0.
Senate Receded.
Senate Amended.
Passed Senate: 4/23/99, 45-0.
House Concurred.
Passed Legislature.

Brief Summary of Engrossed Substitute Bill

- Allows rural counties a local option public facilities sales and use tax of 0.08 percent which is credited against the state sales and use tax.
- Defines rural counties as those with population density of less than 100 persons per square mile.
- Defines the public facilities that can be financed with proceeds from the rural county local option sales and use tax.
- Creates a business and occupations tax credit for businesses located in rural counties that provide information technology help desk services.
- Creates a $1,000 per job business and occupation tax credit for jobs created in rural counties in software manufacturing or computer programming.
- Creates a public utility tax credit for donations to an electric utility economic development revolving fund.
- Provides a temporary sales tax exemption for house moving or demolition and debris removal from a federal disaster landslide area.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Dunshee, Democratic Co-Chair; Thomas, Republican Co-Chair; Reardon, Democratic Vice Chair; Cairnes; Conway; Cox; Dickerson; Pennington; Santos; Van Luven and Veloria.

Minority Report: Do not pass. Signed by 1 member: Representative Carrell, Republican Vice Chair.

Staff: Rick Peterson (786-7150).

Background:

In 1997, the Legislature passed legislation 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.

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 of Bill:

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. A rural county is defined as a county with population density 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.

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

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

A business and occupation (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 is terminated on December 31, 2003.

A public utility tax credit is provided for light and power businesses that donate to a 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.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and the B&O tax credit for help desk services takes effect July 1, 1999. The remaining sections take effect ninety days after the adjournment of session in which bill is passed.

Testimony For: (Original bill) The bill deals with the distribution of opportunity in Washington. We need to turn around the growing gap between urban and rural Washington. This bill is the lynch pin of the Rural Economic Development Task Force recommendations. This bill gives additional funds to local government to make lands available and attractive for investment. This is extemely important for rural counties. Without infrastructure we can’t attract or retain business opportunities. The bill moves away from the concept of distressed to a definition of rural. The bill provides a needed definition of public facilities. Seven out of 10 companies ask for buildings that are already in place. The changes to the CERB funding will allow infrastructure to be prepared prior to having a business definitely ready to locate. The bill clarifies that these moneys can be used within urban growth areas and cities.

Testimony Against: None.

Testified: Representative Eickmeyer, prime sponsor; Representative Alexander, sponsor; Bill Vogler, Washington State Association of Counties; Jim Hedrick, Office of Financial Management; Bill Lotto, Washington Association of Economic Development Councils; John Savich, Department of Community, Trade, and Economic Development; and Ron Rosenbloom, Association of Washington Cities.