

HOUSE BILL REPORT

HB 2666

As Reported by House Committee On:
Trade & Economic Development

Title: An act relating to small business innovative research awards.

Brief Description: Exempting small business innovative research awards from business and occupation tax.

Sponsors: Representatives Veloria, Dunn, Bush, Roach, Casada, Anderson and Santos.

Brief History:

Committee Activity:

Trade & Economic Development: 2/5/02, 2/7/02 [DPS].

Brief Summary of Substitute Bill

- Provides an exemption from the state's Business and Occupation (B&O) tax on amounts received by a small business under the Federal Small Business Innovation Research (SBIR) program.
- Requires a small business that receives the B&O tax exemption for a federal SBIR grant to disclose information on job creation and wage ranges to the Department of Revenue (DOR).

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Veloria, Chair; Eickmeyer, Vice Chair; Ahern, Chase, Fromhold and Gombosky.

Minority Report: Without recommendation. Signed by 2 members: Representatives Dunn and Mulliken.

Staff: Kenny Pittman (786-7392).

Background:

Washington's major business tax is the Business and Occupation (B&O) tax. This tax is

imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business.

The Federal Small Business Innovation Research (SBIR) program was established by the Small Business Innovation Development Act of 1982 (Public Law 97-219). The objectives of the SBIR program include: (a) increasing private sector commercialization of innovations derived from federal research and development (R&D); (b) stimulating technological innovation in the private sector; and (c) increasing commercial application of federal Department of Defense-supported research.

Currently, the SBIR program provides up to \$850,000 in early stage R&D funding directly to small technology companies, or individual entrepreneurs who form a company. Amounts received by a small business under the SBIR program are subject to taxation under the state's B&O tax laws.

Summary of Substitute Bill:

The state's B&O tax does not apply to amounts received by a small business under the federal SBIR program.

A small business that receives a B&O tax exemption on amounts received under the federal SBIR program must file a business incentive disclosure form that contains information on job creation and wage ranges. The report must be filed by March 1 of each year. A small business that fails to submit the required report is not eligible on a prospective basis for other types of business incentives administered by DOR until the report has been approved by the DOR.

Substitute Bill Compared to Original Bill:

The substitute bill: (a) requires that a small business that receives a federal SBIR grant must submit information on job creation and wage ranges to the DOR by March 1 of each year; and (b) delays the effective date of the B&O tax exemption from July 1, 2002 to January 1, 2003.

Appropriation: None.

Fiscal Note: Revised version requested on February 8, 2002.

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

Testimony For: We should not tax amounts received through a federal grant that is

designed to encourage R&D by small businesses. Their efforts will lead to the development of products that will have commercial application. This is a good bill for the state's small businesses.

Testimony Against: None.

Testified: Representative Veloria, prime sponsor; and Mark Johnson, National Federation of Independent Business.