
**Financial Institutions &
Insurance Committee**

HB 1377

Brief Description: Providing tax credits to promote community development.

Sponsors: Representatives Santos (co-prime sponsor), DeBolt (co-prime sponsor), Gombosky, Anderson, Ruderman, Benson, Voloria, Hatfield, Keiser, Wood and Kenney.

Brief Summary of Bill

- Allows a business to receive a tax credit for deposits made in an interest-free account with a community development financial institution, provided the deposit is in an amount of at least \$50,000 and remains deposited for at least five years. The tax credit is equal to 25 percent of the deposit and there are penalty provisions for early withdrawal.

Hearing Date: 1/18/02

Staff: Thamas Osborn (786-7129).

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 deductions for the cost of doing business. Businesses are taxable according to the activities they engage in and therefore may be subject to more than one tax rate. The business and occupation tax has 10 different rates, ranging from a low of .138 percent to a high of 1.5 percent.

The state imposes an insurance premiums tax on authorized insurers. The insurance premiums tax is in lieu of a business and occupation tax. The tax is based on 2 percent of the net premiums received by authorized insurers, except title insurers and fraternal benefit societies, after deduction of premiums that are returned to policyholders.

Summary of Bill:

A credit is provided against the business and occupation (B&O) tax or the insurance

premiums tax that is equal to 25 percent of a qualified deposit made by a business to a community development financial institution. A qualified deposit is a deposit that does not earn interest, or an equity investment, that is equal to or greater than \$50,000 and is made for a minimum duration of 60 months.

The business must obtain approval from the Department of Financial Institutions prior to claiming the tax credit. The businesses' request must include information on the proposed deposit that contains a description of terms and conditions of the deposit or equity investment. Only qualified deposits approved by the Department of Revenue after July 1, 2001 are eligible for the tax credit.

The amount of tax credit available to a business is limited to the amount of their tax liability. That means that if a business earns a credit that is greater than the amount it owes in taxes, the state does not have to pay the difference back to the business. However, any such unused tax credits can be carried forward a maximum of four years.

The total tax credits available on a statewide basis cannot exceed \$2 million per calendar year. The tax credits will be awarded on a first come, first served basis.

Penalty provisions for early withdrawal of part or all of the qualified deposit are as follows: (1) A business is liable for the entire amount of the tax credit if the qualified deposit is either totally withdrawn or reduced below \$50,000 before the end of the statutory period; and (2) if the amount withdrawn does not reduce the deposit below \$50,000 then the business is required to pay the amount of the tax credit associated with amounts that are withdrawn. All tax liability that is due as a result of withdrawals by the business must be paid within 30 days of the withdrawal.

Appropriation: None.

Fiscal Note: Requested on January 16, 2002.

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