

HOUSE BILL REPORT

HB 1478

As Reported by House Committee On:
Technology, Telecommunications & Energy

Title: An act relating to tax incentives to encourage telework.

Brief Description: Creating tax incentives for telework.

Sponsors: Representatives Ruderman, Esser, Morris, Pennington, DeBolt, Lambert, Hunt, Jarrett, Lovick, Miloscia, Schual-Berke, Jackley, Cody, Anderson, Kenney, McIntire, Cooper, McDermott, Dunn, Simpson, Van Luven, Santos, Dunshee, Reardon, Dickerson, Linville, Conway, Veloria, Murray, Edmonds, Edwards and Kagi.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 2/12/01, 2/26/01 [DPS].

Brief Summary of Substitute Bill

- A credit is allowed against business and occupation and/or public utility taxes owed for businesses that make telework expenditures.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Crouse, Republican Co-Chair; Poulsen, Democratic Co-Chair; Casada, Republican Vice Chair; Ruderman, Democratic Vice Chair; Anderson, Berkey, Bush, Cooper, DeBolt, Delvin, Esser, Hunt, Linville, Mielke, Morris, Reardon, Simpson and Wood.

Minority Report: Do not pass. Signed by 2 members: Representatives B. Chandler and Pflug.

Staff: Mark Matteson (786-7145).

Background:

Telework is defined by the International Telework Association Council (ITAC) to mean the use of telecommunication technology to work at a convenient location to accomplish

work-related objectives. According to ITAC, telework is distinguished from telecommuting in that telecommuting is conventionally construed to mean the use of telecommunications specifically at home to accomplish work-related objectives. Telework, on the other hand, is a broader term that implies the potential for working at other alternative locations to the traditional workplace, including telework centers, satellite offices, hotel rooms, airport lounges, and other convenient locations, in addition to the home office.

The business and occupation (B&O) tax is Washington's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited to the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, there are many exemptions for specific types of business activities and certain credits permitted under the B&O tax statutes. One such credit is allowed to employers that provide financial incentives to their employees to ride-share, take public transportation, or use non-motorized commuting options.

Public and privately-owned utilities, and certain other businesses, are subject to the state public utility tax. The public utility tax is applied to the gross receipts of the business. The applicable tax rate depends on the nature of the public service provided by the utility. Revenues are deposited to the state general fund.

Like the B&O tax, no deductions are allowed under the state public utility tax for the costs of doing business, but a number of exemptions and credits for specific business activities have been enacted. A credit is allowed for ride-sharing incentives and is analogous to the ride-sharing incentives credit in the B&O tax.

No credit against the B&O tax or the public utility tax is specifically available for amounts spent on teleworking activities.

Summary of Substitute Bill:

A credit may be taken against business and occupation or public utility taxes owed by an employer for certain telework expenditures, including expenditures on telework equipment, installation, and training. Telework is defined as a work arrangement in which employees regularly work two or more days per week using computers or telecommunications at home.

Eligible expenditures under the credit include purchases of equipment and services

reasonably necessary to facilitate telework, and include amounts spent on sales or use taxes. Eligible equipment expenditures include purchases for items such as desktop and laptop computers, associated hardware, fax machines, modems, and other related equipment for use at home; or for equipment at the employer's place of business to provide remote data or voice access to telework employees. Eligible installation expenditures include one-time expenditures for the installation of access lines or other equipment that provides teleworking capability at an employee's home.

A business may not claim credits that would exceed \$20,000 in total or that would collectively exceed the amount of taxes due under the B&O and public utility tax statutes. Credits may be claimed only if the telework occurs within Washington. A credit taken against B&O tax liability may not also be used as a credit against PUT liability, and vice versa. A business that claims a credit must keep records to verify eligibility.

A business must apply to the Department of Revenue (DOR) to receive the telework credit. DOR must approve applications based on certain criteria. The DOR must keep a running total of all credits approved and must deny any credit that would cause the total to exceed \$3 million for a calendar year. If a credit is denied because the \$3 million total has been reached, the credit may be carried over until used.

A sunset review of the credit is required by October 2005.

Substitute Bill Compared to Original Bill:

A business is allowed to carry over credits if the credit total for a given year exceeds the \$3 million annual cap. The required location of telework is an employee's home, instead of an alternative site generally. The definition of telework expenditures is clarified to include amounts spent for telework training purposes. Eligible installation costs include expenditures for any equipment that provides teleworking capability, rather than just for access lines. Eligibility for the credit is limited to businesses where the telework location is within the state. The program is scheduled to sunset by October 1, 2005 through the sunset review process.

Appropriation: None.

Fiscal Note: Available..

Effective Date of Substitute Bill: The bill takes effect on October 1, 2001.

Testimony For: Our state residents have to deal with traffic on a daily basis. For urban employers, there's also the problem of finding enough parking for employees. An

alternative commuting option that gets people off the road is teleworking. Teleworking helps both employees and employers. Commute trips are reduced. Washington has great potential for teleworking, as it is first in the nation with households connected to the internet.

One of the goals of the bill is to get people to change commuting habits, and these tax incentives will help. The Washington State Telework Coalition has continually heard from employers that incentives would encourage telework. A \$20,000 credit per employer and a telework arrangement of two days a week is sufficient to change behavior.

Rural communities would benefit, and so the state could be strengthened economically. There would be creation of living-wage jobs in rural areas.

(With concerns) We have some questions about how the program will work. Will the Department of Revenue post the amount of credit remaining? Also, the definition of the telework arrangement is too restrictive and should be changed so that by having an employee work just one day a week, an employer would still qualify for the credit. The telework expenditure definition omits mention of training, although training is mentioned as part of the credit in the second section of the bill. Allowable installation costs should be defined to be technology-neutral. Because this is a credit against the B&O and PUT, public and nonprofit sector employers and employees are not benefited.

Testimony Against: None.

Testified: (In support) Terry Vann, Washington Independent Telephone Association; Joe Daniels, Holland America Lines; Dee Christensen, Washington State University; and Dan Youmans, AT&T Wireless.

(In support with concerns) Lew McMurren, Software Alliance; and Joan Cullen, General Administration.