

SENATE BILL REPORT

SB 5469

As Reported By Senate Committee On:
Economic Development & Telecommunications, February 14, 2001
Ways & Means, March 26, 2001

Title: An act relating to tax deferrals in rural counties and community empowerment zones.

Brief Description: Changing provisions for tax deferrals in rural counties and community empowerment zones.

Sponsors: Senators T. Sheldon, Rasmussen, Haugen and McCaslin.

Brief History:

Committee Activity: Economic Development & Telecommunications: 2/12/01, 2/14/01[DPS-WM].
Ways & Means: 2/22/01, 3/26/01 [DP2S, DNP].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TELECOMMUNICATIONS

Majority Report: That Substitute Senate Bill No. 5469 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators T. Sheldon, Chair; B. Sheldon, Vice Chair; Brown, Fairley, Finkbeiner, Haugen, McCaslin, Rossi and Stevens.

Staff: Andrea McNamara (786-7483)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5469 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Brown, Chair; Constantine, Vice Chair; Fairley, Vice Chair; Fraser, Hewitt, Honeyford, Long, Parlette, Rasmussen, Sheahan, B. Sheldon, Snyder, Spanel, Winsley and Zarelli.

Minority Report: Do not pass.

Signed by Senator Rossi.

Staff: David Schumacher (786-7474)

Background: The distressed area business and occupation (B&O) tax credit program for new employees provides a credit against the B&O tax for each new eligible employment position filled and maintained by qualified businesses located in designated areas of the state.

Qualified businesses include manufacturing, research and development, and computer-related service businesses that locate or expand in an eligible area of the state. Eligible area designations have been changed by the Legislature over time, but currently they include all rural counties and community empowerment zones. Businesses must create a new work force in Washington, so credit is not available for positions that are transferred from an established site in the state. Businesses may also qualify by expanding their existing work force at an established site by a 15 percent average increase.

A business may earn a \$2,000 credit for each new qualified employment position with annual wages and benefits of \$40,000 or less; or a credit of \$4,000 for each new employment position with wages and benefits over \$40,000 annually. The Department of Revenue processes more than 100 applications for B&O credits under this program each fiscal year and certifies nearly \$7.5 million in credits. The program is capped at \$7.5 million per fiscal year.

For the purposes of this B&O credit and the distressed area sales and use tax deferral program, a rural county– is currently defined as one with a population of less than 100 people per square mile.

Summary of Second Substitute Bill: The business and occupation (B&O) tax credit for job creation in rural and distressed areas is expanded to include jobs created as a result of relocation into rural counties or community empowerment zones.

The maximum annual amount of the B&O credit is raised from \$7.5 million to \$8.5 million, and at least \$1 million of the credits must be set aside for jobs created as a result of relocations.

Rural counties– are redefined for the purposes of both B&O job creation credits, and the existing sales and use tax exemption on construction, machinery and equipment, to also include counties with less than 250 square miles.

Second Substitute Bill Compared to Substitute Bill: The second substitute eliminated the international services tax credit from the bill and raised the B&O jobs credit from \$7.5 million to \$8.5 million rather than to \$10 million.

Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Requested on February 9, 2001.

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

Testimony For: The bill will help provide incentives for companies to relocate or expand their operations outside of the congested urban cores to the rural areas of the state. The international services program was designed to leverage opportunities in the Tacoma area that haven't yet materialized. Expanding the reach of the program to rural areas makes sense for the same reasons it made sense to help distressed urban areas in the original program.

Testimony Against: None.

Testified: Randy Lewis, City of Tacoma (pro).