

# HOUSE BILL REPORT

## HB 2565

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### As Reported by House Committee On:

Commerce & Labor  
Finance

**Title:** An act relating to a worker training business and occupation tax credit.

**Brief Description:** Modifying the worker training business and occupation tax credit.

**Sponsors:** Representatives Kilmer, Haler, Wallace, Strow, Clibborn, Morrell, McCoy, Appleton, Ericks, Linville, Simpson, Green and Springer.

### Brief History:

#### Committee Activity:

Commerce & Labor: 1/26/06, 1/30/06 [DPS];

Finance: 2/2/06, 2/6/06 [DPS(CL)].

### Brief Summary of Substitute Bill

- Makes a Business and Occupation (B&O) tax credit for certain worker training available to certain small businesses.
- Specifies that the tax credit is equal to 50 percent of the value of the job training, up to the lesser of \$10,000 or the amount of B&O tax due.
- Caps total credits at \$1 million per calendar year.

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## HOUSE COMMITTEE ON COMMERCE & LABOR

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Conway, Chair; Wood, Vice Chair; Condotta, Ranking Minority Member; Chandler, Assistant Ranking Minority Member; Crouse, Holmquist, Hudgins, Kenney and McCoy.

**Staff:** Jill Reinmuth (786-7134).

### Background:

Washington's major business tax is the Business and Occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the General Fund. A

business may have more than one B&O tax rate, depending on the types of activities conducted. Retailing activities, for example, are taxed at a 0.471 percent rate, while general services are taxed at a 1.5 percent rate.

A B&O tax credit for employee job training is available to manufacturing and research and development businesses located in distressed areas that provide job-related training at no charge to their employees. The tax credit is equal to 20 percent of the value of the job training, and may not exceed \$5,000 per business per year. According to a Department of Revenue report published in 2004, two businesses take the tax credit.

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### **Summary of Substitute Bill:**

The Business and Occupation (B&O) tax credit for employee job training is modified.

A B&O tax credit for qualified worker training is available for qualified employers. Qualified worker training is instruction to enhance job performance through public and private institutions of higher education, private vocational schools, training provided by Washington Manufacturing Services, and for employers with less than ten employees, training provided by the employer. "Qualified employers" are independently owned businesses located in Washington with less than 50 employees worldwide.

The B&O tax credit is equal to 50 percent of the value of the job training, and may not exceed the lesser of \$10,000 per business per year or the amount of B&O tax otherwise due for the calendar year. Credits must be taken for taxes due for the calendar year in which qualified expenses were incurred. Credits may not be carried over to subsequent years. Refunds may not be granted for unused credits. Total credits for all qualified employers may not exceed \$1 million per calendar year, and are available on a first-come, first-served basis.

The Department of Revenue must report on the impact of the tax credit to appropriate legislative committees by December 1, 2008, and every two years thereafter. The reports must be prepared in cooperation with the Department of Revenue, the State Board for Community and Technical Colleges, the Work Force Training and Education Coordinating Board, and the Higher Education Coordinating Board. The reports must include the number of people receiving qualified worker training, the type, length, and average cost of such training, the cost of program administration, and the number of qualified employers that take the credit by firm size.

The B&O tax credit expires December 31, 2016.

### **Substitute Bill Compared to Original Bill:**

Total credits are capped at \$1 million per calendar year, and are available on a first-come, first-served basis. The Department of Revenue, rather than the Joint Legislative Audit and Review Committee, is required to report on the impact of the credits to appropriate legislative committees by December 1, 2008, and every two years thereafter, rather than by December 1, 2014.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on January 1, 2007.

**Testimony For:** Washington needs to help business be more competitive. Workforce training will help business be more competitive. It will help business do things smarter and more efficiently.

Last year, only two businesses used the training tax credit because the eligibility criteria is tough. Eligibility is limited as to the types of businesses and geographic areas. When times are tough, businesses forego marketing and training. This bill is an effort to make the training tax credit work better.

Workforce training is the number one priority of economic development executives. To stay competitive, Washington must have a workforce that is technically capable of giving us the competitive edge.

This bill will help businesses in both rural and urban communities. It includes provisions for measuring the value of the tax credit.

**Testimony Against:** None.

**Persons Testifying:** (In support) Representative Kilmer, prime sponsor; and Ron Newbry, Washington Economic Development Association.

**Persons Signed In To Testify But Not Testifying:** None.

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill by Committee on Commerce & Labor be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

**Staff:** Rick Peterson (786-7150).

### **Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Commerce & Labor:**

No changes recommended.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on January 1, 2007.

**Testimony For:** Work force training programs assist with the competitiveness of Washington businesses. Washington can stay competitive as long as we have a highly skilled work force. Skills useful 20 years ago are not always useful today. Work force training programs help with recruitment and retention of business. Work force training programs mitigate the B&O tax for small businesses. The bill amends an existing credit that is seldom used and improves the credit program. The bill adds measurement tools. The bill could be refined by limiting the industries to which it applies, limiting eligibility to training expenses that exceed the average cost of training over the three previous years, and having the Work Force Training and Education Coordinating Board approve the training programs.

**Testimony Against:** None.

**Persons Testifying:** Representative Kilmer, prime sponsor; and Ron Newbry, Washington Economic Development Association.

**Persons Signed In To Testify But Not Testifying:** None.