
**Economic Development,
Agriculture & Trade Committee**

HB 1576

Brief Description: Providing a small business tax credit for job creation.

Sponsors: Representatives Morrell, Buri, Wallace, Springer, Chase, Flannigan, Kilmer, McDonald, Blake, Pettigrew, Ericks, Linville, Campbell, P. Sullivan, Conway, Hinkle, Williams, Eickmeyer, Hasegawa, Clibborn, Lantz, O'Brien, Kenney and Shabro.

Brief Summary of Bill

- Creates a business and occupation tax credit of \$650 per year per newly created full-time employment position for independently owned and operated businesses with 50 or fewer employees that offer a health care plan to all employees.

Hearing Date: 2/4/05

Staff: Tracey Taylor (786-7196).

Background:

Business and Occupation Tax

Washington's B&O tax is the second largest tax source for the state. In Fiscal Year 2003, B&O tax collection totaled \$1.923 billion which represented approximately 17 percent of state revenue sources within the state general fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise Tax Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services. Credits are amounts that have been paid to the Department of Revenue

(DOR) which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit and the small business B&O tax credit.

Business and occupation tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

Summary of Bill:

A B&O tax credit of \$650 per year per newly created qualified full-time employment position is authorized. In order to qualify, a business must have 50 or fewer employees and offer a health plan to all employees.

A credit may be taken for hiring of new employees into employment positions created after the effective date of this act. A new qualified employment position filled by a current employee is eligible only if the employment vacated by the existing employee is filled by a new hire. Any vacancy in a qualified employment position must be filled within 60 consecutive days in order to maintain eligibility for the credit. A credit is earned for the calendar year the qualified position is filled. The credits may be accrued and carried over until used. No refunds may be granted for these credits.

A person claiming this credit may not also claim a rural research and development or manufacturing B&O credit, an international activities rural B&O tax credit, or a manufacturing semiconductor materials B&O tax credit.

No application is necessary to claim this credit; however, the business must keep the records necessary for the DOR to verify eligibility. The Employment Security Department will also provide the DOR any information needed to verify a business's eligibility.

If at any time the DOR finds a business is not eligible for this tax credit, the amount of taxes, with interest, are immediately due and payable.

Appropriation: None.

Fiscal Note: Requested on January 31, 2005.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.