

SENATE BILL REPORT

ESHB 2565

As Reported By Senate Committee On:
Labor, Commerce, Research & Development, February 23, 2006
Ways & Means, February 27, 2006

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: House Committee on Commerce & Labor (originally sponsored by Representatives Kilmer, Haler, Wallace, Strow, Clibborn, Morrell, McCoy, Appleton, Ericks, Linville, Simpson, Green and Springer).

Brief History: Passed House: 2/10/06, 98-0.

Committee Activity: Labor, Commerce, Research & Development: 2/21/06, 2/23/06 [DPA-WM].

Ways & Means: 2/27/06 [DPA(LCRD), w/oRec].

SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.

Signed by Senators Kohl-Welles, Chair; Franklin, Vice Chair; Parlette, Ranking Minority Member; Honeyford and Keiser.

Staff: John Dziedzic (786-7784)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended by Committee on Labor, Commerce, Research & Development.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Doumit, Vice Chair, Operating Budget; Brandland, Kohl-Welles, Pflug, Pridemore, Rasmussen, Roach and Rockefeller.

Minority Report: That it be referred without recommendation.

Signed by Senators Zarelli, Ranking Minority Member; Parlette and Schoesler.

Staff: Dean Carlson (786-7305)

Background: The Washington Business and Occupation (B&O) tax is imposed on the gross receipts of a business based on all activities conducted within the state, without any deduction for the costs of doing business.

A B&O tax credit 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 2004 Department of Revenue (DOR) report, two businesses currently take the tax credit.

Summary of Amended Bill: The eligibility requirements for this B&O tax credit are changed to include all independently-owned businesses located in Washington with less than 50 employees worldwide that are engaged in a manufacturing, pilot scale manufacturing, or qualified research and development operation. The maximum tax credit is increased to 50 percent of the value of the job training, and may not exceed \$10,000 per business per year or the amount of B&O tax otherwise due for the calendar year, whichever is less.

The job training for which a credit may be taken must be instruction designed to enhance job performance of employees who qualify for overtime pay, when the instruction is provided through courses and programs at public and private institutions of higher education, private vocational schools, or Washington Manufacturing Services. Credits must be taken for taxes due for the calendar year in which qualified expenses were incurred, which may not be carried over to subsequent years. There are no refunds for unused credits.

Total credits for all qualified employers may not exceed \$2 million per calendar year. Credits are available on a first-come, first-served basis, and expire December 31, 2012.

Persons claiming the tax credit must complete an annual survey and provide information certain information to the DOR, which may request additional information necessary to measure the results of or determine eligibility for the tax credit. Information reported in the survey is confidential except that the amount of the tax credit is not confidential, unless the business claims a credit of less than \$10,000 and requests that the amount be confidential.

DOR is required to prepare a report based on the information provided by the survey each year by September 1. The legislative fiscal committees, in consultation with DOR, are required to report to the Legislature by November 1, 2010.

Amended Bill Compared to Original Bill: Provisions extending and capping the tax credit for in-house training provided by employers with more than two and less than 20 employees are removed. A requirement that the training must be provided to employees qualifying for overtime pay is added.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2007.

Testimony For (Labor, Commerce, Research & Development): Extending this tax credit to more employers will: (1) help attract new business to Washington; (2) improve small business competitiveness by encouraging the up-skilling of incumbent workers; and (3) mitigate some of the challenges that the current B&O tax structure creates for small businesses. Addressing the shortage of skilled workers is a high priority for organizations working on economic development around the state.

Testimony Against (Labor, Commerce, Research & Development): None.

Testimony Other (Labor, Commerce, Research & Development): This bill is consistent with one of the priority strategies of the Workforce Training and Education Coordinating Board. The training of front-line employees could be emphasized to a greater extent. The in-house training provisions complicate existing review processes and result in increased costs.

Who Testified (Labor, Commerce, Research & Development): PRO: Representative Kilmer, prime sponsor; Ron Newbry, WA Economic Development Assn.

OTHER: Wes Pruitt, Workforce Training and Education Coordinating Board.

Testimony For (Ways & Means): The current workforce credit in statute is not being used. Only two companies used it last biennium. This will make it more user friendly and expandable so more businesses will use it.

Testimony Against (Ways & Means): None.

Who Testified (Ways & Means): PRO: Representative Kilmer, prime sponsor.