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## Finance Committee

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### HB 1677

**Brief Description:** Concerning employer tax incentives for the support of veterans and military families.

**Sponsors:** Representatives Abbarno, Corry, Boehnke, Klippert, Sutherland, MacEwen, Eslick, Chambers, Graham, Dufault, Gilday, Kraft, Jacobsen, Volz, Griffey, Steele, Young and Johnson, J..

#### Brief Summary of Bill

- Extends the public utility tax (PUT) and business and occupation (B&O) tax credits for hiring veterans to July 1, 2033.
- Increases the maximum PUT and B&O tax credit an employer may claim for hiring a qualified employee to \$3,000 per employee hired on or after July 1, 2022.
- Increases the maximum total credit to \$5 million per year for each the PUT and B&O tax credit.
- Expands eligibility for the PUT and B&O tax credits by removing the unemployment requirement for veterans and including the spouse of a veteran or an active duty military member as a qualified employee.

**Hearing Date:** 1/25/22

**Staff:** Kyle Raymond (786-7190).

#### **Background:**

##### Business & Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is

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imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent (businesses with taxable income of less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. In general, the credit is \$70 per month for service businesses and \$35 per month for all other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue (DOR) and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$28,000 per year, or less than \$46,667 if at least 50 percent of its taxable income is from services or activities not classified elsewhere.

#### Public Utility Tax.

The gross income derived from the operation of publicly and privately owned utilities is subject to the public utility tax (PUT), unless otherwise exempt. The tax is imposed in lieu of B&O tax and is applied only on sales to consumers. Other income of the utility, such as retail sale of tangible personal property, is subject to the B&O tax. There are six different PUT rates, depending on the specific utility activity. The rates are:

- 3.852 percent on telegraph companies, distribution of natural gas, and the collection of sewage;
- 3.8734 percent on the generation or distribution of electrical power;
- 0.642 percent on urban transportation and watercraft vessels under 65 feet in length;
- 1.926 percent on motor transportation, railroads, railroad car companies, and all other public service businesses;
- 5.029 percent on the distribution of water; and
- 1.3696 percent on log transportation.

A taxpayer who engages in one or more businesses subject to the PUT is fully exempt from the tax if their total gross income is \$2,000 or less per a month. Any taxpayer that has a total gross income greater than \$2,000 per month does not receive an exemption or deduction under this provision.

A business does not have to file an excise tax return for the PUT if the business does not owe other taxes or fees to the DOR and has an annual gross proceeds of less than \$24,000.

#### Tax Credits for Businesses That Hire Veterans.

A PUT credit and a B&O tax credit is provided to employers that provide positions to qualified employees. A qualified employee is an unemployed veteran who is employed in a permanent full-time position for at least two consecutive full calendar quarters. Full time is a normal work week of at least 35 hours per week. A veteran is a person who has received a general discharge under honorable conditions or is currently serving honorably; and who has served as a member in any branch of the armed forces, including the National Guard and armed forces reserves.

Unemployed means that the veteran was unemployed for at least 30 days immediately preceding the date on which the veteran was hired by the taxpayer claiming the credit. The credit is equal to 20 percent of wages and benefits paid up to a \$1,500 maximum for each qualified employment position filled by an unemployed veteran. The credits are available on a first-in-time basis not to exceed \$500,000 in any fiscal year. Credits disallowed in one year can be carried over to the next fiscal year. Priority is given to credits carried over from a previous fiscal year.

Credits may be earned for tax reporting periods through June 30, 2022, and no credits may be claimed after June 30, 2023.

In 2020, the Joint Legislative Audit and Review Committee (JLARC) performed a review on the two tax credits. The Legislative Auditor concluded that the tax preferences for hiring unemployed veterans have had limited use, and the Legislature's goal of reducing the number of unemployed veterans by 30 percent was not met at the time of the analysis. The Legislative Auditor recommended that the Legislature modify the preferences to better serve unemployed veterans.

#### Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the JLARC can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

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

For the public utility tax (PUT) and business and occupation (B&O) tax credits for employers that hire veterans and military family members, a qualified employee includes a veteran that is

not considered unemployed and the spouse of a veteran or an active duty military member.

The maximum PUT and B&O tax credit an employer may claim for hiring a qualified employee is \$3,000 for each qualified employee hired on or after July 1, 2022. The maximum total credit is \$5 million per year for each credit.

The PUT and B&O tax credits for employers that hire veterans and military family members expire July 1, 2033.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.