

VETO MESSAGE ON HB 1023

June 16, 1995

To the Honorable Speaker and Members,

The House of Representatives of the State of Washington
Ladies and Gentlemen:

I am returning herewith, without my approval, Engrossed House Bill No. 1023 entitled:

"AN ACT Relating to reducing business and occupation tax rates;"

Sections 1 and 2 of Engrossed House Bill No. 1023 reduce the Business & Occupation (B&O) tax rate for the three categories of service firms in the state. The B&O rate for "selected business services" is reduced from 2.5% to 2.0%; for "financial services" it is reduced from 1.7% to 1.6%; and for real estate brokers and the "other service" category it is reduced from 2.0% to 1.75%. The total revenue reduction from the decreases in the rates is \$173 million in the 1995-97 biennium, and \$211 million in the 1997-99 biennium.

The June 15 announcement of a \$181 million reduction in the revenue forecast, due in part to announcements of further Boeing and Hanford layoffs and the slowing of the national economy, means the revenue assumptions made by the Legislature in its budget are no longer valid, and the level of budget reserves proposed is no longer available.

It is vitally important for Washington to maintain a prudent reserve capable of allowing the state to operate through both good and bad economic times without resorting to tax increases or drastic program cuts. One of the primary features of Initiative 601 is the requirement to build reserves when the economy is strong, so they are available when the economy slows.

With the very real likelihood of significant federal costs being shifted to the states in an effort to balance the federal budget, the basic uncertainty over the future of the economy as expressed by the Governors Council of Economic Advisors, and the ever-present possibility of unexpected costs, it is especially important today that Washington has a strong budget reserve.

It is in order to maintain a prudent and responsible level of reserves that I am vetoing the B&O rate reductions in sections 1 and 2 of this bill.

Section 3 increases the distressed area business and occupation tax credit program in chapter 82.62 RCW from \$1,000 to \$2,000 for each qualified employment position created in an eligible business project approved after January 1, 1996.

Current law caps the program for all participants at \$15 million in credits per year. However, only \$300,000 - \$800,000 of credits are being claimed annually. Many distressed area employers hire employees without claiming the tax credit. This may be because an employer must increase the work force by 15% in order to qualify for the credit. Thus the program provides an incentive for hiring a batch of new employees all at once, but provides no incentive for employers who replace employees or add a few new employees here and there as needed.

Increasing the size of the credit may provide a slight incentive for employers to alter hiring practices by delaying new

hires until such a time as sufficient employees can be hired at one time to meet the 15% requirement. The impact is not likely to be significant, since other considerations are likely to have a stronger influence on hiring decisions.

Furthermore, current law caps the credit to a single employer at \$300,000 dollars for the life of the program. Increasing the credit would reduce the number of employees that could be hired before the cap is reached. Once the cap is reached, there would be no further incentive to hire.

Consequently, I am not convinced that section 3 will have the desired effect of increasing employment in distressed areas.

Section 4 creates a new business and occupation tax credit equal to 20 percent of the cost of job training services provided to an employee without charge. It would be available to businesses eligible for the distressed area tax deferral under chapter 82.60 RCW. The bill does not provide any means to assure that the training will be of any value to the employee in the long term.

The proposed job training service must be approved by the Employment Security Department before the credit can be allowed. However, the bill sets forth no standards or guidelines for approving the training, except that the job training services must "be designed to enhance the job-related performance of employees." This language is so broad that it could include simple on-the-job training to accomplish the specific task for which the employee was hired.

Section 4 does not provide any means to identify employees who might benefit from training, nor does it assess their training needs, or evaluate the success of the training program. There are no assurances whatsoever that participating employees will achieve a verifiable and measurable increase in their knowledge, skills, or abilities.

Overall, the veto of the sections reducing the B&O tax rates, and the sections expanding the distressed area programs reduces the 1995-97 tax cuts \$176 million.

For these reasons, I am vetoing Engrossed House Bill No. 1023 in its entirety.

Respectfully submitted,
Mike Lowry
Governor