

# SENATE BILL REPORT

## ESHB 2689

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As Reported By Senate Committee On:  
Ways & Means, February 26, 2004

**Title:** An act relating to extending tax incentives in rural counties expiring in 2003 or 2004.

**Brief Description:** Extending tax incentives.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Eickmeyer, Buck, Miloscia, Schoesler, Hatfield, Armstrong, Haigh, Skinner, Kessler, Orcutt, Grant, Pearson, Ruderman, Campbell, Blake, Fromhold, Kenney, Woods, Linville and Rockefeller; by request of Governor Locke).

**Brief History:**

**Committee Activity:** Ways & Means: 2/26/04 [DP].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Doumit, Fraser, Hale, Honeyford, Johnson, Pflug, Prentice, Rasmussen, Regala, Roach, Sheahan and B. Sheldon.

**Staff:** Terry Wilson (786-7433)

**Background:** Washington has developed various tax incentives designed to assist in job creation or retention in rural counties.

The rural county deferral program targets rural counties with population densities of less than 100 per square mile, community empowerment zones, and counties containing a community empowerment zone. Manufacturing, research and development, and computer service businesses may defer sales and use taxes on buildings, machinery and equipment, and installation labor. That portion of a cogeneration project that generates power for consumption within the manufacturing site qualifies if it is an integral part of the manufacturing operation. An expansion or renovation must increase the floor space or production capacity of an existing structure to qualify. The business is required to create at least one job per \$750,000 of investment if the project is in a community empowerment zone or a county containing a community empowerment zone. The deferred taxes are forgiven if the investment project meets the program criteria for eight years after the project is complete. Because manufacturing machinery and equipment, pollution control equipment, and cogeneration equipment used in a manufacturing process is exempt from sales tax, no tax on these items need be paid. The program expires July 1, 2004.

A business and occupation (B&O) tax credit for computer software job creation was authorized for businesses engaged in computer software manufacturing or programming in rural counties. Businesses could claim \$1,000 as a credit against the tax for each new job

created for up to five years. No credit was available if a B&O tax credit was taken under another program. The credit expired December 31, 2003.

A B&O tax credit was authorized for businesses that provide information technology help desk services to third parties when the business was located in a rural county equal to 100 percent of the amount of tax due. The credit expired December 31, 2003.

A B&O tax credit for job creation in rural counties is authorized for manufacturing, research and development, and computer service businesses located in rural counties or community empowerment zones if they create employment of at least 15 percent above the prior year. Businesses may claim \$2,000 as a credit against the tax for each new job created, except the credit is \$4,000 if the wages and benefits exceed \$40,000 per year. No more than \$7.5 million may be taken in any fiscal year by all businesses.

A B&O tax credit for job training in rural counties is available to manufacturing, research and development, and computer service businesses located in rural counties with population densities of less than 100 per square mile, community empowerment zones, and counties containing a community empowerment zone 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 not to exceed \$5,000 per business per year.

**Summary of Bill:** A B&O tax credit for computer software job creation is authorized for businesses engaged in computer software manufacturing or programming in rural counties. Businesses may claim \$1,000 as a credit against the tax for each new job created for up to five years. Businesses claiming a credit under the expired program may take any remaining credits under this program. No credit is available if a B&O tax credit is taken under another program. The credit expires January 1, 2011.

A B&O tax credit is authorized for businesses that provide information technology help desk services to third parties when the business is located in a rural county equal to 100 percent of the amount of tax due. The credit expires January 1, 2011.

For each of the new credits, no application is necessary to be eligible, but the business must keep adequate records for the Department of Revenue to verify eligibility. If the department finds that a business that has claimed credit is ineligible, the business must repay the amount of the credit with interest, but not penalties. Credits may not be carried over from year to year.

A business taking the credit must submit an annual report to the department. The report is to contain various information, including the type of business activity, number of employees in the rural county, how long the business has been located in the county. Failure to submit a report does not disqualify the business from receiving the credit, but the department must contact the business and collect the information so as to verify the program's effectiveness.

The rural county sales and use tax deferral program is extended to July 1, 2010. Participants are required to complete an annual survey and provide information on the amount of tax deferred; number of new products, trademarks, patents, and copyrights; number of jobs and the percent of full-time, part-time and temporary jobs; wages by salary band; and number of jobs with employer provided health and retirement benefits. The department may request additional information necessary to measure the results of the program. Information reported

in the survey is confidential, except the amount of taxes deferred may be disclosed to the public. The survey is due by March 31 in the year after the department determines the project is operationally complete and in each of the seven following years. Each year by September 1, the department will prepare summary descriptive statistics by category from the information provided by the survey. No fewer than three taxpayers will be included in any category. The department is required to study the sales and use tax deferral program and report back to the Legislature by December 1, 2009.

These credit and deferral programs are expanded to include counties smaller than 225 square miles. In addition, the job creation B&O tax credit and the job training B&O tax credit are expanded to include counties smaller than 225 square miles.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill contains an emergency clause and takes effect on April 1, 2004.

**Testimony For:** (From SB 6240) These incentives help fill the needs of the county. They bring money into the county. They help diversify the economy. They help young people stay in the county. It is more expensive to do business in rural counties. This levels the playing field.

**Testimony Against:** (From SB 6240) None.

**Testified:** (From SB 6240) PRO: Ron Newbry, WA Econ. Dev. Assn.; Dave McFadden, Yakima County Econ. Dev. Council; Bruce Kendal, Pierce County Econ. Dev. Council; Brian Sterling, Safe Harbor Technology Corp.; Jim Hedrick, Governor's Office; Scott Taylor, WA Public Ports Assn.; Ken O'Hollaren, Port of Longview; Lew McMurrin, WSA.