

SENATE BILL REPORT

SSB 6240

As Passed Senate, January 28, 2004

Title: An act relating to tax incentives in rural counties.

Brief Description: Modifying tax incentive provisions for rural counties.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators T. Sheldon, Zarelli, Benton, Hale, McAuliffe, Prentice, Rasmussen, Murray and Haugen; by request of Governor Locke).

Brief History:

Committee Activity: Ways & Means: 1/20/04, 1/21/04 [DPS].

Passed Senate: 1/28/04, 49-0.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6240 be substituted therefor, and the substitute bill do pass.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Doumit, Hale, Honeyford, Johnson, Prentice, Rasmussen, Roach, Sheahan and Winsley.

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.

A public utility tax credit for economic development in rural counties is available to light and power businesses in rural counties or in low-density electric utility usage areas equal to 50 percent of contributions made to an electric utility economic development revolving fund for use in projects designed to increase jobs, retain businesses, add or upgrade non-electrical infrastructure or health and safety facilities, or make water or energy efficiency improvements. The credit is limited to \$25,000 per year per firm and \$350,000 total per year for all firms. The credits sunset December 31, 2005.

Summary of Bill: The rural county deferral program is extended to July 1, 2010.

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.

These credit and deferral programs are expanded to include counties smaller than 225 square miles. In addition, the economic development public utility tax credit, 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: 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: None.

Testified: 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.

House Amendment(s): Taxpayers taking the business and occupation tax credit for either information technology help desk services or computer software development must submit an annual report to the Department of Revenue. A taxpayer who received a deferral of sales and use taxes must respond to an annual survey, instead of an annual report, and the survey must contain various information regarding the amount of taxes deferred, the number of new products and patents, employment, wages, and benefits. The amount of deferred taxes reported may be publicly disclosed. To receive the sales tax deferral, an owner that leases property to a tenant must agree to pass along the savings to the tenant, evidenced in writing, and a tenant that receives the benefit of the deferral must submit the required annual survey. The department must summarize statistics annually and report on the program to the Legislature by 2009. Provisions that allow utilities in Island County to be eligible for the public utility tax credit for contributions made to a rural economic development revolving fund are removed. A taxpayer must pay 12.5 percent of deferred taxes for any year in which the taxpayer fails to submit a response to the survey.