

# HOUSE BILL REPORT

## HB 3051

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**As Reported by House Committee On:**  
Economic Development, Agriculture & Trade

**Title:** An act relating to tax incentives to promote statewide job creation.

**Brief Description:** Providing tax incentives to promote statewide job creation.

**Sponsors:** Representatives Kristiansen, Linville, Dunn, P. Sullivan, Strow, Chase, Morrell, Ericks, Sells, Rodne, Kilmer, B. Sullivan, Newhouse and Springer.

**Brief History:**

**Committee Activity:**

Economic Development, Agriculture & Trade: 1/25/06, 1/30/06 [DP].

**Brief Summary of Bill**

- Expands the Business and Occupation tax credit for new job creation by manufacturing, research and development, and computer service firms to all counties, so long as the firm is not located in a city with a population greater than 30,000.

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### HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

**Majority Report:** Do pass. Signed by 22 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Kristiansen, Ranking Minority Member; Skinner, Assistant Ranking Minority Member; Appleton, Bailey, Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kilmer, Kretz, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

**Staff:** Tracey Taylor (786-7196).

**Background:**

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2004, B&O tax collection totaled over \$2 billion which represented approximately 17 percent of state revenue sources within the State General Fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors, and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the

Combined Excise Tax Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services. Credits are amounts that have been paid to the Department of Revenue (DOR) which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on the CETR and include the multiple activities tax credit, the high technology B&O tax credit, and the small business B&O tax credit.

In 1986, the Legislature began to focus credits on the hiring of new employees. Currently, a credit against B&O tax liability is provided for manufacturing, research and development, or computer service firms that create new jobs in rural counties and community empowerment zones (CEZs). A rural county is defined as a county with an average population density of less than 100 persons per square mile. The credit amount is \$2,000 per new job created, unless the paid wages, including benefits, is more than \$40,000 annually, in which case the credit is \$4,000. To qualify, a firm must increase its total employment in the eligible area by at least 15 percent. The annual statewide cap for the credit is \$7.5 million. There are approximately 100 applicants per year and taxpayers experienced a savings of \$2.7 million.

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**Summary of Bill:**

The job creation tax credit is extended to manufacturing, research and development and computer service firms that create new jobs in all counties so long as the firm is not located in a city with a population greater than 30,000.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** The original intent of this statute was to help rural communities develop their economies. The current statute focuses the benefits of the job creation tax credit on rural counties; however, many of our nonrural counties have very rural areas. These rural communities are not able to take advantage of this tax credit for job creation despite the fact they have most of the same economic challenges as communities located in a rural county. In fact, historically these rural communities have been lost in the urban versus rural tension in the state's economic development policy. The inclusion of these nonurban county communities

clearly makes sense. By opening this job credit up, but still specifically targeting the incentive, the fiscal impact will still be under the statutory cap for the program.

**Testimony Against:** None.

**Persons Testifying:** Representative Kristiansen, prime sponsor; and Ron Newbry, Washington Economic Development Association.

**Persons Signed In To Testify But Not Testifying:** None.