
**Economic Development,
Agriculture & Trade Committee**

HB 1351

Brief Description: Authorizing a job creation business and occupation tax credit.

Sponsors: Representatives Kilmer, Haler, Wallace, Clibborn, Skinner, Springer, Hinkle, Ericks, Morrell, Miloscia, Holmquist, Haigh, Blake, Sells, Buri, Lantz, McCoy, Pettigrew, Appleton, Linville, P. Sullivan, Strow, Kessler, Simpson, Williams, Conway and Chase.

Brief Summary of Bill

- Creates a business and occupation tax credit of \$500 per year per newly created full-time employment position for independently owned and operated businesses with 50 or fewer employees that offer a health care plan to all employees.

Hearing Date: 2/4/05

Staff: Tracey Taylor (786-7196).

Background:

Business and Occupation Tax

Washington's B&O tax is the second largest tax source for the state. In Fiscal Year 2003, B&O tax collection totaled \$1.923 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.

Business and occupation tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

Summary of Bill:

A B&O tax credit of \$500 per employment position is authorized for each new full-time employment position a business creates and maintains for three years. In order to be eligible, the business must be independently owned and operated with 50 or fewer employees. The business must also offer a health care plan to all employees. In order to verify eligibility for this credit, the Employment Security Department may provide the DOR with any information required.

The annual credit is available beginning in the first calendar year the employment position is created and is renewable for two years. For a position filled after June 30th, the position will qualify for a half credit or \$250 for that calendar year. If the employment position is vacated, it must be filled within 60 consecutive days in order to remain eligible for the tax credit. If at any time the DOR finds that a business is not eligible for this tax credit or an employment position for which a tax credit was granted was vacant for 36 consecutive months, the amount of taxes, with interest, is immediately due.

A credit may be accrued and carried over until it is used; however no refunds may be granted for these credits. In addition, a business that earned a credit under this program in the one year, but no longer qualifies to earn new credits may continue to take the previously earned credits; however, the business may not continue to earn new credits under this program.

No application is required to claim a credit. However, a business must complete an annual report to the DOR by March 31 of any year in which the tax credit is taken. The report must include: the total number of employment positions, the number of qualified employment positions, the amount of the credit claimed, the number of employment positions according to wage bands; the number of employment positions that have employer-provided medical, dental, and health benefits; and any other information the DOR finds necessary to measure the results of the tax credit program. The information provided by the business to the DOR is subject to the DOR's confidentiality law and may not be disclosed to the public. The information gathered by the DOR shall be used to study the tax credit program and report to the appropriate committees of the Legislature on the effectiveness of this tax credit on job creation, net jobs created for Washington residents and company growth. The report is due by December 1, 2011.

This tax credit program expires January 1, 2013.

Appropriation: None.

Fiscal Note: Available.

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