

HOUSE BILL REPORT

SHB 1566

As Passed House:

March 8, 2007

Title: An act relating to modifying the rural county tax credit provided in chapter 82.62 RCW.

Brief Description: Modifying the rural county tax credit.

Sponsors: By House Committee on Finance (originally sponsored by Representatives VanDeWege, Ericks, McIntire, Ericksen, Ross, Warnick, Condotta, Kessler and McCune; by request of Department of Revenue).

Brief History:

Committee Activity:

Finance: 2/7/07, 3/1/07 [DPS].

Floor Activity:

Passed House: 3/8/07, 94-2.

Brief Summary of Substitute Bill

- Expands business and occupation tax credit for creating jobs in rural counties and empowerment zones.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Hunter, Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

Minority Report: Do not pass. Signed by 1 member: Representative Hasegawa, Vice Chair.

Staff: Rick Peterson (786-7150).

Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the State General Fund. A

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

business may have more than one B&O tax rate, depending on the types of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

A credit against the B&O tax is provided for manufacturing, research and development (R&D) or computer service firms that create new jobs in rural counties or community empowerment areas. Rural counties are defined as those with an average population density of less than 100 persons per square mile. Community empowerment areas exist in King, Kitsap, Pierce, and Spokane counties. The amount of the credit is \$2,000 for each new job created, unless the new position is paid wages (including benefits) of more than \$40,000 annually in which case the credit is \$4,000. To qualify, the firm must increase its total employment in an eligible area by at least 15 percent. The amount of credit is capped at \$7.5 million annually for all firms.

To be eligible for the credit a firm must create a new work force, or expand their existing work force by a 15 percent average increase (full-time employment positions) over the preceding calendar year. Firms intending to take the credit must apply with the Department of Revenue (DOR) before hiring workers for the new positions. By January 1, employers must file a report containing information sufficient to establish eligibility for the tax credits.

Summary of Substitute Bill:

The jobs credit program is changed. The 15 percent job increase percentage is calculated by comparing the employment in the four full calendar quarters after the employees are hired to employment in the four full calendar quarters before the employees are hired. Application for the credit must be made within 90 days of hiring workers for which credits will be taken rather than before any hiring is done. Job positions that become vacant for up to 120 days may continue to qualify for the credit if the firm is actively recruiting a replacement worker. Seasonal employers may qualify for the credit based on a method for calculating average employment levels prescribed by the DOR. The annual report by qualifying employers is due one month after the period upon which the employment increase is calculated rather than by January 31 of the year following the application for the credit.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2008.

Staff Summary of Public Testimony:

(In support) It is a challenge to create jobs in rural areas. The rural jobs tax credit has a technical glitch that sometimes prevents use of the credit. The bill will help create jobs in

rural areas. The bill will allow credits to be more fully utilized. Many taxpayers may have missed out on the tax credit due to the way the jobs increase calculation is done. A business that hires later in the year may not qualify for the 15 percent increase because the calculation is done on a calendar year basis. Sometimes employers don't apply before they hire workers and are not eligible. Also, if a hard to fill job is vacant for too long it may cause a loss in the entire amount of the credit.

(Opposed) None.

Persons Testifying: Representative Van de Wege, prime sponsor; Amber Carter, Association of Washington Business; and Cindi Holmstrom, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.