

HOUSE BILL REPORT

2SSB 6626

As Reported by House Committee On:
Finance

Title: An act relating to creating a sales and use tax deferral program for eligible investment projects in community empowerment zones.

Brief Description: Creating a sales and use tax deferral program for eligible investment projects in community empowerment zones.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Kastama, Rasmussen, Regala, Franklin, Marr, Carrell and Shin).

Brief History:

Committee Activity:

Finance: 3/3/08 [DPA].

**Brief Summary of Second Substitute Bill
(As Amended by House Committee)**

- Creating a sales and use tax deferral program for eligible investment projects in community empowerment zones.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 9 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

Staff: Jeff Mitchell (786-7139).

Background:

The Community Empowerment Zone (CEZ) program was created in 1993 to encourage public and private investment in low-income areas with high rates of unemployment. Local governments must request that an area receive a CEZ designation from the Department of Community, Trade and Economic Development. Only six areas in the state may receive the CEZ designation. Tax benefits available to firms that locate in a CEZ include sales and use

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tax deferrals and business and occupation tax credits for job creation and employer-provided job training.

Summary of Amended Bill:

Construction of corporate headquarters in a CEZ qualifies a person for deferral of sales and use taxes that would normally be incurred in the course of the construction. Manufacturing, warehousing, and wholesaling activities are excluded. The investment in the headquarters must be at least \$30 million and the headquarters must house at least 300 full-time employees earning at least the average annual state wage.

Tax deferral will not be allowed for any tax liability incurred prior to application for deferral. Only one deferral certificate may be issued per CEZ per biennium. The total number of deferral certificates issued per biennium is limited to two.

Recipients of deferrals are required to complete an annual survey and provide information on the amount of taxes deferred as well as on wages and jobs. The survey is due each year by March 31. The Department of Revenue is to study the effect of the credit on jobs and firms and report to the Legislature on December 1 of 2014 and 2018.

The deferred taxes need not be repaid if the recipient of the deferral continues to meet the eligibility requirements. If a deferral recipient fails to complete an annual survey, one-eighth of the taxes deferred are immediately due.

Amended Bill Compared to Second Substitute Bill:

The amended bill provides a definition for "operationally complete."

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect July 1, 2009.

Staff Summary of Public Testimony:

(In support) This bill targets investments for good jobs in areas hungry for investment. Our state has made a decision of targeting investments in CEZs and this bill is consistent with that. Washington already has incentives for warehousing, manufacturing, and research and development, but not service based jobs. Corporate headquarters need to be a key component in our economic development toolbox. This tax incentive is targeted towards good businesses that pay good wages and will bring dollars into the state. This makes Washington competitive with other states. Idaho passed a very similar law four years ago. Three companies have taken advantage of this incentive in Idaho. This puts some competitive pressure on Washington; particularly for communities in eastern Washington. This bill puts Spokane in a

much more competitive position. We've worked hard to reduce the fiscal cost. This tax incentive is targeted to transformational type investments by companies. Tacoma is a CEZ. The bill should not be further limited; however, if the Legislature moved in that direction we could limit it to one project in eastern Washington and one project in western Washington.

(Opposed) None.

Persons Testifying: Senator Kilmer, prime sponsor; James McMahan, City of Tacoma and Washington Economic Development Association; and Jim Hendrick, Greater Spokane Incorporated.

Persons Signed In To Testify But Not Testifying: None.