Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Community & Economic Development & Trade Committee

HB 3101

Brief Description: Concerning the international services business and occupation tax credit.

Sponsors: Representatives Darneille, Flannigan, Kirby, Kelley, Morrell, Campbell, Lantz, Conway, Green, McDonald and Seaquist.

Brief Summary of Bill

- Beginning January 1, 2009, modifies the international services tax credit by revising the determination of a "qualified employment position" and the calculation of the tax credit and by requiring records of the work hours spent performing international services.

Hearing Date: 1/31/08

Staff: Chris Cordes (786-7103).

Background:

Business and Occupation Taxes

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. There are a number of different rates, and a business may have more than one B&O tax rate, depending on the types of activities conducted. The tax rate for most types of businesses that provide services is 1.5 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are exemptions for specific types of business activities, and certain deductions and credits are permitted.

International Services Tax Credit

The international services tax credit is permitted against the B&O tax by certain eligible businesses. This tax credit is equal to $3,000 per year for a five-year period for each net new

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"qualified employment position" created. If a position is created after July 1 of a given year, the credit is $1,500. A "qualified employment position" is a permanent full-time position that provides international services. If the employee leaves the position, it is considered filled if the business is either training or recruiting for a replacement. Under some circumstances, a new position filled with an existing employee may qualify.

To be eligible for the international services tax credit, the business must be engaged in providing international services and be located in an eligible area, which is either a community empowerment zone (CEZ) or a contiguous group of census tracts meeting specified criteria which were designated by December 31, 1998, by the legislative authority of the eligible local jurisdiction. Census tract areas are designated in Spokane, Vancouver, and Everett.

Businesses that claim the international services tax credit must file an annual report with the Department of Revenue (DOR). The report includes employment records, information relating to the customers of the international service activity engaged in, and a description of the services.

"International services" means the provision of a service that is for a person outside the United States or is for use primarily outside the United States. These services include computer services, data processing services, information services, legal services, accounting and tax preparation services, engineering services, architectural services, business consulting services, business management services, public relations and advertising services, surveying services, geological consulting services, real estate appraisal services, and financial services.

<u>The Community Empowerment Zone Program</u>

The CEZ Program was created in 1993 to create a reinvestment environment using the efforts and resources of the public and private sector. A community empowerment zone is a geographic area that is characterized by high unemployment rates and a preponderance of low-income households. The Department of Community, Trade, and Economic Development may designate up to six areas for participation in the program. The designated community empowerment zones are located in the cities of Bremerton, Seattle, Spokane, Tacoma, and Yakima, and in White Center in King County.   The CEZ designation enables qualified businesses to apply to the Department of Revenue for sales tax deferrals and business and occupation tax credits for a variety of projects.

Summary of Bill:

Beginning January 1, 2009, the international services tax credit is modified to revise the determination of a "qualified employment position" and the calculation of the tax credit and to require records of the work hours spent performing international services.

Determination of "Qualified Employment Position." The definition of "qualified employment position" that refers to a permanent full-time position is deleted, along with references to filling new positions with existing employees and allowing half the credit for positions filled after July 1 of a given year. Instead, the number of qualified employment positions for purposes of the tax credit is determined by dividing the total hours spent providing international services by all of the business's employees by 1,820. A single employment position is created for each full increment of 1,820 work hours.

Calculating the Tax Credit. The international services tax credit is $3,000 for each increase, compared to the prior year, in qualified employment positions in the eligible area, rather than $3,000 for each position created. The first year's tax credit is earned for the calendar year immediately following the calendar year in which the increased qualified employment position is established, rather than for the calendar year in which the person was hired.

The international services tax credit may not be claimed against taxes due for periods before the calendar year for which the credit was earned.

Required Records. The records that must be kept by a business claiming the international services tax credit include records showing the number of work hours performed in providing international services.

Appropriation: None.

Fiscal Note: Requested on January 22, 2008.

Effective Date: The bill takes effect January 1, 2009.