

SENATE BILL REPORT

2SSB 6626

As Amended by House, March 6, 2008

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: Economic Development, Trade & Management: 1/22/08, 1/23/08 [DPS-WM].

Ways & Means: 2/4/08, 2/27/08 [DP2S].

Passed Senate: 2/29/08, 48-0.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

Majority Report: That Substitute Senate Bill No. 6626 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Kastama, Chair; Kilmer, Vice Chair; Zarelli, Ranking Minority Member; Kauffman, King and Shin.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 6626 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Fairley, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Oemig, Parlette, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Dianne Criswell (786-7433)

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

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

Summary of Second Substitute 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 dollars 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 (DOR) 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.

Appropriation: None.

Fiscal Note: Requested on January 20, 2008.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2009.

Staff Summary of Public Testimony on Original Bill: (Economic Development, Trade & Management) CEZs are areas that have struggled to attract private investments. This will level the playing field. We need to incentivize businesses to stay and invest in our communities. Since warehouses get these benefits, so should corporate headquarters. Idaho has legislation like this in place.

Persons Testifying (Economic Development, Trade & Management): PRO: Senator Kilmer, prime sponsor; Bill Weyerhouser, Executive Council of Greater Tacoma; Dean Hanks, Goodwill; Stan Key, Greater Spokane Inc.; Gob Gee, Tacoma Pierce County Chamber of Commerce; Bob Mitchell, WA Commercial Assoc. Of Realtors; James McMahan, City of Tacoma; Mitzi McMahan, Pierce Co. Economic Development.

Staff Summary of Public Testimony on Substitute Bill (Ways & Means): PRO: Tax incentives can help draw private sector investment in areas that need economic development and employment. The current tax incentives are tailored towards manufacturing and warehousing. Our economy is becoming service-based. This bill makes sense from an economic development perspective: incentivizing siting of corporate headquarters will create family wage jobs in areas that need them. The service sector creates many more family wage

jobs with good benefits than manufacturing and warehousing. Washington needs to become competitive with our neighbors. Oregon does not assess the sales tax. Idaho enacted a headquarters sales tax exemption that is similar to the one proposed by this bill. Spokane is in direct competition with Idaho for the siting of corporate headquarters, and this bill could greatly impact a company's decision. Corporate headquarters are also good employers and community partners. They employ people who are an asset to our communities, who invest and volunteer in their communities. These businesses also create jobs in nearby areas to serve the employees.

Persons Testifying (Ways & Means): PRO: Senator Kilmer, prime sponsor; Bruce Kendall, Economic Development Board for Tacoma-Pierce County; Jim Hedrick, Greater Spokane Incorporated; John Folsom, Brown & Brown, Executive Council for a Greater Tacoma; Bob Mitchell, Realtors Association; Dean Hanks, Tacoma Goodwill.

House Amendment(s): DOR is responsible for certifying when a project is operationally complete.

The survey that is due each year by March 31, begins the year after the project is certified as operationally complete.