

# SENATE BILL REPORT

## SB 5701

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As of March 27, 2015

**Title:** An act relating to creating a business and occupation tax credit for advanced composite manufacturing and wholesaling.

**Brief Description:** Creating a business and occupation tax credit for advanced composite manufacturing and wholesaling.

**Sponsors:** Senators Warnick, Hargrove and Conway; by request of Office of Financial Management.

**Brief History:**

**Committee Activity:** Trade & Economic Development: 2/18/15 [DP-WM, DNP].  
**Ways & Means:** 3/25/15.

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### SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

**Majority Report:** Do pass and be referred to Committee on Ways & Means.  
Signed by Senators Brown, Chair; Braun, Vice Chair; Angel and Ericksen.

**Minority Report:** Do not pass.  
Signed by Senators Chase, Ranking Minority Member; Frockt and McCoy.

**Staff:** Jeff Olsen (786-7428)

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Juliana Roe (786-7438)

**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. Businesses must pay B&O tax even though they may not have any profits or may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services, and activities not classified elsewhere. However, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

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*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.*

**Summary of Bill:** Manufacturers and wholesalers of carbon fiber, carbon fiber composites, or carbon fiber composite products are eligible for a B&O tax credit equal to 40 percent of their B&O taxes due. The following conditions apply to the tax credit:

- It is limited to \$500,000 per person per year;
- There is a \$4 million statewide cap per year;
- It is available on a first-in-time basis;
- It does not carry over if the cap is exceeded; and
- It does not apply to commercial airplanes.

The credit expires on July 1, 2020.

A tax preference performance statement specifies the credit is intended to improve industry competitiveness and to create and retain jobs.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2015.

**Staff Summary of Public Testimony (Trade & Economic Development):** PRO: Washington is home to a growing supply chain for carbon fiber, which is currently being used in aerospace and automobile parts manufacturing. Carbon fiber is stronger and lighter than steel and may be used in a wide range of products. There is great competition to attract this industry, with average annual wages in the composite industry of \$60,000–\$80,000 and Washington wants to encourage manufacturers and suppliers to locate here.

**Persons Testifying (Trade & Economic Development):** PRO: Kelly Ogilvie, Governor's Office.

**Staff Summary of Public Testimony (Ways & Means):** PRO: Tax incentives and tax preference can play an important part of the economic development of our state. We believe there are a few attributes to pay attention to. We have a natural advantage in the industry. It creates high-wage jobs. There's fierce competition, often internationally, for these types of manufacturers. And last, the incentive makes a difference in decisions that are being made. In 2010 we looked at 80 firms that do this type of work and they were generating \$3.1 billion in gross business income (GBI) and 8000 jobs. We saw 55 percent growth in three years in GBI and 2000 extra jobs in those 80 firms in that three-year period. We expect composites to grow by over 30 percent by 2019. It's a huge growth opportunity.

**Persons Testifying (Ways & Means):** PRO: Senator Warnick, prime sponsor; Nick Demerice, Commerce.

**Persons Signed in to Testify But Not Testifying:** No one.