

HOUSE BILL REPORT

E2SHB 2342

As Passed Legislature

Title: An act relating to international services.

Brief Description: Providing tax exemptions for businesses in community empowerment zones that provide selected international services.

Sponsors: By House Committee on Trade & Economic Development (originally sponsored by Representatives Van Luven, McDonald, Regala, Talcott, Huff, Conway, Lantz, Fisher, Gardner, Anderson, Lambert and Boldt).

Brief History:

Committee Activity:

Trade & Economic Development: 1/19/98, 1/22/98 [DPS];

Finance: 2/5/98, 2/9/98 [DP2S(w/o sub TED)].

Floor Activity:

Passed House: 2/25/98, 95-1.

Passed Legislature.

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Van Luven, Chairman; Dunn, Vice Chairman; Veloria, Ranking Minority Member; Eickmeyer, Assistant Ranking Minority Member; Alexander; Ballasiotes; Mason; McDonald and Morris.

Staff: Kenny Pittman (786-7392).

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Trade & Economic Development. Signed by 13 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Boldt; Conway; Kastama; Mason; Morris; Pennington; Thompson and Van Luven.

Minority Report: Without recommendation. Signed by 1 member: Representative Schoesler.

Staff: Rick Peterson (786-7150).

Background: The Community Empowerment Zone program was created in 1993 to target the combined efforts and resources of the public and private sector in a partnership designed to create an environment in which reinvestment can occur. The Department of Community, Trade, and Economic Development was authorized to designate up to six areas for participation in the program by March 1, 1994. A community empowerment zone is a geographic area that is characterized as having high unemployment rates and a preponderance of low-income households. The existing jurisdictions that contain designated community empowerment zones are the cities of Yakima, Seattle, Tacoma, Bremerton, and White Center in King County.

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. Businesses are taxable according to the activities they engage in and therefore may be subject to more than one tax rate.

The state of Washington imposes an insurance premiums tax on authorized insurers. The insurance premiums tax is in lieu of a business and occupation tax. The tax is based on 2 percent of the net premiums received by authorized insurers, except title insurers and fraternal benefit societies, after deduction of premiums that are returned to policyholders.

Summary of Bill: A credit is provided against either the business and occupation (B&O) tax or the insurance premiums tax that is equal to \$3,000 per year for a five-year period for each "net new job" created after the July 1, 1998.

To be eligible for the tax credit the business must be: (1)(a) located in a designated community empowerment zone or (b) a contiguous group of census tracts that (i) meet the unemployment and poverty criteria of a community empowerment zone, and (ii) is located in a city or contiguous group of cities with a population greater than 80,000 that is in a county that does not have a community empowerment zone; and (2) engaged in providing international services.

A business may not claim the credit for hiring an employee to a position that existed before July 1, 1998. The business may accrue and carried forward credits until used. No refunds may be granted for unused credits.

A business is subject to a penalty in the amount of the tax credit and interest if the person is not eligible for the credit. The interest on the tax credit is assessed retroactively to the date the tax credit was taken, and accrues until the taxes are repaid in full.

"International services" means the provision of a service that is for a person outside the United States or the services 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.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on the second substitute bill on February 10, 1998.

Effective Date: The bill takes effect on July 1, 1998.

Testimony For: (Trade & Economic Development) This model has been successful in revitalizing an area of Dublin, Ireland. The United States' service industry is number one in the world. This incentive allows the state to build on the national position. The businesses that will locate in the designated area will serve countries in Europe and the Pacific Rim. The economic benefit of having new businesses locate in the designated area will provide increased employment opportunities to area residents. This bill provides another tool to help local governments in their efforts to revitalize designated areas.

(Finance) With these incentives we can bring to Washington the financial and other services industry that serve foreign markets. These are highly mobile jobs and will not come to Washington unless there is an incentive. The west coast of the U.S. is the center of the workday for the entire world. We can take advantage of our location and the expertise of the existing firms that service international businesses.

Testimony Against: (Trade & Economic Development) None.

(Finance) None.

Testified: (Trade & Economic Development) Representative Steve Van Luven, prime sponsor; Catherine Rudolph, Australia/New Zealand America Society; Shirl Gilbert, Tacoma Empowerment Consortium; Connie Bacon, Port of Tacoma; Ian McGowan, Kaiser Aluminum; Warren Thompson, Frank Russell Company; and Wes Pruitt, Workforce Training and Education Coordinating Board.

(Finance) Representative Van Luven, sponsor; Ian Mac Gowan, Kaiser Aluminum (pro); Casey Cochrane, Tacoma-Pierce Chamber (pro); Joe Quintana, The Frank Russell Company (pro); Kari Frank, Puyallup Tribe (pro); and Randy Lewis, City of Tacoma (pro).