
Finance Committee

ESSB 5899

Brief Description: Providing a business and occupation tax credit for qualified employment positions.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Franklin, Kastama, Shin, Marr, McAuliffe, Haugen, Brown, Berkey, Prentice, Fairley, Regala, Keiser, Eide, Rockefeller, Murray, Hatfield, Hargrove, Sheldon, Oemig and Kline).

Brief Summary of Engrossed Substitute Bill

- Authorizes a credit against the state's business and occupation tax for businesses with 20 or fewer employees that create a new position for which a health care plan is offered.
- Caps the annual credit statewide at \$10 million and prohibits the Department of Revenue from accepting applications after June 30, 2012.

Hearing Date: 3/18/10

Staff: Jeffrey Mitchell (786-7139).

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. Depending on the types of activities conducted, a business may have more than one B&O tax rate. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, as well as activities not classified elsewhere.

The B&O tax credits for new job creation are currently provided for: manufacturing, research and development, or computer service firms in rural counties or community empowerment zones (CEZs); international services jobs created after July 1, 1998, in a CEZ or in a city over 80,000

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that designates a CEZ-like area; and for manufacturers of semi-conductor materials that meet certain conditions.

The state's Minimum Wage Act requires employers to pay their employees no less than the state minimum wage rate. Pursuant to Initiative 688, the Department of Labor and Industries adjusts the state minimum wage rate for inflation each year. The state minimum wage rate is \$8.55 per hour in 2010.

Summary of Bill:

A business located within the state with 20 or fewer employees that creates a new employment position for which a health care plan is offered is eligible for a credit against the B&O tax.

The amount of the credit depends upon the amount of wages: \$4,000 for each qualified employment position with annual wages and benefits above \$40,000; and \$2,000 for each qualified position with annual wages and benefits between 150 percent of minimum wage and \$40,000.

These tax credits may not be claimed by businesses that receive the B&O tax credits for new semi-conductor materials manufacturing jobs, for certain new international services jobs in specific areas, or for new manufacturing, research and development, or computer service jobs in rural counties or community empowerment zones. A recipient may not use the tax credits to decertify a union or to displace existing jobs in any community in the state.

Methods are prescribed for calculating the amount of the credit. A process and timeline is provided for applying for the credit and for reporting to the Department of Revenue (DOR). Recipients must keep certain records to verify eligibility. If a business does not submit an adequate report, the DOR may declare the taxes immediately payable. If the business is found ineligible because it failed to create the required number of qualified employment positions, the DOR must assess interest, but not penalties, until the taxes and interest are repaid. If the business is found not eligible for other reasons, the taxes are immediately payable. Applications, reports, and other information received by the DOR are not confidential and are subject to disclosure.

The DOR must keep a running total of all credits allowed each fiscal year. Credits are capped at \$10 million per year. If all or part of an application for credit is disallowed due to the cap being reached, the disallowed portion must be carried over to the next fiscal year. A credit may be carried over until used. No applications may be accepted by the DOR after June 30, 2012.

Appropriation: None.

Fiscal Note: Requested on March 17, 2010.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.