

HOUSE BILL REPORT

HB 1421

As Reported By House Committee On:

Finance

Title: An act relating to business incentives for distressed areas.

Brief Description: Providing business incentives for distressed areas.

Sponsors: Representatives Sheldon, Foreman, Johnson, Hatfield, Buck, Grant, Schoesler, Chappell, Basich, Kessler, Morris, Skinner, Thompson, Campbell, Costa, Hargrove, Chandler, Mastin, Wolfe and Quall.

Brief History:

Committee Activity:

Finance: 2/15/95, 2/27/95 [DPS].

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives B. Thomas, Chairman; Boldt, Vice Chairman; Carrell, Vice Chairman; Morris, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Hymes; Mason; Mulliken; Pennington; Schoesler; Sheldon and Van Luven.

Staff: Bob Longman (786-7139).

Background: The state of Washington has created various tax incentives to encourage the development or retention of businesses in economically distressed areas. Economically distressed areas are those counties having an unemployment rate that is 20 percent higher than the state average, designated community empowerment zones within cities, or sub-county areas in non-distressed counties that are in timber impact areas.

The Distressed Area Tax Deferral program was created in 1985 to encourage economic development in eligible areas. Manufacturing, research and development, and computer-related service businesses are given a deferral on their sales and use taxes on buildings, machinery and equipment, and construction or installation labor. The business must create one job per \$750,000 of investment. The sales and use tax is forgiven on new buildings, new equipment, and modernization of existing buildings.

The Distressed Area Business and Occupation Tax Credit program was created in 1986 as an incentive for manufacturing, research and development, and computer-related service to create employment opportunities in eligible areas. Businesses in eligible areas that create a new work force or increase an existing work force by 15 percent are allowed a business and occupation (B&O) tax credit equal to \$1,000 for each new full time employment position. No more than \$15 million in total tax credits are allowed per biennium. No single business may receive more than \$300,000 in tax credits.

Summary of Substitute Bill: The state's package of incentives to encourage businesses to locate in economically distressed areas is amended and expanded.

Distressed Area Business and Occupation Tax Credit

The amount of tax credit available to manufacturing, research and development, and computer-related service businesses in distressed areas is increased from \$1,000 to \$2,000 for each new full time employment position. The business must either create a new work force or increase an existing work force by 15 percent to be eligible for the tax credit. The increased credit is available for projects approved after January 1, 1996.

Distressed Area Employee Job Training Tax Credit

A business and occupation tax credit program is created for state-approved, employer provided or sponsored job training services for employees. The state-approved job training services must be provided free to the employee and be designed to enhance their job-related performance. The tax credit is available to manufacturing, research and development, and computer-related service businesses in distressed areas. The tax credit is equal to 10 percent of the value of the state-approved job training services. The business must request approval from the Department of Employment Security prior to claiming the credit.

Substitute Bill Compared to Original Bill: The substitute bill eliminated the expansion of eligible projects to include warehouses and the B&O deduction for loans in distressed areas. The increase to \$2,000 for B&O credit for jobs creation applies only to projects approved on or after January 1, 1996. The job training credit is unchanged.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 28, 1995.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect July 1, 1995.

Testimony For: The availability of the sales tax exemption for machinery and equipment state-wide means that distressed areas will no longer have a tax advantage (2SHB 1024). Something needs to be done for distressed areas to provide an incentive to businesses to locate there. These incentives help support economic development efforts that benefit low income people and timber distressed areas.

Testimony Against: None.

Testified: (Pro) Representative Tim Sheldon, prime sponsor; Bill Lotto, Lewis County Economic Development Council; Sam Noel, Cowlitz Economic Development Council and Longview Area Chamber; and Jenene Gibbs, Economic Development Association of Skagit County.