

HOUSE BILL REPORT

HB 1304

As Reported By House Committee On:

Trade & Economic Development

Title: An act relating to sales and use tax exemptions for call centers in distressed areas.

Brief Description: Authorizing sales and use tax exemptions for call centers in distressed areas.

Sponsors: Representatives Sheldon, Buck, Morris, Pennington, DeBolt, Linville, Johnson, Dunshee, Honeyford, Skinner, Grant, Gardner, Kessler, Schoesler, Doumit and Hatfield.

Brief History:

Committee Activity:

Trade & Economic Development: 2/5/97, 2/19/97, 2/20/97 [DPS].

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Van Luven, Chairman; Dunn, Vice Chairman; Veloria, Ranking Minority Member; Sheldon, Assistant Ranking Minority Member; Alexander; Mason; McDonald and Morris.

Staff: Kenny Pittman (786-7392).

Background: The state of Washington's tax structure includes a retail sales and use tax. A retail sales tax is imposed on the sale of tangible personal property and certain services purchased at retail. In general, the tax applies to goods, construction including labor, repair of tangible personal property, lodging for less than 30 days, telephone service, participatory recreational activities, and some personal and professional services. The state also imposes a use tax on items used in the state, where the acquisition was not subject to the retail sales tax. These include purchases made in other states, purchases where the seller does not collect sales tax, and items produced for use by the producer.

The state's retail sales and use tax is based on 6.5 percent of the selling price of the event. Local governments may also impose an additional sales and use tax up to 1.7

percent of the taxable event. The combined state and local retail sales and use tax rate currently ranges from 7.0 to 8.2 percent.

The state has developed several sales and use tax exemption programs. These programs are designed to provide an exemption from state and local sales and use taxes for specific firms to encourage their location or expansion within Washington.

Summary of Substitute Bill: A sales and use tax exemption is created for businesses located within an eligible area and engaged in call center activities. An exemption of both the state and local sales and use tax is available for (1) the purchase of machinery and equipment used for call center activities; (2) labor and services involved in installing, repairing, cleaning, altering, or improving machinery and equipment used for call center activities; (3) new construction or improvement of buildings used for call center activities; and (4) labor and services necessary for construction or improvement of the buildings. The business must make an investment of at least \$200,000 in buildings or machinery and equipment to be eligible for the tax exemption.

The purchaser must provide the seller with an exemption certificate in a form and manner prescribed by the Department of Revenue. The purchaser must provide the Department of Revenue with either a copy of a certificate of individual exempt sales or a summary of exempt sales within a specified period.

Call centers. Defined as an independent business operation, leased facility, or division of an existing business with 50 or more employees, engaged in telecommunications business activities involving financial transactions, technical support operations, customer services, telemarketing, and charitable fund-raising activities.

Eligible areas. Defined as (1) a county that has an unemployment rate that exceeds the state unemployment rate by 20 percent; (2) a rural natural resources impact area; (3) a community empowerment zone; or (4) a Governor-designated militarily impacted area.

Machinery and equipment. Defined as commercial fixtures, devices, support facilities, and tangible personal property, including electronic communications equipment, communications system infrastructure components, computer software and hardware, and office furniture.

Substitute Bill Compared to Original Bill: The substitute bill adds counties with an unemployment rate that exceeds the state unemployment rate by 20 percent and requires an investment of at least \$200,000, by the business, to be eligible for the tax exemption.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: This is a growing industry that is not coming to Washington. We need incentives to attract jobs in catalog sales, computer-related technical support, financial services to the distressed areas of the state. These family wage jobs will help diversify the local economy from resource-based industries. This is an additional component in an economic development strategy designed to help distressed areas.

Testimony Against: None.

Testified: Representative Sheldon, prime sponsor (pro); David McCraney, Department of Community, Trade and Economic Development (pro); and Bill Lotto, Lewis County Economic Development Council (pro).