

January 19, 1998

**BILL ANALYSIS**

TO: Members, Committee on Trade and Economic Development

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: **HB 2342 - Providing tax exemptions for businesses in community empowerment zones that provide selected international services.**

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**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. Business 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 premium 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:**

A credit is provided against either the business and occupation

(B&O) tax or the insurance premiums tax that is equal to 5 percent of the qualified payroll of businesses. A business must meet the following criteria to be eligible for the tax credit: (1) Located in a designated community empowerment zone; (2) Engaged in providing selected services on an international basis; (3) Expend at least 20 percent of the value of the tax credit on training of community empowerment zone residents; (4) Provide internship positions through a targeted program of study offered at local educational institutions; and (5) Hire at least 20 percent of total employees located in the community empowerment zone from applicants that resided in the community empowerment zone at the time of their application for employment.

A business may not use the tax credit to relocate existing jobs in a community in the state to the community empowerment zone. No business may claim an annual tax credit in excess of their annual tax liability.

**Selected international services**— means a business that either provides services related directly to the delivery of services outside the United States or on behalf of persons residing outside the United States. These services include computer, data processing, information, legal, accounting, tax preparation, design, engineering, architectural, business consulting, business management, public relations and advertising, surveying, geological consulting, real estate appraisal, and financial.

**Qualified payroll**— means gross wages and benefits paid or accrued, to each employee of the business that is directly involved in providing international services and was hired after the effective date of the act, for the first five years of the employee's employment within the community empowerment zone.

Appropriation: None.

Fiscal Note: Requested January 14, 1998.

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