

HOUSE BILL REPORT

HB 2342

As Reported By House Committee On:
Trade & Economic Development
Finance

Title: An act relating to international services.

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

Sponsors: 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)].

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).

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 Substitute Bill: 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; (5) provide summer employment opportunities to high school aged youth that reside within a community empowerment zone; and (6) 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 service 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.

Substitute Bill Compared to Original Bill: The substitute: (1) added the requirement that businesses that claim the tax credit must also provide summer youth employment opportunities to high school aged youth that reside in the community empowerment zone; and (2) delayed the effective date to July 1, 1998.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: 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.

Testimony Against: None.

Testified: 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.

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).

Summary of Recommendation of Committee on Finance Compared to Recommendation of Committee on Trade & Economic Development: The recommendations are the same, except that: (1) the community empowerment zone hiring requirement is increased from 20 percent to 25 percent; (2) employees must continue to reside in the community empowerment zone for five years after being hired and pay rent or mortgage payments less than 120 percent of fair market rents to count against the 25 percent hiring requirement; and (3) the tax credit is limited to payroll that exceeds the five year average growth in wages.

Appropriation: None.

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

Effective Date of Second Substitute Bill: The bill takes effect on July 1, 1998.

Testimony For: 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: None.

Testified: 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).