

# HOUSE BILL REPORT

## HB 1473

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**As Reported By House Committee On:**  
Economic Development, Housing & Trade

**Title:** An act relating to small business financing in community empowerment zones.

**Brief Description:** Exempting interest on loans to small businesses in community empowerment zones.

**Sponsors:** Representatives Gombosky, Benson, Wood, Morris, D. Sommers, Schindler, Crouse, Veloria, Miloscia, Eickmeyer, Kessler and Kenney.

**Brief History:**

**Committee Activity:**

Economic Development, Housing & Trade: 2/23/99, 2/26/99 [DP].

**Brief Summary of Bill**

- Exempts the interest income earned by financial institutions on loans made to small businesses located in a Community Empowerment Zone from business and occupation (B&O) taxation.

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### HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, HOUSING & TRADE

**Majority Report:** Do pass. Signed by 11 members: Representatives Van Luven, Republican Co-Chair; Veloria, Democratic Co-Chair; Dunn, Republican Vice Chair; Ballasiotes; Gombosky; Miloscia; Morris; Radcliff; Skinner; D. Sommers and Wolfe.

**Staff:** Kenny Pittman (786-7392).

**Background:**

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is levied on the gross proceeds of sale or the gross income of a business, without any deduction for the cost of doing business. The tax rate varies depending on the type of activities the business is engaged in and therefore may be subject to more than one tax rate.

A business that provides financial services including banking, securities and/or investment management, investment advising and similar activities are subject to the B&O tax rate of 1.5 percent. Any interest income earned on loans made by financial institutions, to a business, is considered gross income and therefore is subject B&O taxation.

The Community Empowerment Zone program was created in 1993 to encourage public and private reinvestment in designated areas of economically distressed communities. Currently, there are five geographic areas designated as Community Empowerment Zones within the state: Seattle, Tacoma, Bremerton, Yakima, and White Center in King County. The incentives available to businesses located in the Community Empowerment Zones are: (i) a sales and use tax exemption on the construction of buildings and structures; (ii) a B&O tax credit for job creation by manufacturing and research and development businesses; and (iii) a B&O tax credit for job creation by businesses that provide international services.

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**Summary of Bill:**

The amounts earned as interest on loans made by financial institutions to small businesses located in a Community Empowerment Zone is not subject to B & O taxation. Eligibility is limited to loans that are made to businesses: (i) with less than 25 employees and (ii) that are located in an area designated as a Community Empowerment Zone by the Department of Community, Trade, and Economic Development.

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**Appropriation:** None.

**Fiscal Note:** Requested on February 22, 1999.

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

**Testimony For:** This bill will provide another tool to help revitalize these areas by increasing a small businesses "access to capital." The availability of financing is vital for job creation and expansion.

**Testimony Against:** None.

**Testified:** Representative Gombosky, prime sponsor.