

February 23, 1999

BILL ANALYSIS

TO: Members, Committee on Economic Development, Housing, and Trade
FROM: Kenny Pittman, Research Analyst (786-7392)
RE: **HB 1473 - Exempting interest on loans to small businesses in community empowerment zones.**

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.

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 at a 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 deferral/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.

SUMMARY:

The amounts earned as interest on loans made by financial institutions to small businesses located in a Community Empowerment Zone is not subject to business and occupation (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.

Appropriation: None.

Fiscal Note: Requested February 19, 1999.

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