

***Trade & Economic Development
Committee***

HB 1723

Brief Description: *Establishing a program to promote economic revitalization.*

Sponsors: *Representatives Ogden (co-prime sponsor), Pennington (co-prime sponsor), Reardon, Veloria, Conway, Dunn, Benson, Fromhold, Wood, Sump, Gombosky, Kirby, Darneille, Hatfield, Santos, Haigh, O'Brien and Keiser.*

Brief Summary of Bill

- *Provides a business and occupation (B&O) tax credit for cash contributions by businesses that are used to support a local downtown or neighborhood commercial district revitalization program.*
- *Provides a 10-year property tax exemption on improvements made to commercial buildings that are located within the boundaries of a local downtown or neighborhood commercial district revitalization program.*
- *Allows a city or town impose a sales and use tax on retail sales that is credited against the state's sales and use tax with the monies used to pay the cost of improvements within a downtown or neighborhood commercial district revitalization area.*
- *Creates the Washington Main Street program within the Department of Community, Trade, and Economic Development.*

Hearing Date: *2/13/01*

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

Background:

The Department of Community, Trade, and Economic Development (DCTED) provides technical assistance to local governments and nonprofit organizations that undertake

downtown or neighborhood commercial district revitalization efforts. These includes efforts through either the National Main Street program or locally-developed revitalization efforts. The DCTED provides this assistance under its general duties and powers.

Washington's major business tax is the business and occupation (B&O) tax. Almost all businesses located or doing business in the state of Washington are subject to the B&O tax. This includes corporations, partnerships, sole proprietors, and nonprofit organizations. The B&O tax is imposed on the gross receipts of business activities conducted within the state. Businesses are taxable according to the activities they are engaged in and therefore may be subject to more than one tax rate.

All real property is subject to taxation, unless is it exempt by statute or the federal or state Constitutions. Property taxes are based on the assessed value of real property, including the land itself, and all buildings, structures, or improvements or other fixtures sitting upon such land.

A sales tax is imposed on retail sales of most items of tangible personal property and some services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. A use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to the sales tax. The use tax is equal to the sales tax rate multiplied by the value of the property used. The total state and local sales or use tax rate is between 7 percent and 8.6 percent, depending on the jurisdiction.

Summary of Bill:

The Washington Main Street program is established in statute and various tax incentives are created to assist in the revitalization of downtown or neighborhood commercial districts.

A. Tax Incentives for Downtown or Neighborhood Commercial Revitalization

Three tax incentive programs are created to assist local governments in the revitalization of their downtown or neighborhood commercial districts. The tax incentive programs are: (1) Business and occupation tax credits for private contributions; (2) property tax exemption on commercial building improvements; and (3) local option sales and use tax credit for improvements.

1. Business and Occupation Tax Credits for Private Contributions

A business and occupation (B&O) tax credit is provided to businesses that make contributions that are used for the development and operation of a downtown or neighborhood commercial district revitalization program. The two-tier tax credit is based on either: (1) seventy-five percent of the value of the cash contribution that is made, by a business, directly to a local downtown or neighborhood commercial district revitalization program; or (2) fifty percent of the value of the cash contribution that is made, by a business, to the Department of Community, Trade, and Economic Development (DCTED) for distribution as financial assistance, or used to acquire

technical assistance, to local downtown or neighborhood commercial district revitalization programs. A local downtown or neighborhood commercial district revitalization program that is located in a city with a population greater than 100,000, cannot receive more than \$100,000 in tax credits in a calendar year. The total tax credits that a business can receive cannot exceed \$250,000 in a calendar year. The total tax credits available on a state-wide basis cannot exceed \$2 million in a calendar year.

2. Property Tax Exemption on Commercial Building Improvements

A property tax exemption is provided for physical improvements to a commercial building that is located within the boundaries of a downtown or neighborhood commercial district revitalization program that is approved by the DCTED. The exemption is for a ten years, if the improvements meet the guidelines established by the local downtown or neighborhood commercial district revitalization program. The request for the exemption must be filed before any improvements are made on forms prescribed by the Department of Revenue and furnished by the County Assessor. The exemption cannot be claimed more than once in a 15-year period. The exemption cannot be claimed on buildings that also claim the 10-year property tax exemption for new or rehabilitated multiple-unit dwellings in urban centers.

3. Local Option Sales and Use Tax Credit for Improvements

The legislative authority of a city or town is authorized to impose a sales and use tax on all retail sales within the boundaries of the city or town. The local option tax rate is either: (1) 0.035 percent of the selling price in the case of a sales tax or value of the article used in the case of a use tax in those cities or towns with a population under 100,000 and cities that include an official local Main Street program; or (2) 0.0095 percent of the selling price in the case of a sales tax or value of the article used in the case of a use tax in those cities or towns with a population over 100,000. The local option tax is credited against the state's 6.5 percent sales and use tax. There is not increase in the amount of tax paid by the purchaser. The tax proceeds must be used to pay the cost for improvements in downtown or neighborhood commercial revitalization districts that include public infrastructure improvements; professional management and promotion services; maintenance and security for common or public areas; and historic preservation activities.

B. Washington Main Street Program

The Washington Main Street program is created by statute within the Department of Community, Trade, and Economic Development (DCTED). The DCTED must: (1) provide technical assistance to businesses, property owners, organizations, and local governments on the design and development of a local revitalization strategy and program; (2) provide financial assistance, to the extent funds are available, to local governments or local organizations to assist in start-up costs, feasibility studies, marketing studies, and design assistance; (3) develop criteria for selecting recipients of financial assistance and designation of a local program under the various categories; (4) operate the main street program in accordance to the plan developed by DCTED, in consultation with the

Washington Main Street Advisory Committee; and (5) allow certification of local downtown or neighborhood commercial revitalization programs by local governments with a population greater than 100,000.

The Washington Main Street Advisory Committee is created in DCTED. The advisory committee consists of 10 members appointed by the director of DCTED. The membership of the advisory committee consist of: (1) the director of DCTED or the director's designee, who shall serve as chair; (2) two representatives of local governments; (3) the chair of the Governor's Small Business Improvement council; (4) five representatives from existing main street programs; and (5) one representative of the Washington state office of archaeology and historic preservation. The advisory committee assists DCTED in the development of the plan for the operation of the Washington Main Street program.

The Washington Main Street Trust Fund is created for the receipt of private cash contributions, federal funds, legislative appropriations, and fees for services. Funds in the trust fund may only be used for the operation of the Washington Main Street program.

Appropriation: *None.*

Fiscal Note: *Requested on February 1, 2001.*

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