

# HOUSE BILL REPORT

## HB 2666

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**As Passed House:**

February 18, 2002

**Title:** An act relating to small business innovative research awards.

**Brief Description:** Exempting small business innovative research awards from business and occupation tax.

**Sponsors:** By Representatives Veloria, Dunn, Bush, Roach, Casada, Anderson and Santos.

**Brief History:**

**Committee Activity:**

Trade & Economic Development: 2/5/02, 2/7/02 [DPS];

Finance: 2/11/02 [DPS(TED)].

**Floor Activity:**

Passed House: 2/18/02, 94-0.

**Brief Summary of Bill**

- Provides an exemption from the state's Business and Occupation (B&O) tax on amounts received by a small business under the Federal Small Business Innovation Research (SBIR) program.
- Requires a small business that receives the B&O tax exemption for a federal SBIR grant to disclose information on job creation and wage ranges to the Department of Revenue (DOR).

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### HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Veloria, Chair; Eickmeyer, Vice Chair; Ahern, Chase, Fromhold and Gombosky.

**Minority Report:** Without recommendation. Signed by 2 members: Representatives Dunn and Mulliken.

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

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill by Committee on Trade & Economic Development be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Morris, Nixon, Orcutt, Roach, Santos, Van Luven and Veloria.

**Staff:** Rick Peterson (786-7150).

### **Background:**

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, without any deduction for the costs of doing business.

The Federal Small Business Innovation Research (SBIR) program was established by the Small Business Innovation Development Act of 1982 (Public Law 97-219). The objectives of the SBIR program include: (a) increasing private sector commercialization of innovations derived from federal research and development (R&D); (b) stimulating technological innovation in the private sector; and (c) increasing commercial application of federal Department of Defense-supported research.

Currently, the SBIR program provides up to \$850,000 in early stage R&D funding directly to small technology companies, or individual entrepreneurs who form a company. Amounts received by a small business under the SBIR program are subject to taxation under the state's B&O tax laws.

### **Summary of Bill:**

The state's B&O tax does not apply to amounts received by a small business under the federal SBIR program.

A small business that receives a B&O tax exemption on amounts received under the federal SBIR program must file a business incentive disclosure form that contains information on job creation and wage ranges. The report must be filed by March 1 of each year. A small business that fails to submit the required report is not eligible on a prospective basis for other types of business incentives administered by DOR until the report has been approved by the DOR.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** (Trade & Economic Development) We should not tax amounts received through a federal grant that is designed to encourage R&D by small businesses. Their efforts will lead to the development of products that will have commercial application. This is a good bill for the state's small businesses.

**Testimony For:** (Finance) None.

**Testimony Against:** (Trade & Economic Development) None.

**Testimony Against:** (Finance) None.

**Testified:** (Trade & Economic Development) Representative Veloria, prime sponsor; and Mark Johnson, National Federation of Independent Business.

**Testified:** (Finance) None.