
**Trade & Economic Development
Committee**

HB 1035

Brief Description: Authorizing a business and occupation tax credit for corporations establishing headquarters in this state.

Sponsors: Representatives Morris, Linville, Simpson, G., Anderson, O'Brien, Haigh, Sullivan and Hudgins.

Brief Summary of Bill

- Creates a business and occupation (B&O) tax credit for high tech businesses that establish a corporate headquarters or expand or add to an existing corporate headquarters in Washington.
- Allows a B&O tax credit of up to 20 percent of qualifying real property costs, over \$50,000, associated with the establishment, expansion, or addition to the corporate headquarters or direct costs during the first 5 years associated with leased facilities if 40 new, full-time, permanent jobs are created in Washington.
- Allows a B&O tax credit for certain tangible personal property if 75 new full-time jobs are created performing headquarters related functions and services or research and development.

Hearing Date: 1/23/03

Staff: Tracey Taylor (786-7196).

Background:

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2001, B&O tax collection totaled \$2.0 billion which represented approximately 17.3 percent of state revenue sources within the state general fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. there are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise tax

Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business's CETR as part of the business's gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services. Credits are amounts that have been paid to the Department of Revenue which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit and the small business B&O tax credit.

B&O tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

According to the 2001 Data Book published by the Office of Financial Management, the per capita personal income for 2000 was \$31,129.00 (this figure is preliminary).

Summary of Bill:

A B&O tax credit is created for businesses establishing a corporate headquarters in Washington or expanding or adding to an existing corporate headquarter. In order to be considered a corporate headquarters, the corporate staff employees must be physically employed in the facility or portion of a facility where the majority of the company's financial, personnel, legal, planning, information technology or other headquarters related functions are handled either on a regional or national basis. the principal activity of the business must be related to high technology.

B&O tax Credit for Real Property Costs

The credit of up to 20 percent of the qualifying costs can be taken for real property costs that exceed \$50,000 for the establishment, expansion or addition to real property or direct costs associated with leased facilities for the first 5 years. In order qualify for the credit, at least 40 new, full-time, permanent jobs must be created in Washington. these jobs must be performing headquarter related functions and services or research and development. At least 20 out of the 40 new jobs must be classified as headquarters staff employees.

B&O tax Credit for tangible Personal Property Costs

An additional credit is available for tangible personal property if the personal property is: capitalized for federal income tax purposes; purchased for the establishment, expansion, or addition to the corporate headquarters; used for corporate headquarters related functions and services or research and development in this state; and at least 75 new full-time jobs are created performing headquarters related functions and services or research and development. the average income of the 75 new jobs must be 1 1/2 times the per capita income of this state and the average income of all the business's employees in the state must be two times the per capita income of this state.

Claiming the B&O Tax Credit

If the corporate headquarters facility is leased then the credit can only be claimed during the tax reporting period in which the first direct costs are incurred. If the headquarters is a constructed facility, the tax reporting period is when the headquarters establishment, expansion or addition is

placed into services for federal income tax purposes. Credits cannot be claimed more than three years after the facility is placed into service and cannot be claimed for tangible personal property replacing tangible personal property for which a credit was previously claimed. If the construction is done in phases, the credit can only be claimed in the tax reporting period in which the property is considered to be placed in service. The Department of Revenue may, when good cause exists, extend the time for claim a tax credit.

An unused B&O tax credit for real property costs may be carried forward for 10 years after the credit was claimed. An unused B&O tax credit for tangible personal property may be carried forward for 15 years.

Staffing Requirements

The staffing requirements must be met by the end of the 2nd calendar year following the most recent calendar year in which the B&O tax credit was claimed. In claiming the tax credit, the business must include plans for meeting the staffing requirement. If the staffing requirement is met within the time required, the business is liable for the payment of additional taxes with interest.

Appropriation: None.

Fiscal Note: Requested on January 13, 2003.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2003.