
Finance Committee

HB 1684

Brief Description: Eliminating the expiration date on the business and occupation tax credit for research and development.

Sponsors: Representatives Cairnes, Nixon, Bush, McDonald, Carrell, Orcutt, McMahan, Shabro, Armstrong, Delvin, Holmquist, Clements, Benson, Mielke, Pflug, Hinkle, Condotta, Anderson, Woods, Buck, Newhouse, Bailey, Kristiansen, Sehlin, Sump, Pearson, Chandler, Ericksen and Roach.

Brief Summary of Bill

- Extends the business and occupation (B&O) tax credit allowed to high technology businesses for certain expenditures associated with research and development (R&D) indefinitely.

Hearing Date: 3/3/03

Staff: Mark Matteson (786-7145).

Background:

Business and Occupation Tax. The business and occupation (B&O) tax is Washington State's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited to the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. The rate at which gross receipts derived from research and development activities are taxed depends on whether the business is for-profit or nonprofit. For-profit firms pay at a rate of 1.5 percent; nonprofits pay at a rate of 0.484 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

Research and Development Tax Incentives. In 1994 the Legislature enacted several tax incentives to encourage additional research and development (R&D) in the high-technology sector. The legislation allows businesses that conduct R&D or pilot scale manufacturing

activities in advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology and that make certain expenditures to be eligible for a credit against state B&O tax.

To qualify for the high technology B&O tax credit for R&D, a firm's annual expenditure for research and development must exceed 0.92 percent of the firm's B&O taxable receipts. For for-profit firms, the amount of tax credit is equal to 1.5 percent of the firm's expenditure for R&D, excluding capital improvement costs. For nonprofit organizations conducting R&D, the credit is equal to 0.484 percent of the R&D expenditures. To claim the credit, an applicant must file an affidavit with the department that includes the amount of credit claimed, an estimate of anticipated R&D expenditures for the year for which the credit is claimed, an estimate of taxable income for the year, and other information that the department deems necessary to administer the credit. If the firm's annual expenditure for R&D fails to exceed 0.92 percent of taxable receipts, the firm is liable for an amount equal to the amount of credit taken, plus interest. A maximum of \$2.0 million in credit is available each year to an eligible firm. The statute is set to expire on December 31, 2004.

The Department of Revenue is required under the 1994 legislation to do an assessment of the program in 1997, 2000, and 2003. The department has estimated that about 500 firms utilize the B&O credit for R&D expenditures, resulting in savings of over \$30 million annually.

Summary of Bill:

The provisions that terminate the business and occupation tax credit provided to high-technology firms for operational expenditures relating to research and development are removed, making the incentive permanent.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.