

SENATE BILL REPORT

ESB 5529

As Passed Senate, April 14, 2003

Title: An act relating to removing the expiration date on the research and development business and occupation tax credit.

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

Sponsors: Senators Esser, Reardon, Finkbeiner, Schmidt, Sheahan, T. Sheldon, Doumit, Rasmussen, Roach, Rossi, Stevens, West and Eide.

Brief History:

Committee Activity: Technology & Communications: 2/6/03, 2/10/03 [DP-WM, DNP].

Ways & Means: 3/6/03, 4/7/03 [DP, DNP].

Passed Senate: 4/14/03, 34-15.

SENATE COMMITTEE ON TECHNOLOGY & COMMUNICATIONS

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Esser, Chair; Finkbeiner, Vice Chair; Eide, Schmidt and Stevens.

Minority Report: Do not pass.

Signed by Senators Poulsen and Reardon.

Staff: William Bridges (786-7424)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Hale, Honeyford, Johnson, Parlette, Roach, Sheahan, B. Sheldon and Winsley.

Minority Report: Do not pass.

Signed by Senators Fairley, Fraser and Regala.

Staff: Terry Wilson (786-7433)

Background: In 1994, the Legislature authorized a business and occupation (B&O) tax credit for high-tech entities in Washington engaged in biotechnology, advanced computing, electronic device technology, advanced materials, or environmental technology. To be eligible, the business must spend 0.92 percent of its gross income on research and development. The amount of the credit is 0.484 percent of eligible research expenditures for nonprofit institutions and 1.5 percent for other firms, with a \$2.0 million maximum annual credit per firm.

The Department of Revenue must report on the effectiveness of the program on job creation, the number of jobs created for Washington residents, company growth, the introduction of new products, the diversification of the state's economy, growth in research and development investment, and the movement of firms or the consolidation of firms' operations into the state by September 1, 2003.

According to the Department of Revenue, about 600 entities are currently using the credit.

The B&O tax credit for research and development expires on December 31, 2004.

Summary of Bill: The B&O tax credit for research and development is extended to January 1, 2015. The Joint Legislative Audit and Review Committee must provide a report on the program every five years.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For (Technology & Communications): Washington is a nationally and internationally renowned technology center, and other states are attempting to lure technology companies based here. Washington's high tech credits and deferrals have worked to keep these companies in Washington. The high tech credits and deferrals allow companies to increase research and development expenditures, which creates a multiplier effect of more high-paying jobs, more new products, and more local tax revenues. Without the credits and deferrals, Washington's high tech companies would have a more difficult time attracting new investment and staying in business. Research institutions should be allowed to participate in the sales and use tax deferral program as was originally intended.

Testimony Against (Technology & Communications): None.

Testified (Technology & Communications): PRO: Nancy Atwood, AeA; Shannon Childs, Paladin Data; Karen Evans, Aptech Systems; Michael Martino, Sonus Pharmaceuticals; Lew McMurrin, WSA; James Ruppel, Philips Medical Systems; Scott Ryan, Medtronic Physio-Control; Jerry Smedes, NW Environmental Business Council; Dick Thompson, U.W.

Testimony For (Ways & Means): The hi-tech industry is a driving force in Washington's economy in part because of these tax incentives. The incentives need to be extended now because business is engaged in long-term planning. Thirty-seven other states provide incentives and this helps make Washington competitive. Money saved from these incentives is reinvested in more research or more jobs. Research results in new products and more tax revenues to the state. The previous studies have not shown these secondary impacts on the economy. This is the state's only direct investment in biotech which relies heavily on venture capital. The credits have made the difference between profitability and bankruptcy. The credit has been successful. You need a non-punitive tax system for hi-tech industries to thrive, and these incentives reduce the punitive nature of the system.

Testimony Against (Ways & Means): There is a severe budget crisis. All tax breaks should be scrutinized to see if they create jobs. Tax breaks stay on the books long after they are relevant. The taxpayers should know why the incentives are being given. These breaks don't expire until next year and the Legislature should wait until the 2003 study is completed before they are extended. The 2000 study showed that the credit cost taxpayers \$345,000 per job created and \$590,000 per job created that was filled by a Washington resident. Underfunding health care shifts costs to hospitals. The Governor's budget cuts threaten health care and health care jobs. These exemptions are not needed. Microsoft does not need a \$2.0 million per year tax break. Business should pay tax like everyone else. A tax break is the same as an expenditure. Many more jobs would be created by using this money for health care. It is hypocritical to talk of scrubbing the expenditure side but not the revenue side. You should not give tax breaks with no end in sight without knowing how it benefits Washington citizens. Extension should be based on data. There is no hurry here.

Testified (Ways & Means): PRO: Nancy Atwood, AeA; Vicki Austin, WBBA; Bill Grinstein, Battelle; Lew McMurrin, WSA, Karen Evans, Aptech Systems; Shannon Childs, Paladin Data Systems; CON: Ellie Menzies, SEIU; Robert Stern, WA State Labor Council.