

SENATE BILL REPORT

SB 5697

As Reported By Senate Committee On:
International Trade & Economic Development, February 17, 2005

Title: An act relating to the high technology business and occupation tax credit.

Brief Description: Modifying the high technology business and occupation tax credit.

Sponsors: Senators Prentice, Zarelli, Sheldon, Shin, Rockefeller and Rasmussen.

Brief History:

Committee Activity: International Trade & Economic Development: 2/10/05, 2/17/05 [DP-WM].

SENATE COMMITTEE ON INTERNATIONAL TRADE & ECONOMIC DEVELOPMENT

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

Signed by Senators Shin, Chair; Sheldon, Vice Chair; Pflug, Ranking Minority Member; Doumit, Eide, Roach and Zarelli.

Staff: Jack Brummel (786-7428)

Background: The business and occupation (B&O) tax is levied for the privilege of doing business in Washington. The tax is levied on the gross receipts of all business activities conducted within the state. There are no deductions for the costs of doing business.

In 1994 the Legislature enacted a B&O tax credit for research and development (R&D) in the high-technology sector. The credit was set at 1.5 percent of R&D spending in 1997. In 2004 the program was extended through 2014 and the credit was linked to the taxpayer's overall average tax rate. Due to an error in the new method of calculation adopted by the legislature, the intent to reduce the credit has not been realized.

A person claiming the credit must supply the Department of Revenue with information on research and development spending, product development, jobs, and wages. Failure to provide the information makes the taxpayer ineligible for the credit.

Summary of Bill: The credit is restored to the 1.5 percent rate.

The Department of Revenue is to extend the time for filing required information if the failure was due to circumstances beyond the control of the taxpayer.

If a person owes a tax because of the retroactive application of the bill, they are given until the end of the year to pay any additional tax without penalties but with interest.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Testimony For: The R&D tax credits have been effective. Hi-tech and manufacturing jobs are good for the economy. The 1.5 percent tax rate is a real advantage for manufacturers - They took the biggest hit when last year's change was made.

Testimony Against: None.

Concerns: Confidentiality of taxpayer information should be restored.

Who Testified: PRO: Tom McBride, AWB; Lew McMurrin, WA Software Alliance; Nancy Atwood, AEA; Ron Newbry, WA Economic Development Assoc. CONCERNS: Dan Coyne, HP.