

HOUSE BILL REPORT

HB 1016

As Reported by House Committee On:
Human Services

Title: An act relating to tax credits for hiring individuals with developmental disabilities.

Brief Description: Providing a business and occupation tax credit for the employment of individuals with developmental disabilities.

Sponsors: Representatives Haler, Green, Takko, Appleton, Conway, Morrell, P. Sullivan, McDonald, Haigh, Simpson, Dunn, Dickerson, Walsh, Roberts, Wallace, Moeller, Linville, B. Sullivan, Springer, Wood, Kenney, Williams, Hinkle, Warnick and Campbell.

Brief History:

Committee Activity:

Human Services: 1/16/07, 1/25/07 [DPS].

Brief Summary of Substitute Bill

- Creates a business and occupation tax credit for employment of persons with developmental disabilities.

HOUSE COMMITTEE ON HUMAN SERVICES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Dickerson, Chair; Roberts, Vice Chair; Ahern, Ranking Minority Member; Walsh, Assistant Ranking Minority Member; Bailey, Darneille, McCoy and O'Brien.

Staff: Sonja Hallum (786-7092).

Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General

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Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted.

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

The major B&O tax credits are: (1) rural area application for B&O tax credit on new employees; (2) high technology B&O tax credit; (3) small business B&O tax credit; (4) multiple activities tax credit; and (5) credits for overpayments of taxes.

Summary of Substitute Bill:

A credit is created for use against any B&O tax due for employers who hire individuals with developmental disabilities. The credit is equal to \$1,000 per year for each full-time employment position filled by an individual with a developmental disability.

The credit may only be taken for employees hired for full-time employment positions on or after July 1, 2007. Positions filled by existing employees are only eligible for the tax credit if the position vacated by the existing employee is filled by a new hire, and both the existing employee and the new hire are individuals with developmental disabilities. The credit may not be claimed if the person has already claimed a different credit with respect to the same employment position.

The employer may take a tax credit for each fiscal year full-time employment is maintained. The credit may be used against any B&O tax owing, or carried over into the next fiscal year. An application is not necessary to claim the credit. However, to claim the credit, the forms must be filed electronically.

The credits are available on a first-in-time basis. The Department of Revenue (Department) is required to maintain a total of all the tax credits allowed during each fiscal year. A limit of \$2 million is imposed as the maximum amount of tax credits for employment of an individual with developmental disabilities which the Department may allow in any fiscal year.

Once the \$2 million cap is reached in a fiscal year, the Department is required to provide notice to the person claiming the credit that they owe tax in that fiscal year and the amount owing. The tax owing shall be due within 30 days from the date of the notice. No penalties shall be assessed by the Department if the amount due is paid by the date indicated in the initial notice. The Department shall also notify the person that they may claim the credit in the following fiscal year, subject to the \$2 million limit.

If the Department finds that the person is not eligible for the tax credit, any tax owing is due immediately. The Department may assess interest, but not penalties on the taxes for which the person claimed, but was not eligible.

Substitute Bill Compared to Original Bill:

Several details of the tax credit are clarified including how long the position must be filled before the credit may be claimed and by whom, the responsibility of the Department of Revenue to notify the person if the \$2 million cap has been reached, the cap on the B&O tax credit of \$2 million applies to this credit only and not to all B&O tax credits in the Chapter, the obligation to pay the tax owing if the cap is met or if the person is not eligible to claim the credit, and that a person may not claim this credit if they have already claimed a different credit for the same position.

The substitute removes the requirement that the Employment Security Department is required to provide the Department of Revenue with information to verify eligibility for the tax credit.

The substitute adds the requirement that the forms be electronically filed in order to claim the tax credit.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2007.

Staff Summary of Public Testimony:

(In support) Many young people with disabilities are being trained for jobs, but are not able to find employment once they finish their training. Employers aren't willing to hire them now. People with developmental disabilities can be productive citizens instead of letting their skills be wasted when they can't find employment. The Department of Revenue would like amendments.

(Opposed) None.

Persons Testifying: Representative Haler, prime sponsor.

Persons Signed In To Testify But Not Testifying: None.