Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1566

Brief Description: Modifying the rural county tax credit.

Sponsors: Representatives VanDeWege, Ericks, McIntire, Ericksen, Ross, Warnick, Condotta, Kessler and McCune; by request of Department of Revenue.

Brief Summary of Bill

- Expands business and occupation tax credit for creating jobs in rural counties and empowerment zones.

Hearing Date: 2/7/07

Staff: Rick Peterson (786-7150).

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. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

A credit against the B&O tax is provided for manufacturing, research and development (R&D) or computer service firms that create new jobs in rural counties or community empowerment areas. Rural counties are defined as those with an average population density of less than 100 persons per square mile. Community empowerment areas exist in King, Kitsap, Pierce, and Spokane counties. The amount of the credit is $2,000 for each new job created, unless the new position is paid wages (including benefits) of more than $40,000 annually in which case the credit is $4,000. To qualify the firm must increase its total employment in an eligible area by at least 15 percent. The amount of credit is capped at $7.5 million annually for all firms.

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To be eligible for the credit a firm must create a new work force, or expand their existing work force by a 15 percent average increase (full-time employment positions) over the preceding calendar year. Firms intending to take the credit must apply with the Department of Revenue before hiring workers for the new positions.

Summary of Bill:

The jobs credit program is changed as follows:

1. The base year for calculating the job increase percentage is calculated based on the previous four calendar quarters rather than the previous calendar year.
2. Application for the credit must be made within 90 days of hiring workers for which credits will be taken rather than before any hiring is done.
3. Job positions that become vacant for up to 120 days may continue to qualify for the credit if the firm is actively recruiting a replacement worker.
4. Seasonal employers may qualify for the credit based on a calculation of full time equivalent employment (35 hours per week).

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2008.