
**Community & Economic
Development & Trade Committee**

HB 2673

Brief Description: Creating a business and occupation tax credit for qualified employer payments on student loans.

Sponsors: Representatives Sells, Upthegrove, McIntire, Simpson and McDonald.

Brief Summary of Bill

- Authorizes a credit against the state business and occupation tax for qualified employers who make student loan payments on behalf of qualified employees.

Hearing Date: 1/23/08

Staff: Meg Van Schoorl (786-7105).

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 deductions for labor, materials, taxes, or other costs of doing business. Revenues from the B&O tax are deposited into the state general fund.

The B&O tax rate varies by business classification. The major classifications and respective rates are: retailing (.00471), wholesaling (.00484), manufacturing (.00484), services and other activities (.015). There are also a number of specialized B&O tax classifications. Statutory exemptions, also known as preferences, confer reduced B&O tax liability upon certain classes of taxpayers through exclusions, deductions, preferential tax rates, deferrals and credits. Examples of B&O tax credits include credits for new jobs in rural areas, small businesses, the motion picture competitiveness program, and aerospace manufacturing.

Summary of Bill:

B&O Tax Credit

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

A B&O tax credit is authorized for qualified employers who make student loan payments on behalf of qualified employees. The credit is equal to the maximum amount of federal or state loan payments which came due and were paid by a qualified employer on behalf of a qualified employee in a calendar year. The maximum credit that may be earned is \$2,000 for each qualified employee who is paid \$40,000 or less per year in wages and benefits, and \$4,000 for each qualified employee who is paid more than \$40,000 per year in wages and benefits. The B&O tax credit earned during one calendar year may be carried over to be credited against taxes incurred in a subsequent calendar year. A person cannot receive this credit if the person is receiving a tax preference under any other statute for the same employment position.

"Qualified employer" and "qualified employee"

A "qualified employer" is a person, individual, company, firm, joint venture, municipal corporation, political subdivision of the state, or other entity as defined in Chapter 82.04.030 RCW that has 50 or fewer employees. If a firm transfers ownership, the credit is available to the succeeding owner only if the successor is a qualified employer and the other eligibility requirements are met.

A "qualified employee" resides and is employed in Washington; has been employed by the qualified employer for at least 12 consecutive months; and, has worked a specified minimum number of hours per week, per quarter, or per year excluding overtime. The employee must have attended for at least two years, and, within the past five years, earned a bachelor or graduate degree, from a Washington state university, regional university or state college. In addition, the employee must have federal, state or a combination of student loan debt with a total principal of at least \$10,000.

Goals, Accountability and Additional Requirements

The goals of the tax credit are to support a vibrant economy through a well-trained, highly skilled workforce and to ensure that individuals who receive high level training in Washington remain in the state upon graduation. To assist the Legislature in evaluating whether the stated goals of the legislation are being achieved, a person taking the credit must submit an annual survey to the Department of Revenue (Department) by March 31. The survey must include the amount of the tax preference taken, the total number of employees, total employees by wage band, by benefits provided and other information requested by the Department. All information except for the amount of the tax preference taken is taxpayer information subject to the confidentiality provisions of Chapter 82.32.330 RCW. The Department must use the survey information to prepare summary descriptive statistics for the Legislature by September 1 annually.

No application needs to be filed for the tax credit. The person must keep necessary records for the department to verify eligibility. If the Department finds a person ineligible for the credit, or if a person fails to submit the annual survey by the due date or extension, taxes are due immediately. Interest must be assessed, but not penalties, at the rate provided for delinquent taxes under chapter 82.32 RCW.

The tax credit expires January 1, 2011; however any credit earned during a reporting period prior to the expiration date may be claimed on or after January 1, 2011.

Appropriation: None.

Fiscal Note: Requested on January 16, 2008.

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