
Finance Committee

SB 5685

Brief Description: Restoring the business and occupation tax credit for high technology research and development spending.

Sponsors: Senators Tom, Schoesler, Zarelli, Oemig, Regala, Kilmer, Kohl-Welles, Rasmussen and Roach; by request of Department of Revenue.

Brief Summary of Bill

- Increases the amount of businesses and occupation tax credit available for research and development spending.

Hearing Date: 3/27/07

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.

The B&O tax allows a credit for operational research and development (R&D) expenditures in high-technology businesses. The credit is provided to businesses, including qualifying nonprofit organizations, that make R&D expenditures in excess of 0.92 percent of taxable income. The R&D eligible for the credit is R&D performed within this state in the fields of advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. No firm may take more than \$2 million a year in credit. The credit program expires on January 1, 2015.

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.

In the 2004 session, the Legislature modified the high technology R&D B&O tax credit. The amount of credit is based on amounts spent on R&D in excess of 0.92 percent of a business' total taxable amount for the year. In addition, calculation of the credit by for-profit firms is based on the average tax rate of the firm for the tax reporting period, rather than 1.5 percent, the requirement prior to the 2004 changes. Therefore the credit is equal to the average tax rate multiplied by the amount spent on R&D in excess of 0.92 percent of the business total taxable amount.

In 2005 additional changes were made to the program. For the purposes of calculating the high technology B&O tax credit for R&D spending, the average tax rate is defined to be business' total annual taxable amount, including both taxable income and the value of the products manufactured. And beginning in calendar year 2007, taxpayers claiming the high-tech R&D credit will calculate the credit based on the firm's average tax rate or a specified percentage, whichever is higher. The specified percentage is 0.75 percent in calendar year 2007; 1.0 percent in 2008; 1.25 percent in 2009; and 1.5 percent in 2010 and thereafter.

Summary of Bill:

The R&D B&O credit is based on the entire amount of R&D spending not just spending in excess of the 0.92 percent qualification threshold. Taxpayers must still spend at least 0.92 percent of a taxpayer's total taxable amount for the year to qualify for the credit.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on October 1, 2007.