

SENATE BILL REPORT

SB 5685

As Passed Senate, March 12, 2007

Title: An act relating to the business and occupation tax credit for high technology research and development spending.

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 History:

Committee Activity: Ways & Means: 2/06/07, 2/07/07 [DP].

Passed Senate: 3/12/07, 45-3.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Dean Carlson (786-7305)

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.

A B&O tax credit for high technology research and development is available for research and development (R&D) expenditures for high technology firms. The credit is equal to the amount of R&D expenditures in excess of 0.92 percent of the firm's taxable amount multiplied by the taxpayer's average tax rate, with a \$2 million maximum annual credit per firm. Beginning in calendar year 2007, the credit is based on the greater of the firm's average tax rate or a specified percentage. The specified percentage is 0.75 percent in calendar year 2007; 1 percent in 2008; and 1.25 percent in 2009. Beginning in calendar year 2010, the tax rate is 1.5 percent. The credit expires January 1, 2015.

Prior to 2004, the credit was available for a firms total R&D expenditures and not just the amounts exceeding 0.92 percent.

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.

Summary of Bill: The B&O tax credit for high technology R&D is based on a qualifying firm's total expenditures rather than on expenditures in excess of 0.92 percent of the firm's taxable amount.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: This is going back to the method of calculating the credit prior to 2004. This increases the amount of credit, especially for smaller business and eliminates a step from the calculation and makes it simpler. This fiscal note reaches more than 600 firms for small amount of money. This bill streamlines the tax code and improves access for small business. This will help high tech industry grow and help the economy of the state.

Persons Testifying: PRO: Gil Brewer, Department of Revenue; Amber Carter, Association of Washington Business; Nancy Atwood, American Electronics Association.