

# SENATE BILL REPORT

## SB 6323

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As Reported By Senate Committee On:  
Economic Development, Trade & Management, January 25, 2008  
Ways & Means, February 27, 2008

**Title:** An act relating to improving the effectiveness of tax incentives for eligible business projects in rural counties and community empowerment zones.

**Brief Description:** Improving the effectiveness of tax incentives for eligible business projects in rural counties and community empowerment zones.

**Sponsors:** Senators Kilmer, King, Kastama, Shin and Rasmussen.

**Brief History:**

**Committee Activity:** Economic Development, Trade & Management: 1/23/08, 1/25/08 [DP-WM].  
Ways & Means: 2/12/08, 2/27/08 [DPS].

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### SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & MANAGEMENT

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators Kastama, Chair; Kilmer, Vice Chair; Zarelli, Ranking Minority Member; Kauffman, King and Shin.

**Staff:** Aaron Gutierrez (786-7448)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 6323 be substituted therefor, and the substitute bill do pass.

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

**Staff:** Dianne Criswell (786-7433)

**Background:** The business & 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 with no deductions for the costs of doing business. A credit against the B&O tax is available for manufacturing, research and development, or computer service

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firms that create new jobs in rural counties or community empowerment zones (CEZ). Rural counties are defined as those with an average population density of less than 100 persons per square mile. There are currently CEZ areas in Bremerton, Seattle/King County, Spokane, Tacoma, and Yakima.

The amount of the B&O tax credit is based on wages and benefits paid for new employment positions. The B&O credit is 2,000 dollars for new positions with annual benefits and wages less than or equal to 40,000 dollars. The credit is 4,000 dollars for new positions with annual wages and benefits of more than 40,000 dollars.

The Department of Revenue (department) keeps a running total of B&O tax credits for job creation allowed each fiscal year. The department must disallow any credit that would cause the total impact to exceed 7.5 million dollars for any fiscal year. Businesses may carry disallowed credits over to the next fiscal year if the total B&O credits do not exceed the 7.5 million dollars for the next fiscal year at the time the credit is claimed. Credits may not be used against taxes that have not yet been paid.

Employers may apply for deferral of state and local sales and use taxes. To be eligible for deferment, the employer must hire at least one qualified employment position for each 750,000 dollars of investment for which deferral is requested. A qualified employment position is a permanent full-time employee employed in the eligible project during the tax year.

**Summary of Bill (Recommended Substitute):** The B&O tax is adjusted for job creation in rural counties or community empowerment zones by increasing the maximum annual statewide credits from \$7.5 million to \$9 million, and reducing a firm's employment growth from 15 percent to 10 percent to be eligible for the credit.

**EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute):** Reduces maximum annual statewide credits from \$10 million in the bill as introduced to \$9 million, adds the reduction in employment growth to 10 percent, and removes the change to the deferral program.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

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

**Staff Summary of Public Testimony on Original Bill (Economic Development, Trade & Management):** PRO: When you have incentives on the books, it makes sense to make sure they work and get used. Hiring has been problematic for many businesses in CEZ's, due to problems in the hiring process and post-hiring. This bill would help alleviate those problems.

**Persons Testifying: (Economic Development, Trade & Management)** PRO: Senator Kilmer, prime sponsor; Amber Carter, Association of Washington Business.

**Staff Summary of Public Testimony on Original Bill (Ways & Means):** PRO: CEZs are an important development tool in Spokane. As a border area, there is competition to attract

businesses to site in the Spokane area. The CEZ investment tax incentives are a great tool. Spokane's CEZ has attracted investments, businesses, and created jobs.

**Persons Testifying (Ways & Means):** PRO: Jim Hedrick, Greater Spokane Incorporated.