

# SENATE BILL REPORT

## ESSB 5899

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As Passed Senate, March 15, 2010

**Title:** An act relating to providing a business and occupation tax credit for qualified employment positions.

**Brief Description:** Providing a business and occupation tax credit for qualified employment positions.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Franklin, Kastama, Shin, Marr, McAuliffe, Haugen, Brown, Berkey, Prentice, Fairley, Regala, Keiser, Eide, Rockefeller, Murray, Hatfield, Hargrove, Sheldon, Oemig and Kline).

**Brief History:**

**Committee Activity:** Ways & Means: 2/09/09, 2/10/09 [DPS, w/oRec].

Passed Senate: 2/12/09, 46-0; 3/10/10, 47-0.

**First Special Session:** Passed Senate: 3/15/10, 44-0.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5899 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Zarelli, Ranking Minority Member; Brandland, Carrell, Hobbs, Honeyford, Keiser, Kohl-Welles, McDermott, Murray, Parlette, Pflug, Pridemore, Regala, Rockefeller and Schoesler.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Tom, Vice Chair, Operating Budget.

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

**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.

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*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.*

There are several programs which provide tax credits against the B&O tax for job creation. For example, there is a B&O credit for manufacturing, research and development, or computer service firms that create new jobs in rural counties or community empowerment zones. 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 for new positions with annual benefits and wages less than or equal to \$40,000. The credit is \$4,000 for new positions with annual wages and benefits of more than \$40,000. There is also a credit of \$3,000 against the B&O tax for each qualified employment position created by an international service firm. Another example is the \$3,000 B&O tax job credit for each semiconductor production manufacturing employment position created in qualified buildings.

**Summary of Engrossed Substitute Bill:** Businesses with twenty employees or less are eligible for a credit against the B&O tax for the creation of new employment positions for which the business offers a health care plan. The credits are based on the amount of wages: (1) a \$2,000 credit for employment positions with wages and benefits between 150 percent of minimum wage and \$40,000; and (2) a \$4,000 credit for employment positions with wages and benefits over \$40,000. Businesses claiming job creation credits under chapter 82.62. RCW or RCW 82.04.44525 or 82.04.448 cannot claim this new credit as well. To receive a tax credit, a new hires may not be independent contractors to a business in the year proceeding the hiring.

No applications may be accepted after June 30, 2012. The credits are capped at a maximum of \$10,000,000 per year.

Prohibits disclosure of private wage and employment information and conforms information sharing agreements between the Department of Revenue and the Employment Security Department to current practice.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Effective Date:** The bill takes effect on July 1, 2010.

**Staff Summary of Public Testimony:** PRO: Small businesses are the backbone of the state's economy; they are the foundation of the recession recovery. There is always an increase in new business licenses during recession, and these new firms, in addition to existing businesses need support to be successful. For new small businesses, the B&O tax can be a pinch. A job creation credit could be a very valuable form of assistance at the beginning of a new business. Much of the focus of the federal stimulus package is on the public sector. Washington State needs to incentivize the private sector. This bill is modeled after the successful rural county and CEZ job creation tax credit. Such credits encourage growth, both in employment and in good jobs. This will cushion the downturn. Tacoma has a similar local B&O credit which has proven very effective. We have heard from many small businesses, which could grow even in this economy, but need an incentive to commit to hire new employees in these difficult economic times. This credit will influence behavior

in the present credit and economic environment. Targeting small businesses is a good approach. The majority of businesses in the state are small businesses. This would be a direct way to grow our economy. This is an efficient use of state resources and provides more assistance than increasing unemployment benefits. This will bring new money into the economy. Companies work on the margins and this incentive could encourage locating in the state, employment growth, expansion, and innovation. The concept of "economic gardening" is the growth and cultivation of existing businesses and allows for more jobs without the need for additional infrastructure. This legislation will give small businesses the tools the need to grow.

**Persons Testifying:** PRO: Senator Kilmer, prime sponsor; Troy Nichols, Washington Federation of Independent Business; David Graybill, Tacoma-Pierce County Chamber of Commerce; Michael Cane, Thurston County Development Council; Devin Hault, Small Business Development Center; Susan Suess, Economic Development Board for Tacoma-Pierce County.