

SENATE BILL REPORT

SB 6646

As Reported by Senate Committee On:
Economic Development, Trade & Innovation, February 4, 2010

Title: An act relating to business and occupation tax credits for job creation.

Brief Description: Concerning business and occupation tax credits for job creation.

Sponsors: Senators Kilmer, Zarelli, Kastama, Marr, Hobbs, Tom, McAuliffe, Shin and Haugen;
by request of Governor Gregoire.

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 1/27/10, 2/03/10,
2/04/10 [DPS-WM].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Majority Report: That Substitute Senate Bill No. 6646 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

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

Staff: Jack Brummel (786-7428)

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 with no deductions for the costs of doing business. Credits against the B&O tax may be awarded for a variety of activities including aerospace preproduction development, and customized training.

A credit against the B&O tax is available for manufacturing, research and development, or computer service firms that create new jobs in rural counties or community empowerment zones (CEZ). 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. Employment positions must be full-time to qualify.

The B&O tax credit for job creation is based on job growth. To qualify for the credit, the

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firm must increase its total employment in an eligible area by at least 15 percent over the preceding four-quarter period.

Summary of Bill (Recommended Substitute): For the rural county and CEZ tax credit program, the B&O tax credit eligibility requirement that employment positions increase by 15 percent is reduced to 10 percent. Residency in an eligible area one year prior to hiring is required. For community empowerment zones, resident means a person making his or her home in the CEZ or in the county in which the CEZ is located.

A new \$2,000 tax credit against the B&O tax is authorized for small businesses with less than \$5 million in gross income. The credit is available for each new employment position lasting at least 12 months. New hires can't be independent contractors to a business in the year preceding the hiring. The credit is not available if other credits are available for the same employment position. The credit is available on a first-in-time basis and the total credit available in any fiscal year is limited to \$10 million. A business can earn credits beginning July 1, 2010. The credit may not be claimed after June 30, 2013. Businesses must file a survey about the employment positions with the Department of Revenue for each year they claim the credit.

EFFECT OF CHANGES MADE BY ECONOMIC DEVELOPMENT, TRADE & INNOVATION COMMITTEE (Recommended Substitute): For the rural area tax credit, residency in an eligible area one year prior to hiring is required. For community empowerment zones, resident means a person making his or her home in the CEZ or in the county in which the CEZ is located.

For the small business tax credit, new hires can't be independent contractors to a business in the year preceding the hiring.

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 on Original Bill: PRO: This encourages job creation on the margins. The current 15 percent threshold for rural areas or CEZs is too high. Jobs generate returns to the state. This encourages private investment to resume. Eligibility would increase by about 17 percent by lowering the threshold. This has the potential to create 15 thousand new jobs if fully utilized. This is good for workers, their employers and the economy. The credit can be carried over but it expires July 1, 2013. People need jobs and this will move hiring up, increase demand, and help small businesses get back on their feet. This is a great new resource. Those that hire veterans of the National Guard should get an additional incentive.

Persons Testifying: PRO: Senator Kilmer, prime sponsor; Rogers Weed, Department of Commerce; Heidi Hughes, Governor's Office; Alyson Fouts, DOR; Traci Corley, Seattle

Chamber of Commerce; Gary Smith, Independent Business Assoc.; Ralph Iharra, Diverse America Network.