Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Ways & Means Committee

HB 2532

Brief Description: Modifying business and occupation tax credits and other provisions of the opportunity expansion program.

Sponsors: Representatives Carlyle, Anderson, Haler, Eddy, Orwall, Seaquist, Pedersen, Maxwell, Morris, Hansen, Springer, Haigh and Kenney.

Brief Summary of Bill

- Narrows and extends the research and development business and occupation tax credit (R&D Credit).
- Establishes a new business and occupation tax credit for businesses disallowed from taking the R&D Credit and making contributions to the opportunity expansion program.
- Modifies requirements under the opportunity expansion program.

Hearing Date: 2/29/12

Staff: Jeffrey Mitchell (786-7139).

Background:

Business and Occupation (B&O) Taxes and the Research and Development (R&D) Tax Credit. 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 1.8 percent for professional and personal services, and activities not classified elsewhere.

The B&O tax allows a credit for research and development (R&D) expenditures in high-technology businesses. The credit is provided to businesses, including qualifying nonprofit

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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.

Opportunity Expansion Program.
In 2011 the Opportunity Scholarship and Opportunity Expansion programs were created to mitigate the impact of tuition increases, increase the number of baccalaureate degrees in high employer demand and other programs, and invest in programs and students to meet labor market demands. The scholarships are funded by a combination of private and state moneys. The Opportunity Expansion Program (Expansion Program) is funded with voluntary contributions of the high technology research and development (R&D) tax credit. Expansion Program moneys are awarded to public institutions of higher education that propose programs designed to increase the number of baccalaureate degrees produced in high employer demand and other programs of study. These programs must have a strong emphasis on serving students who received their high school diploma or GED in Washington or are adult Washington residents who are returning to school. For voluntary contributions to the Expansion Program through the R&D tax credit, the Department of Revenue reports the amount contributed to the State Treasurer, and the Legislature appropriates the funds.

The Expansion Program (as well as the Opportunity Scholarship Program) is overseen by the Opportunity Scholarship Board (Board). The Board selects institutions of higher education to receive Expansion Program awards and make recommendations with respect to funding sources for Expansion Program awards. The Board's oversight and guidance of the programs must be consistent with legislative priorities. The Expansion Program (as well as the Opportunity Scholarship Program) is administered by a college scholarship organization that is a private nonprofit entity with expertise in managing scholarships and college advising. This nonprofit is referred to as the program administrator. An institution of higher education applying for an Expansion Program award must specify in its proposal the annual numeric targets for the increase in the number of degrees that will be produced in high employer demand and other programs of study.

Summary of Bill:

Business and Occupation (B&O) Taxes and the Research and Development (R&D) Tax Credit.
The expiration date for the research and development business and occupation tax credit (R&D tax credit) is extended from January 1, 2015, to January 1, 2022.

The $2 million dollar annual limit for the R&D tax credit is reduced to $400,000.

A taxpayer may not claim the R&D tax credit in the current calendar year if the taxpayer reported gross income of $25 million or more in the prior year.

A taxpayer may not claim the R&D tax credit once the credit has been claimed for more than eight years.

A new tax credit is authorized for taxpayers ineligible to take all or a portion of the R&D tax credit because of changes made to the R&D tax credit in the bill. The new credit is equal to the contributions made to the program administrator of the opportunity scholarship board by a taxpayer; however, a taxpayer may not claim more than $2.5 million in credit in any calendar year. The program administrator is required to deposit contributions into a separate account to be used exclusively for the opportunity expansion program. The credit expires January 1, 2022.

Opportunity Expansion Program.
Proposals by institutions of higher education for Expansion Program awards must include a baseline number of science, technology, engineering, and math (STEM) degrees awarded. This baseline is calculated using STEM degrees awarded in the five years prior to the institution first receiving an Expansion Program award. The annual numeric target specified in a proposal for an Expansion Program award must be set as a specific percentage increase over the baseline. If an institution of higher education fails to meet its annual numeric target, the institution must refund its award in an amount equal to the percentage shortfall in meeting the target.

Expansion Program awards must only be made to institutions who demonstrate, to the Board's satisfaction, that award funds will be used only for increased degree production and not on unrelated administrative, capital, or other costs.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2012.