

SENATE BILL REPORT

SB 5735

As of February 16, 2011

Title: An act relating to encouraging economic development by removing the expiration date from the research and development spending business and occupation tax credit.

Brief Description: Encouraging economic development by removing the expiration date from the research and development spending business and occupation tax credit.

Sponsors: Senators Chase, Kastama, Kilmer and McAuliffe.

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 2/14/11.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Staff: Jack Brummel (786-7428)

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 cost of doing business. Revenues are deposited in the state General Fund.

A credit is allowed against the B&O tax for operational research and development (R&D) expenditures in high-technology businesses that exceed 0.92 percent of gross income. A person claiming the high technology R&D credit may calculate the credit based on 1.5 percent of the qualified expenditures. This credit expires on January 1, 2015.

Summary of Bill: The expiration date for the R&D tax credit is removed.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

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.

Staff Summary of Public Testimony: PRO: This is a simple powerful statement to industry that Washington is the place to grow. The credit is effective. Most states offer incentives for the bio-sciences. This credit matters a lot to small companies. Without this R&D extension, companies making five-year projections have to show projected cost increases in Washington in 2015 which can affect their location decisions.

CON: This credit is capped at \$2 million per company; Microsoft and Google use it. We should ask for a showing of need before providing the credit. It would be hard to prove that Microsoft and Google need money from the state. This needs a thorough review prior to extending it. This digs the hole deeper, fiscally. This tax break should undergo sunset review.

Persons Testifying: PRO: Senator Chase, prime sponsor; Lew McMurrin, WA Technology Industry Assoc.; Linda Hull, WA Biotechnology & Biomedical Assoc.; Amber Carter, Association of Washington Business.

CON: Dick Nelson, Institute for Washington's Future; Nick Federici, Our Economic Future Coalition.