

SENATE BILL REPORT

SB 5382

As Reported by Senate Committee On:
Trade & Economic Development, February 19, 2013

Title: An act relating to promoting economic development through tax relief for start-up firms.

Brief Description: Promoting economic development through tax relief for start-up firms.

Sponsors: Senators Benton, Holmquist Newbry, Rivers, Carrell, Padden and Shin.

Brief History:

Committee Activity: Trade & Economic Development: 2/05/13, 2/19/13 [DPS-WM].

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5382 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Braun, Chair; Smith, Vice Chair; Chase, Ranking Member; Holmquist Newbry, Schlicher and Shin.

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. Revenues are deposited in the state general fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are many exemptions for specific types of business activities and certain deductions and credits permitted under the B&O tax statutes.

Summary of Bill (Recommended Substitute): New businesses are allowed a B&O tax credit of 50 percent. The credit is allowed only during a business' first five years of operation. A new business must have made \$50,000 or more in capital investments and have four or more full-time employees to be eligible for the credit. The credit is not automatic, a new business must file an application with the Department of Revenue to receive it.

EFFECT OF CHANGES MADE BY TRADE & ECONOMIC DEVELOPMENT COMMITTEE (Recommended Substitute): Technical corrections are made to the

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definition of a new business. The credit is available only for periods in which a taxpayer is in compliance with registration requirements.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on August 1, 2013.

Staff Summary of Public Testimony on Original Bill: PRO: This is about jobs. We need to allow the point at which businesses get a return on investment to be sooner. If we can reduce start-up costs for businesses they will get a quicker return on investment and are more likely to invest. We need an incentive program for smaller businesses. This will allow more successful businesses that will last longer and employ more people. We tax gross revenue with no consideration of whether a business is making money and can pay the tax. We are taxing away the money businesses could use to create jobs. We have to revamp the whole tax structure. Firms with high product costs but low profit margin are most hurt by our tax system. We need a dynamic fiscal note process. Oregon looks at positive impact of their expenditure decisions.

OTHER: Small businesses want to reform the B&O tax. Start-ups are in need of help. There is a high failure rate. Most small businesses are not profitable in their first years. A temporary tax exemption will help survival, but offering credits to only some businesses does little to address the need for overall reform.

Persons Testifying: PRO: Senator Benton, prime sponsor; Ron Newbry, Phoenix Associates.

OTHER: Erin Shannon, WA Policy Center.