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**ENGROSSED HOUSE BILL 2447**

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**State of Washington**

**63rd Legislature**

**2014 Regular Session**

**By** Representatives Kirby, Kretz, Sawyer, Ormsby, Riccelli, Short, Ryu, Magendanz, and Freeman

Read first time 01/17/14. Referred to Committee on Finance.

1       AN ACT Relating to a property tax exemption for qualified nonprofit  
2 small business incubators that assist in the creation and expansion of  
3 innovative small commercial enterprises; adding a new section to  
4 chapter 84.36 RCW; creating new sections; and providing an expiration  
5 date.

6       BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7       NEW SECTION.   **Sec. 1.** (1) The legislature finds that nonprofit  
8 organizations and associations engaged in the education and training of  
9 people, located in economically disadvantaged areas, who are involved  
10 in the creation and expansion of businesses with marketable products  
11 and services provide many public benefits to the people of the state of  
12 Washington. The legislature further finds that facilitating emerging  
13 businesses in their expansion creates jobs for the state. The  
14 legislature further finds that facilities owned by nonprofit  
15 organizations are not afforded the same tax treatment as facilities  
16 owned by public entities creating an unfair playing field for the  
17 nonprofit organizations. Therefore, the legislature finds that it is  
18 in the best interest of the state to provide a limited property tax

1 exemption for the use of these facilities by certain organizations in  
2 order to be self-sustaining for their exempt purposes.

3 (2) It is the specific public policy object of the legislature to  
4 provide a property tax exemption to nonprofit small business incubators  
5 that promote economic growth and jobs for Washington. The legislature  
6 categorizes this tax preference as one intended to provide tax relief  
7 for nonprofit small business incubators and to create jobs, as  
8 described in RCW 82.32.808(2) (c) and (e).

9 (3) In order to obtain the necessary data to perform a review of  
10 this tax preference, the department of commerce must provide to the  
11 joint legislative audit and review committee the annual reports  
12 submitted by qualified small business incubators receiving the property  
13 tax exemption provided in this act. In addition, the committee must  
14 review the tax exemption and its actual fiscal impact on state revenues  
15 to determine if the fiscal impact to state revenues reasonably conforms  
16 to the fiscal estimate in the fiscal note for this legislation.

17 NEW SECTION. **Sec. 2.** A new section is added to chapter 84.36 RCW  
18 to read as follows:

19 (1) The real and personal property owned or used by a nonprofit  
20 organization is exempt from property taxes levied for any state or  
21 local purpose if the property is:

22 (a) Located in an economically distressed area; and

23 (b) Used to provide shared use of equipment and work areas and  
24 daily technical resources and daily management support services that  
25 enable small start-up and emerging businesses to become successful.

26 (2) The organization or association must meet all of the additional  
27 following conditions:

28 (a) The organization is organized and conducted for nonsectarian  
29 purposes;

30 (b) The organization is qualified for exemption under 26 U.S.C.  
31 Sec. 501(c)(3) of the federal internal revenue code;

32 (c) The organization is governed by a volunteer board of directors  
33 of at least five members;

34 (d) The organization charges fair market rent to the businesses  
35 that use that organization's work areas; and

36 (e) Is certified by the department of commerce as a "qualified

1 small business incubator" under chapter 43.176 RCW that meets the  
2 requirements of this act.

3 (3) Any qualified nonprofit small business incubator organization  
4 claiming the exemption under subsection (2) of this section must  
5 annually report to the department of commerce:

6 (a) The number of businesses served by the nonprofit;

7 (b) The estimated number of jobs created by the businesses served,  
8 in the year in which they were served;

9 (c) Specific details for the businesses served, including but not  
10 limited to: The name of the business, the unified business identifier  
11 of the business, the type of business identified by the North American  
12 industry classification system, and detailed information about the  
13 business required under subsection (5)(b)(i) and (c)(i) of this  
14 section; and

15 (d) Qualified small business incubators failing to report to the  
16 department of commerce are ineligible for the exemption under  
17 subsection (2) of this section. The department of commerce must  
18 compile the information provided by all qualified small business  
19 incubators and provide the joint legislative audit and review committee  
20 with the detailed data on an annual basis.

21 (4) The department may revoke a small business incubator's property  
22 tax exemption under this section upon clear and convincing evidence  
23 that the qualified small business incubator is not complying with the  
24 requirements of this section. It is presumed that a small business  
25 incubator is meeting the requirements of subsection (1)(b) of this  
26 section if the incubator files the annual reports required under  
27 subsection (3) of this section and the small start-up and emerging  
28 businesses served by the incubator meet the requirements under  
29 subsection (5)(b)(ii) and (c)(ii) of this section.

30 (5) The definitions in this subsection apply throughout this  
31 section unless the context clearly requires otherwise.

32 (a) "Economically distressed area" means a rural county as defined  
33 in RCW 82.14.370, a county with a community empowerment zone under RCW  
34 43.31C.020, or a community empowerment zone under RCW 43.31C.020.

35 (b) "Emerging business" means a business that is:

36 (i) Engaged in activities related to the development of initial  
37 product or service offerings, such as prototype development or  
38 establishment of initial production or services processes;

1           (ii) Less than five years old and during the previous fiscal year  
2 had gross revenues of no more than two million dollars; or  
3           (iii) In a growth mode, expanding its operation or its market.  
4           (c) "Start-up business" means a formal business venture that:  
5           (i) Is involved in activities related to the development of initial  
6 product or service offerings, such as prototype development or  
7 establishment of initial production or services processes;  
8           (ii) Is less than three years old and during the previous fiscal  
9 year had gross revenues of no more than two million dollars; and  
10           (iii) Has fewer than twenty employees.

11           NEW SECTION.   **Sec. 3.** This act applies to taxes levied for  
12 collection in 2015 and thereafter.

13           NEW SECTION.   **Sec. 4.** This act expires January 1, 2023.

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