

HOUSE BILL REPORT

HB 2730

As Reported by House Committee On:
Finance

Title: An act relating to encouraging employers to promote and support workers' educational attainment.

Brief Description: Encouraging employers to promote and support workers' educational attainment.

Sponsors: Representatives Jinkins, Steele, Chapman, Wilcox, Blake, Eslick, Haler, Tharinger and Slatter.

Brief History:

Committee Activity:

Finance: 1/30/18, 2/5/18 [DPS].

Brief Summary of Substitute Bill

- Provides a business and occupation and public utility tax credit for contributions to qualified educational expenses of employees, of up to \$5,000 annually per employer.
- Limits statewide credits to \$500,000 per calendar year.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

Staff: Serena Dolly (786-7150).

Background:

Business and Occupation Tax.

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

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.

deduction for the costs of doing business. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss. Businesses may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services and for activities not classified elsewhere. Several preferential rates also apply to specific business activities.

Public Utility Tax.

The public utility tax (PUT) is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of electricity, natural gas, and water. The PUT is imposed in lieu of the B&O tax on gross income derived from operation of publicly and privately owned utilities. In general, the PUT does not permit deductions for the costs of doing business.

The State Need Grant.

The State Need Grant (SNG) is the state's largest financial aid program. To be eligible for the program, a student must:

- be a Washington state resident;
- have a household income of less than 70 percent of the state's median household income;
- attend an eligible institution of higher education and maintain satisfactory academic progress;
- enroll with a minimum of three credits as an undergraduate student;
- be pursuing a first bachelor's degree, a certificate, or a first associate degree in any field excluding theology; and
- not owe repayment to another student aid program.

The SNG award amount varies based on the institution of higher education the student attends and the student's family income. A student with a family income of 50 percent or less of the state's median family income (MFI) will receive the maximum award amount, while a student with a family income of 70 percent of MFI is eligible to receive 50 percent of the maximum award amount. In addition to income, the SNG award amount varies based on the type of institution a student chooses to attend. For example, for the 2017-18 academic year, a SNG student receiving a full award who attends the University of Washington receives \$9,553. A SNG student who receives the full award amount and attends a public community or technical college receives \$3,620. A SNG student may receive an award for up to five years or 125 percent of their program's length.

Tax Preference Performance Statement.

All new tax preference legislation must include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. New tax preferences expire 10 years after the effective date of the tax preference, unless otherwise provided.

Summary of Substitute Bill:

An employer with fewer than 50 employees is allowed a B&O and PUT credit for approved contributions to the qualified educational expenses of eligible employees. Qualified educational expenses are the cost of tuition, fees, room and board, supplies, equipment, and books. Eligible employees are employees with a normal workweek of 35 hours per week and annual earnings of less than \$55,000.

The credit is subject to a per-employee limit not to exceed the maximum award of a State Need Grant (SNG) for a student attending a community or technical college. The credit is subject to a per employer limit not to exceed \$5,000 per calendar year. Statewide credits are limited to \$500,000 per calendar year. Credits must be approved in advance by the Department of Revenue.

A tax preference performance statement is provided. The purpose of the tax preference is to encourage employers to support low-income and middle-income workers in their educational attainment. If a review finds that less than 75 percent of employer contributions were made to employees who qualify for a SNG, the Legislature intends to discontinue the tax preference.

The tax preference expires December 31, 2029.

Substitute Bill Compared to Original Bill:

The substitute bill:

- limits the credit an employer may claim annually per employee to the maximum award of a SNG for a student attending a community or technical college;
- limits the credit per employer to \$5,000 per calendar year;
- allows the Department of Revenue to approve credits in excess of the \$5,000 employer limit on a first-come, first-served basis if the statewide cap is not reached by November 15 of a calendar year;
- prohibits an employer from claiming a credit for the same contribution against both business and occupation and public utility tax obligations;
- requires an employer claiming the credit to submit information about employee eligibility for the SNG;
- requires the Joint Legislative Audit and Review Committee to evaluate the amount of employer contributions and the percentage of contributions made to employees who qualify for a SNG;
- adds intent language to the tax preference performance statement that the Legislature intends to discontinue the credit if less than 75 percent of employer contributions were made to employees eligible for a SNG;
- allows credits to be earned from January 1, 2019, through December 31, 2028, and claimed from January 1, 2020, through December 31, 2029; and
- changes the expiration date from January 1, 2029, to December 31, 2029.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is a very reasoned approach to helping people better themselves. Businesses have been working hard to find strategies to help people who work but want to obtain an education. This is an opportunity for small businesses to help and retain employees. It will allow small businesses to provide assistance to their rising stars.

(Opposed) None.

Persons Testifying: Representative Jinkins, prime sponsor; Mark Johnson, Washington Retail Association; Korbett Mosesly, United Way of Pierce County/Family Stability Initiatives; and Patrick Connor, National Federation of Independent Business Washington.

Persons Signed In To Testify But Not Testifying: None.