

SENATE BILL REPORT

SB 5215

As of January 26, 2019

Title: An act relating to encouraging economic growth by providing a state business tax credit for new employment positions.

Brief Description: Encouraging economic growth by providing a state business tax credit for new employment positions.

Sponsors: Senators O'Ban, Rivers, Becker, Braun, Padden, Holy, Zeiger, Wilson, L., Brown, Schoesler, Warnick and Short.

Brief History:

Committee Activity: Financial Institutions, Economic Development & Trade: 1/24/19.

Brief Summary of Bill

- Provides a business and occupation (B&O) tax credit for businesses that create new permanent employment positions in certain counties.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE

Staff: Kellee Gunn (786-7429)

Background: Business and Occupation Tax. Washington State'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 deduction for the costs of doing business. The B&O tax rate varies by classification of business.

Business and Occupation Tax Credits. A B&O tax credit is allowed against the amount of tax otherwise due to the Department of Revenue (DOR). The state provides a number of tax credits for B&O tax. The following are a few of the major B&O tax credits offered:

- rural county B&O credit for new employees;
- high technology B&O tax credit;
- small business B&O tax credit;
- multiple activities tax credit; and
- credit for hiring unemployed veterans.

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.

Summary of Bill: A tax credit of \$275 per qualified employment position is available to businesses within eligible areas that have hired a new permanent full-time position with annual wages exceeding the average annual wage for the county. An eligible area is defined as a county in which the county unemployment rate is at least 25 percent greater than the seasonally-adjusted statewide unemployment rate posted by the Employment Security Department (ESD) each September. As of December 2018, the state's unemployment rate was 4.3 percent and the following 14 counties would qualify: Clallam, Ferry, Franklin, Garfield, Grant, Grays Harbor, Lewis, Mason, Okanogan, Pacific, Pend Oreille, Stevens, Wahkiakum, and Yakima.

If filled before July 1st, a newly-created position is eligible for the full credit. If it is filled after that date, the position is eligible for half of the credit. New positions filled by existing employees are eligible for the credit only if the position vacated by the existing employee is filled by a new hire.

Application is not necessary to receive the credit and the person must keep records necessary for DOR to verify eligibility. Credit may accrue and be carried over until it is used. There are no refunds for credits.

If at any time DOR finds a person is not eligible for a tax credit, the amount of taxes that has been claimed by the credit is immediately due. Interest, not penalties, will be assessed retroactively to the date the tax credit was taken and at the statutory rate for delinquent excise taxes. Assessed interest will accrue until the taxes are repaid.

By December 1st of each year, DOR will determine eligible areas for the following calendar year based on information from the ESD. An area remains an eligible area for three consecutive years from the year the area was last determined to be an eligible area. Qualified employment positions created prior to any calendar year in which an area is later determined to be ineligible may continue to earn credit if the qualifying permanent full-time position is kept for those four years.

Appropriation: None.

Fiscal Note: Requested on January 16, 2019.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2019.

Staff Summary of Public Testimony: PRO: If you tax something more, you get less of it. The inverse is true. If you reduce a tax to employers, you will get more employment. If an employer creates a job in a distressed area, there will be a multiplier effect. These employees will spend money and bring revenue to those areas. We need to look at smart ways to incentivize job creation in distressed areas.

OTHER: Counties have not all enjoyed the same growth equally. Small businesses are growing more and more weary of asking for special treatment, and making changes to the tax

code in a system that has too many loopholes. Please look at whether the solution being proposed actually solves the problem.

Persons Testifying: PRO: Senator Steve O'Ban, Prime Sponsor.

Persons Signed In To Testify But Not Testifying: OTHER: Patrick Connor, NFIB.