

SENATE BILL REPORT

SB 5358

As Reported by Senate Committee On:
Human Services, Reentry & Rehabilitation, February 4, 2021

Title: An act relating to providing incentives to employers to hire certain hard-to-place job seekers.

Brief Description: Providing incentives to employers to hire certain hard-to-place job seekers.

Sponsors: Senators Gildon, Braun, Darneille, Nguyen, Warnick and Wellman.

Brief History:

Committee Activity: Human Services, Reentry & Rehabilitation: 1/29/21, 2/04/21 [DPS-WM].

Brief Summary of First Substitute Bill

- Provides a business and occupation and public utility tax credit to qualifying businesses hiring certain unemployed persons, such as persons convicted of a felony and homeless persons.

SENATE COMMITTEE ON HUMAN SERVICES, REENTRY & REHABILITATION

Majority Report: That Substitute Senate Bill No. 5358 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Darneille, Chair; Nguyen, Vice Chair; Gildon, Ranking Member; Dozier, McCune, Saldaña and Wilson, C.

Staff: Alison Mendiola (786-7488)

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 deduction for the costs of doing business. Businesses must pay the B&O tax even though they may not have any profits or

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may be operating at a loss. A business may have more than one B&O tax rate, depending on the types of activities conducted. Major tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for services, and activities not classified elsewhere. Several lower rates also apply to specific business activities.

Tax Preferences. Washington has over 650 tax preferences authorized in law. A tax preference includes exemptions, deductions, credits and preferential rates. The B&O tax credits provide a dollar-for-dollar offset against tax liability.

Public Utility Tax. The public utility tax (PUT) is imposed on gross income derived from the operation of public and privately owned utilities, including businesses that engage in transportation, communications, and the supply of energy, natural gas, and water. The tax is in lieu of the B&O tax. This tax applies only on sales to consumers. There are also varying rates of the PUT, depending on the specific utility activity.

Tax Credit for Hiring Certain Groups. The federal government enacted the Work Opportunity Tax Credit that provides a tax credit for hiring various persons, including qualified veterans. In 2015, the Legislature authorized a B&O or PUT credit to qualifying businesses that hire unemployed veterans.

Summary of Bill (First Substitute): PUT or B&O tax credits are provided to businesses providing qualified employment positions to certain unemployed persons, such as persons convicted of a felony, recipients of certain federal or state benefits, and homeless persons.

Tax Credit Qualifications. A qualified employment position is a permanent, full-time employee who works at least 35 hours per week for three consecutive quarters.

Homeless person means an individual living outside or in a building not meant for human habitation, or which they have no legal right to occupy, in an emergency shelter, or in a temporary housing program which may include a transitional and supportive housing program if habitation time limits exist. This definition includes substance abusers, people with mental illness, and sex offenders who are homeless.

Person convicted of a felony means a person, including a juvenile, convicted of a felony under state or federal law who is hired within one year after the last date the person was convicted or released from a juvenile rehabilitation facility or prison.

Qualifying employee means a person who meets all of the following requirements:

- is a homeless person or a person convicted of a felony;
- was unemployed for at least 30 days immediately preceding the date the person was hired by the person claiming the tax credit; and
- is employed in a full-time, permanent position for at least three consecutive quarters by the person claiming the tax credit.

Tax Credit. The tax credit is equal to the lesser of 10 percent or \$500 of wages and benefits paid up to a maximum of \$500 for each qualified employment position filled by a qualifying employee hired on or after October 1, 2020. Unused credits can be carried over to the next fiscal year. No refunds may be granted for this credit. Qualifying businesses may not claim both B&O and PUT credits.

If an employer discharges a qualifying employee for whom the employer has claimed a credit, the employer may not claim a new credit under this act for one year from the date the qualifying employee was discharged, unless the qualifying employee was discharged for misconduct connected with the employee's work or discharged due to a felony or gross misdemeanor conviction, and the employer contemporaneously documents the reason for discharge. Credits may be earned for tax reporting periods through June 30, 2030, and no credits may be claimed after June 30, 2031.

Joint Legislative Audit Review Committee. The Joint Legislative Audit Review Committee (JLARC) must review the tax credits established by December 31, 2030. If JLARC finds the number of unemployed persons who meet the criteria of a qualified employee decrease by 30 percent, then the Legislature intends for the legislative auditor to recommend extending the expiration date of this tax preference. In order to obtain the necessary data, JLARC should refer to unemployment rates from the Employment Security Department and the Bureau of Labor Statistics.

EFFECT OF CHANGES MADE BY HUMAN SERVICES, REENTRY & REHABILITATION COMMITTEE (First Substitute):

The employer tax credit is reduced from 20 percent to the lesser of 10 percent or \$500 of wages and benefits paid to or on behalf of a qualifying employee up to \$500. A qualified employee is a homeless person or someone convicted of a felony who is employed in a permanent full-time position for at least three consecutive quarters.

Appropriation: None.

Fiscal Note: Available.

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

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

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: Incentives for employers to hire people that have a hard time finding work can help shape the trajectory of a person's life. A person who may have a hard time finding work, such as a person with a felony conviction, just needs help with the first step. Having a job can lead to stable housing and a better

career pathway.

Persons Testifying: PRO: Senator Chris Gildon, Prime Sponsor.

Persons Signed In To Testify But Not Testifying: No one.