

SENATE BILL REPORT

SB 5515

As Reported by Senate Committee On:
Business, Financial Services & Trade, January 25, 2022

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

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

Sponsors: Senators Dozier, Holy and Padden.

Brief History:

Committee Activity: Business, Financial Services & Trade: 1/18/22, 1/25/22 [DPS-WM, DNP].

Brief Summary of First Substitute Bill

- Creates a \$275 business and occupation tax credit for full-time employees hired into the hospitality industry with annual wages exceeding the average wage for the county.
- Makes the credit only eligible in areas where the unemployment rate is at least 25 percent greater than the statewide unemployment rate.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Majority Report: That Substitute Senate Bill No. 5515 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Mullet, Chair; Dozier, Ranking Member; Brown, Frockt, Lovick and Wilson, L.

Minority Report: Do not pass.

Signed by Senator Hasegawa, Vice Chair.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Clinton McCarthy (786-7319)

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.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): A \$275 B&O tax credit is created for full-time employees hired into the hospitality industry with annual wages exceeding the average wage for the county. The credit is earned for the calendar year an employer fills a position, plus four subsequent consecutive years if the position is maintained during that period of time. New positions eligible for the credit can be created only if a position vacated by an existing employee is filled by a new hire. When a position is newly created, if it is filled before July 31st, this position is eligible for the full yearly credit. If it is filled after June 30th, this position is eligible for half of the credit.

The hospitality industry is defined to include:

- accommodation services;
- food services;
- wineries;
- breweries;
- distilleries;
- amusement and recreation services; or
- any combination of these services.

The credit may be accrued and carried over. No application is necessary for the credit, but the person must be able to verify eligibility with DOR for the credit. The credit is only eligible in areas where the unemployment rate is at least 25 percent greater than the statewide unemployment rate.

The Employment Security Department is directed to provide DOR any information needed by DOR to verify eligibility for the credit.

EFFECT OF CHANGES MADE BY BUSINESS, FINANCIAL SERVICES & TRADE COMMITTEE (First Substitute):

Adds breweries, wineries, and distilleries as part of the hospitality industry. Changes the definition of the term “accommodation services” to include the furnishing of lodging as defined elsewhere in statute. Narrows the definition of the term “hospitality industry” to include businesses that are primarily engaged in providing services related to businesses included in the hospitality industry. Changes the effective date to October 1, 2022.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill takes effect on October 1, 2022.

Staff Summary of Public Testimony on Proposed Substitute: *The committee recommended a different version of the bill than what was heard.* PRO: COVID hit the hospitality industry the hardest relative to any other component of the economy. Even though this is a small credit, this is an opportunity to create new employee positions in parts of the state that need the help. These positions have to be held open for four years. Wineries, breweries, and distilleries were hit hard and need to be included as part of the definition of the hospitality industry. In the early stages of the pandemic, the industry lost 100,000 employees. As of today, the workforce is down 12 percent. Recruiting and retention of staff is difficult. The pandemic has had a negative impact on the brewing industry. Pandemic costs and issues in the supply chain have been difficult challenges to navigate.

Persons Testifying: PRO: Senator Perry Dozier, Prime Sponsor; Julia Gorton, Washington Hospitality Association; Annie McGrath, WA Brewers Guild.

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