

# HOUSE BILL REPORT

## ESHB 2565

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**As Passed House:**  
February 10, 2006

**Title:** An act relating to a worker training business and occupation tax credit.

**Brief Description:** Modifying the worker training business and occupation tax credit.

**Sponsors:** By House Committee on Commerce & Labor (originally sponsored by Representatives Kilmer, Haler, Wallace, Strow, Clibborn, Morrell, McCoy, Appleton, Ericks, Linville, Simpson, Green and Springer).

**Brief History:**

**Committee Activity:**

Commerce & Labor: 1/26/06, 1/30/06 [DPS];

Finance: 2/2/06, 2/6/06 [DPS(CL)].

**Floor Activity:**

Passed House: 2/10/06, 98-0.

**Brief Summary of Engrossed Substitute Bill**

- Makes a Business and Occupation (B&O) tax credit for certain worker training available to certain small businesses.
- Specifies that the tax credit is equal to 50 percent of the value of the job training, up to the lesser of \$10,000 or the amount of B&O tax due.

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### HOUSE COMMITTEE ON COMMERCE & LABOR

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Conway, Chair; Wood, Vice Chair; Condotta, Ranking Minority Member; Chandler, Assistant Ranking Minority Member; Crouse, Holmquist, Hudgins, Kenney and McCoy.

**Staff:** Jill Reinmuth (786-7134).

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill by Committee on Commerce & Labor be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives McIntire,

Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

**Staff:** Rick Peterson (786-7150).

**Background:**

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. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Retailing activities, for example, are taxed at a 0.471 percent rate, while general services are taxed at a 1.5 percent rate.

A B&O tax credit for employee job training is available to manufacturing and research and development businesses located in distressed areas that provide job-related training at no charge to their employees. The tax credit is equal to 20 percent of the value of the job training, and may not exceed \$5,000 per business per year. According to a Department of Revenue report published in 2004, two businesses take the tax credit.

**Summary of Engrossed Substitute Bill:**

The Business and Occupation (B&O) tax credit for employee job training is modified. A B&O tax credit for qualified worker training is available for qualified employers. "Qualified worker training" is instruction to enhance job performance through courses and programs at public and private institutions of higher education and private vocational schools, training provided by Washington Manufacturing Services, and for employers with more than two and less than 20 employees, training provided by the employer. "Qualified employers" are independently owned businesses located in Washington with less than 50 employees worldwide that are engaged in a manufacturing, pilot scale manufacturing, or qualified research and development operation.

The tax credit is equal to 50 percent of the value of the job training, and may not exceed the lesser of \$10,000 per business per year or the amount of B&O tax otherwise due for the calendar year. Credits must be taken for taxes due for the calendar year in which qualified expenses were incurred. Credits may not be carried over to subsequent years. Refunds may not be granted for unused credits.

Total credits for all qualified employers may not exceed \$2 million per calendar year for credits taken for courses or programs at public and private institutions of higher education and private vocational schools, and for training provided by Washington Manufacturing Services. Total credits for all qualified employers may not exceed \$1 million per calendar year for credits taken for training provided on premises by employers with more than two and less than 20 employees. Credits are available on a first-come, first-served basis.

Persons claiming the tax credit must complete an annual survey and provide information on the number of jobs; the percent of full-time, part-time and temporary jobs; the number of jobs by wage band; the number of jobs with employer-provided health and retirement benefits; the number of people receiving training; the average cost of the training; the cost of program administration; and the type of training received, including its average length. The Department of Revenue (Department) may request additional information necessary to measure the results of or determine eligibility for the tax credit. Information reported in the survey is confidential except that the amount of the tax credit is not confidential. Businesses taking less than \$10,000 in a tax credit may request that the credit amount be treated as confidential.

Persons claiming the tax credit must submit the survey by March 31, and may not take credits in any year they fail to complete the survey. The Department must prepare summary descriptive statistics by category from the information provided by the survey each year by September 1. The legislative fiscal committees, in consultation with the Department, are required to report to the Legislature by November 1, 2010. The tax credit expires December 31, 2012.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2007.

**Testimony For:** (Commerce & Labor) Washington needs to help business be more competitive. Workforce training will help business be more competitive. It will help business do things smarter and more efficiently.

Last year, only two businesses used the training tax credit because the eligibility criteria is tough. Eligibility is limited as to the types of businesses and geographic areas. When times are tough, businesses forego marketing and training. This bill is an effort to make the training tax credit work better.

Workforce training is the number one priority of economic development executives. To stay competitive, Washington must have a workforce that is technically capable of giving us the competitive edge.

This bill will help businesses in both rural and urban communities. It includes provisions for measuring the value of the tax credit.

**Testimony For:** (Finance) Work force training programs assist with the competitiveness of Washington businesses. Washington can stay competitive as long as we have a highly skilled work force. Skills useful 20 years ago are not always useful today. Work force training programs help with recruitment and retention of business. Work force training programs mitigate the B&O tax for small businesses. The bill amends an existing credit that is seldom used and improves the credit program. The bill adds measurement tools. The bill could be refined by limiting the industries to which it applies, limiting eligibility to training expenses

that exceed the average cost of training over the three previous years, and having the Work Force Training and Education Coordinating Board approve the training programs.

**Testimony Against:** (Commerce & Labor) None.

**Testimony Against:** (Finance) None.

**Persons Testifying:** (Commerce & Labor) (In support) Representative Kilmer, prime sponsor; and Ron Newbry, Washington Economic Development Association.

**Persons Testifying:** (Finance) Representative Kilmer, prime sponsor; and Ron Newbry, Washington Economic Development Association.

**Persons Signed In To Testify But Not Testifying:** (Commerce & Labor) None.

**Persons Signed In To Testify But Not Testifying:** (Finance) None.