
**Economic Development,
Agriculture & Trade Committee**

HB 2496

Brief Description: Providing a job creation tax credit.

Sponsors: Representatives Kilmer, Skinner, Morrell, Buri, Linville, Green, Ormsby, Lantz, Miloscia, Appleton, Chase, Rodne, Conway, Hudgins, P. Sullivan, Springer, Haler, Wallace, Takko, Ericks, B. Sullivan, Simpson, Sells, Upthegrove and Holmquist.

Brief Summary of Bill

- Creates a business and occupation tax credit of \$450 per year per newly created full-time employment position for businesses with 20 or fewer employees that offer a health care plan to all employees.

Hearing Date: 1/17/06

Staff: Tracey Taylor (786-7196).

Background:

Business and Occupation Tax

Washington's business and occupation (B&O) tax is the second largest tax source for the state. In Fiscal Year 2003, B&O tax collection totaled \$1.923 billion which represented approximately 17 percent of state revenue sources within the State General Fund. Almost all businesses located or doing business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise Tax Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for

its products or services. Credits are amounts that have been paid to the Department of Revenue (DOR) which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit and the small business B&O tax credit.

Business and occupation tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

Summary of Bill:

A B&O tax credit of \$450 per employment position is authorized for each new full-time position a business creates and maintains for three consecutive years. The business must have 20 or fewer employees, file taxes electronically with the DOR, and offer a health care plan to all employees. The credit is subject a state-wide cap of \$7.5 million. In order to verify eligibility for this credit, the Employment Security Department may provide the DOR with information required.

A credit may be accrued and carried over until it is used; however no refunds may be granted for these credits. A qualified employment position means a permanent, full time employee who is paid at least one and one-half times the state minimum wage and for whom the business offers a health care plan.

An application must be filed electronically with the DOR within 90 days of filing of the qualified employment position. The DOR must notify applicants within 30 days of application submission if the statewide yearly cap has been met.

A business must complete an annual report to the DOR by March 31 of any year in which the tax credit is taken. The report must include: the total number of employment positions, the number of qualified employment positions, the amount of the credit claimed; the number of employment positions; the number of employment positions that have employer-provided medical, dental, and health benefits; and any other information the DOR finds necessary to measure the results of the tax credit program. The information gathered by the DOR shall be used to study the tax credit program and report to the appropriate committees of the Legislature on the effectiveness of this tax credit on job creation, net jobs created for Washington residents, and company growth. The report is due by December 1, 2014.

If the DOR finds that a qualified employment position is not filled for three years or is no longer a qualified employment position, the amount of taxes for which a credit has been claimed is immediately due and payable.

This tax credit program expires January 1, 2016.

Appropriation: None.

Fiscal Note: Requested on January 10, 2006.

Effective Date: The bill takes effect on July 1, 2006.