BUSINESS AND OCCUPATION TAX - CREDITS

82.04.427 POLLUTION CONTROL CREDIT
82.34.060(2)

Description: A credit is allowed against B&O tax for up to 50 percent of the cost of required pollution control facilities. Up to 2 percent of the total credit may be taken each year.

Purpose: To encourage pollution control and to compensate Washington firms for the costs they incur to meet upgraded pollution standards.

Category/Year Enacted: Other business. 1967; new applications not allowed after 1981.

Primary Beneficiaries: Firms required to install pollution control facilities, primarily in the lumber and wood products, paper, aluminum and food products industries. A total of 151 firms applied for the B&O, public utility or use tax credits; 60 firms have a remaining balance of credits to be taken in the future totaling $30 million at the end of FY 2003.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 1,650	$ 1,485	$ 1,336	$ 1,203
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
No; credits currently being taken were authorized under prior law.

82.04.4333 CREDIT FOR JOB TRAINING SERVICES

Description: Twenty percent of the amount spent on job training by firms that are eligible for the rural county sales tax deferral/exemption program may be taken as a credit against B&O tax. The training must be designed to enhance job performance in a state-approved program which is sponsored or provided by the employer. The amount of credit for a particular firm is limited to $5,000 annually.

Purpose: To encourage firms in rural counties to employ local residents who may need training.

Category/Year Enacted: Business incentive. 1996

Primary Beneficiaries: Manufacturing and R&D firms in rural counties; two firms take the credit.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000) Due to confidentiality requirements, the impact of this tax credit cannot be publicly stated because it is believed to affect fewer than three taxpayers.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.434 TESTING AND SAFETY LABORATORIES

Description: The value of services and information provided to the state of Washington free of charge by a laboratory which tests products for public safety purposes may be credited against B&O tax liability. The laboratory must not be affiliated with any industry group and must be exempt from federal tax.

Purpose: To encourage a testing/safety laboratory of this type to locate in Washington and ensure that these services are available for the safety of Washington residents.

Category/Year Enacted: Business incentive. 1991

Primary Beneficiaries: One firm.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000) Due to confidentiality requirements, the impact of this tax credit cannot be publicly stated because it is believed to affect fewer than three taxpayers.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.440(2&3) MULTIPLE ACTIVITIES TAX CREDIT: INTRASTATE

Description: This credit allows taxpayers who engage in more than one taxable activity under the B&O tax (e.g., manufacturing and retailing) to credit the tax due on one activity against the other.

Purpose: Until 1987 businesses were taxable under the B&O tax only under a single classification for income associated with a particular activity or product. In that year the U.S. Supreme Court ruled that Washington could not discriminate against firms operating on an interstate basis - intrastate activities were taxed only once whereas interstate activities could potentially be taxed twice. Part of the solution was to subject products produced and sold in the state to tax under both the production and selling categories, but to allow the tax on the production activity to be credited against the selling tax.

Category/Year Enacted: Commerce. 1987

Primary Beneficiaries: Approximately 2,700 firms that produce and sell products within the state.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax*	$ (180)	$ (197)	$ (209)	$ (222)
Local taxes - not considered.				

*Since the manufacturing/extracting tax rate (0.484%) is higher than the retailing rate (0.471%), retail firms are not able to credit the entire amount of the production tax against the selling tax and therefore an overall tax increase could occur compared with just the retailing tax liability.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? No.

82.04.440(2&4) MULTIPLE ACTIVITIES TAX CREDIT: INTERSTATE

Description: This credit allows firms that are subject to state or local gross receipts taxes in other states to credit these taxes against the B&O tax liability on income derived from the same product or activity.

Purpose: Until 1987 businesses were taxable under the B&O tax only under a single classification for income associated with a particular activity or product. In that year the U.S. Supreme Court ruled that Washington could not discriminate against firms operating on an interstate basis - intrastate activities were taxed only once whereas interstate activities could potentially be subject to gross receipts tax in Washington and in the destination state. This 1985 statute was intended to meet a potential adverse Court ruling overturning Washington's gross receipts tax by allowing the other state's gross receipts tax to be credited against Washington's tax.

Category/Year Enacted: Commerce. 1985 and 1987

Primary Beneficiaries: Approximately 40 firms are currently taking this credit.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 10,075	$ 11,060	$ 11,735	$ 12,462
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? No.

82.04.4451 SMALL BUSINESS CREDIT

Description: This statute provides a credit against B&O tax due of up to $35 per month. Firms with computed B&O tax liability of $35 or less pay no tax. The credit amount is reduced as B&O tax liability exceeds $35 per month and is phased out completely when the tax liability reaches $70. In order to simplify calculation of the credit amount, 1997 legislation authorized the Department to prepare a credit table for use by all taxpayers, which applies the credit in $5 increments.

Purpose: To provide tax relief to small businesses and encourage the growth of new firms.

Category/Year Enacted: Other business. 1994

Primary Beneficiaries: A total of 159,000 firms benefit.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 21,631	$ 21,749	$ 21,868	$ 21,988
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.4452 RESEARCH AND DEVELOPMENT TAX CREDIT

Description: A B&O tax credit is provided for qualified expenditures on research and development by certain firms. Eligible firms must be engaged in one of five fields of high technology: advanced computing, advanced materials, biotechnology, electronic device technology or environment technology. Firms must spend at least 0.92 percent of their taxable income upon R&D activities. The credit is equal to 1.5 percent of the amount spent on eligible R&D activities (0.484 percent for nonprofit research organizations) and is capped at $2 million per year for each participating firm. The B&O tax credit for R&D expenditures is currently scheduled to expire on December 31, 2004.

Purpose: To stimulate the creation of high wage jobs in high technology industries and encourage firms to proceed from the R&D phase to actual manufacturing of new products.

Category/Year Enacted: Business incentive. 1994; credit amounts revised in 1998.

Primary Beneficiaries: As of January 2003 approximately 1,311 firms have utilized the credit.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 24,800	$ 12,900	$ 0	$ 0
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.44525 INTERNATIONAL SERVICES TAX CREDIT

Description: Firms engaged in certain international services are entitled to a B&O tax credit of $3,000 for each new job they create. Eligible activities are defined in the statute; they include services such as computer, legal, accounting, engineering, architectural, advertising, and financial services. To qualify, the firm must be located in a community empowerment zone or in a city or group of contiguous cities with a population of at least 80,000.

Purpose: To attract and retain businesses that provide services to international customers and create jobs.

Category/Year Enacted: Business incentive. 1998

Primary Beneficiaries: To date, it is believed that fewer than three firms have actually applied for and qualify for this credit, although incorrect taxpayer reporting implies a somewhat larger participation rate.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000) Due to confidentiality requirements, the impact of this exemption cannot be publicly stated because it is believed to affect fewer than three taxpayers.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.4459 AGRICULTURAL FIELD BURNING

Description: A credit is allowed against B&O tax liability for up to one-half of the cost of structures or equipment used to reduce the necessity of burning stubble in fields. These expenditures must be eligible for the sales tax exemption in RCW 82.08.840 and include structures or equipment used to gather, compact, process, store, transport, or incorporate straw into other products. The tax credit is currently scheduled to expire on January 1, 2006.

Purpose: To reduce emissions into the air resulting from burning the stubble from cereal grains or field and turf grass.

Category/Year Enacted: Agriculture. 2000

Primary Beneficiaries: Firms that remove stubble for farmers.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000) Farmers generally do not have B&O tax liability, unless they make direct retail sales or process the products they grow. Thus, their expenditures for field burning equipment would likely not result in B&O tax credits. There are no known firms (e.g., manufacturers) taking the credit.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.4461 AIRCRAFT PRE-PRODUCTION EXPENDITURES

Description: A B&O tax credit is allowed for research and design expenditures by manufacturers of aircraft or components of aircraft. The amount of credit is equal to 1.5 percent of qualified pre-production expenditures, including the costs to design a new manufacturing process, but not actual production-related costs. The tax credit is effective on the first of the month that an agreement is signed between the state and a manufacturer of a super-efficient airplane; such an agreement was signed on December 18, 2003, making the effective date December 1, 2003. The credits may be taken on and after July 1, 2005. The credit is scheduled to expire on July 1, 2024.

Purpose: To encourage siting of a new assembly plant for a super-efficient aircraft in this state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Aircraft manufacturers and suppliers of components of aircraft.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 0	$ 0	$ 29,900	$ 10,300
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.4462 AIRCRAFT PRE-PRODUCTION COMPUTER EXPENDITURES

Description: A B&O tax credit is allowed for design and pre-production computer software and hardware expenditures by manufacturers of aircraft or components of aircraft. Eligible expenditures are those made between July 1, 1995 and the date that an agreement is signed between the state and a prospective manufacturer of a super-efficient airplane (this occurred on December 18, 2003). The credit is equal to 8.44 percent of the purchase price of the computer hardware and software. A maximum of $10 million may be taken annually and the total lifetime credit for any one firm is $20 million. The tax credit is effective on the first of the month an agreement is signed (i.e., December 1, 2003). The credit is scheduled to expire on July 1, 2024.

Purpose: To encourage siting of a new assembly plant for a super-efficient aircraft in this state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Aircraft manufacturers and suppliers of components of aircraft.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 11,000	$ 9,400	$ 0	$ 0
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.4463 PROPERTY TAXES PAID ON AIRCRAFT FACILITIES

Description: A B&O tax credit is allowed for state and local property taxes paid by manufacturers of commercial aircraft or components of such aircraft. The credit applies to: (1) property tax on new structures and the land upon which they are located; (2) property tax on the increased value that is attributable to renovation or expansion of existing facilities; and (3) personal property tax on eligible manufacturing machinery. Property taxes eligible for the credit are those paid on construction or acquisition of equipment made after the effective date of this statute. The effective date is the first day of the month that an agreement is signed between the state and a prospective manufacturer of a super-efficient airplane (the agreement was signed on December 18, 2003, thus the credit is effective on December 1, 2003). The credit is scheduled to expire on July 1, 2024.

Purpose: To encourage siting of a new assembly plant for a super-efficient aircraft in this state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Aircraft manufacturers and suppliers of components of aircraft.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 0	$ 200	$ 900	$ 1,300
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.04.447 NATURAL GAS FOR DSI CUSTOMERS

Description: A credit against B&O tax is allowed for a direct service industry (DSI) firm that purchases electric power directly from the Bonneville Power Administration. The tax credit is equal to the amount of public utility tax paid on any natural gas purchased by the DSI to power a turbine in order to produce their own electric power. The tax credit lasts for 60 months and the firm must maintain its existing level of employment to take the credit.

Purpose: To encourage DSIs to continue manufacturing in Washington by constructing their own natural gas powered turbines after their BPA power contracts expire.

Category/Year Enacted: Business incentive. 2001

Primary Beneficiaries: To date, no firm has taken this tax credit.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000) None.

If the exemption were repealed, would the taxpayer savings be realized as increased revenues?
Yes, assuming some firms were actually taking the credit.

82.04.448 CREDIT FOR NEW SEMICONDUCTOR JOBS

Description: A credit against B&O tax liability is allowed for manufacturers of semiconductor materials. The credit equals $3,000 for each new job located in a new structure of a firm that produces materials for manufacturing semiconductors. Credit is allowed for up to eight consecutive years. The credit will be contingent upon commencement of commercial operations at a new semiconductor microchip fabrication plant with an investment in new buildings and equipment of at least $1 billion. It is believed that such a condition will be met by January 1, 2006 and the tax credit is assumed to become effective then. The credit is scheduled to expire 12 years after the effective date.

Purpose: To encourage the retention of existing semiconductor firms in Washington and to attract similar businesses to this state.

Category/Year Enacted: Business incentive. 2003

Primary Beneficiaries: Approximately 20 firms in the semiconductor cluster are expected to benefit.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 0	$ 0	$ 155	$ 360
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.35.050 COGENERATION FACILITIES

Description: Cogeneration is defined as the sequential generation of electricity or mechanical power and useful heat from the same energy source or fuel. A B&O tax credit is provided equal to three percent of the cost of a cogeneration facility per year. The total credit is limited to 50 percent of the capital cost of the facility. The maximum facility cost for which a cogeneration credit may be applied is $10 million.

Purpose: To promote cogeneration and save energy.

Category/Year Enacted: Business incentive. 1979; new applications were terminated in 1984.

Primary Beneficiaries: Approximately five cogeneration facilities have taken this credit.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000) It is believed that the final credit authorized under this program was taken in 1998. No other firms are currently eligible, so the program has effectively terminated.

82.62.030 NEW JOBS IN RURAL COUNTIES
82.62.045

Description: A credit against B&O tax liability is provided for manufacturing, R&D or computer service firms that create new jobs in rural counties or community empowerment areas. Rural counties are defined as those with an average population density of less than 100 persons per square mile. The amount of the credit is $2,000 for each new job created, unless the new position is paid wages (including benefits) of more than $40,000 annually in which case the credit is $4,000. To qualify the firm must increase its total employment in an eligible area by at least 15 percent. The amount of credit is capped at $7.5 million annually for all firms.

Purpose: To encourage firms to expand in rural areas.

Category/Year Enacted: Business incentive. 1986

Primary Beneficiaries: Approximately 100 applicants per year.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 2,736	$ 2,773	$ 2,831	$ 2,888
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.

82.70.020 CREDIT FOR COMMUTE TRIP REDUCTION

Description: A credit against B&O tax is allowed for employers who provide financial incentives for their own or other employees to participate in commute trip reduction programs. The amount of the tax credit is equal to one-half of the employer's expenditure and is limited to $60 per employee per year. Any single firm may claim a maximum of $200,000 in credits each year, and the program is capped at $2.25 million annually for both B&O and public utility tax credits. The tax credit program is currently scheduled to expire on July 1, 2013.

Purpose: To provide an incentive for employers to make financial incentives available to their employees to encourage car-pooling and other means of reducing air pollution, traffic congestion, and fuel consumption.

Category/Year Enacted: Other. 2003

Primary Beneficiaries: The current program was effective on July 1, 2003, so the number of participating firms on an annual basis is not yet known.

Possible Program Inconsistency: None evident.

Taxpayer Savings ($000)	FY 2004	FY 2005	FY 2006	FY 2007
State tax	$ 1,935	$ 1,935	$ 1,935	$ 1,935
Local taxes - not considered.				

If the exemption were repealed, would the taxpayer savings be realized as increased revenues? Yes.