

HOUSE BILL REPORT

HB 2306

As Reported by House Committee On:
Finance

Title: An act relating to allowing main street programs to use remaining main street tax credits after a certain date.

Brief Description: Allowing main street programs to use remaining main street tax credits after a certain date.

Sponsors: Representatives Steele and Callan.

Brief History:

Committee Activity:

Finance: 2/2/24, 2/5/24 [DPS].

Brief Summary of Substitute Bill

- Allows a Main Street program to use remaining Main Street Tax Credits up to a cap of \$250,000 per program beginning October 1 of each calendar year.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Berg, Chair; Street, Vice Chair; Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Barnard, Chopp, Ramel, Santos, Springer, Thai, Wilcox and Wylie.

Staff: Kristina King (786-7190).

Background:

Business and Occupation Tax.

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.

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 may be operating at a loss.

Public Utility Tax.

The public utility tax is a tax on public service businesses, 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. There are different rates depending on the specific utility activity.

Washington Main Street Program.

The Washington Main Street Program (Program) was established in 2005 to work in partnership with business and property owners in downtown and neighborhood commercial districts in rural and urban communities. The Program is implemented by the Department of Archaeology and Historic Preservation (Department) to do the following:

- provide technical assistance and training to local governments, business organizations, and property owners undertaking a downtown and neighborhood commercial district revitalization initiative and management strategy;
- to the extent that funds are made available—provide financial assistance to local governments or local organizations to assist in initial downtown or neighborhood commercial district revitalization program start-up costs, specialized training, specific project feasibility studies, market studies, and design assistance;
- develop objective criteria for selecting recipients of assistance and funds, which shall include priority for downtown or neighborhood commercial district revitalization programs located in a rural county, and provide for designation of local downtown or neighborhood commercial district revitalization programs and official local Main Street programs (local programs) under the Program;
- operate the Program in accordance with the plan developed by the Department, in consultation with the Washington Main Street Advisory Committee; and
- consider other factors the Department deems necessary for the implementation of the Program.

Organizations must be officially designated a Washington Main Street community by the Program to be eligible to receive contributions through the Main Street Tax Credit Incentive Program (Main Street Tax Credit). The Department may designate local programs for such assistance based on certain criteria, including:

- the degree of interest and commitment to comprehensive downtown or neighborhood commercial district revitalization and historic preservation by both the public and private sectors;
- the evidence of potential private sector investment in the downtown or neighborhood commercial district;
- a downtown or neighborhood commercial district with sufficient historic fabric to become a foundation for an enhanced community image;

- the capacity of the organization to undertake a comprehensive program and the financial commitment to implement a long-term downtown or neighborhood commercial district revitalization program that includes a commitment to employ a professional program manager and maintain a sufficient operating budget;
- the Department's existing downtown revitalization program's tier system; and
- the National Main Street Center's criteria for designating official Main Street cities.

Main Street Tax Credit Incentive Program.

The Main Street Tax Credit Incentive Program is administered by the Department of Revenue (DOR) and allows persons making contributions to a local program, or generally to the state Main Street Trust Fund Account, to claim a B&O tax credit or a public utility tax credit. The contribution must be made in the same calendar year that the contribution was approved. The tax credit is limited to an amount equal to 75 percent of the approved contribution made by a person to the Program or 50 percent of the approved contribution made by a person to the Main Street Trust Fund Account.

The Main Street Tax Credit has certain limits and is provided on a first come, first served basis. No person may receive a tax credit over \$250,000 per calendar year. The total tax credits allowed for each designated local program may not exceed \$160,000 per calendar year. The total tax credits allowed statewide may not exceed \$5 million per calendar year. The credit expires January 1, 2032.

Summary of Substitute Bill:

As of October 1, the fourth business quarter of each year, the DOR must allow Main Street programs to use any remaining statewide contribution credits available under the \$5 million statewide cap. All Main Street programs, whether or not they have exceeded the individual cap of \$160,000 per calendar year, are eligible.

Substitute Bill Compared to Original Bill:

The substitute bill:

- removes the unlimited credit cap per program from the Main Street Tax Credit during the fourth quarter of the calendar year; and
- creates a credit cap of \$250,000 per program for the Main Street Tax Credit during the fourth quarter of the calendar year.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 5, 2024.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) The Main Street Program serves over 70 communities and 39 of which are eligible to participate in the Main Street Tax Credit. This program, and the tax credits associated with it, allows communities to develop programs that have a direct impact on the economic vitality and the historic preservation of downtown areas across the state, including creating a microloan program and comprehensive revitalization projects for the downtown areas in many cities across the state.

Several years ago, the statewide cap for the credit program was increased to \$5 million to adjust for growth in participation in the program. Since then, the program has continued to grow. This bill allows individual Main Street programs who reach their \$160,000 credit cap before the end of the year to exceed that cap in the fourth quarter of the year and claim any remaining credits under the \$5 million statewide cap. There is money left on the table each year due to the individual program cap. In 2023 there were at least seven programs that hit the cap before the end of the year and these communities could use the remaining credits. The Washington Trust recommends an amendment to create a \$250,000 credit cap per program for the fourth quarter of the calendar year, rather than the credit lift created in the introduced version of the bill.

The bill would enable communities to go beyond organizational maximums in place for donations which supports the full use of the program, which maximizes the effectiveness and full potential of not only the tax credit program, but also the communities who benefit from it.

(Opposed) None.

Persons Testifying: Representative Mike Steele, prime sponsor; Erin McCardle, City of Chelan; Chris Moore, Washington Trust for Historic Preservation; and Maygen Hetherington, Historic Downtown Snohomish Association.

Persons Signed In To Testify But Not Testifying: None.