



Tax credit for new employees in manufacturing and research & development

The rural county business and occupation (B&O) tax credit for new employees provides a credit against the B&O tax for each new employment position filled and maintained by qualified businesses located in a rural county or Community Empowerment Zone (CEZ).

The program provides either:

- A \$2,000 credit for each new employment position with annual wages and benefits of \$40,000 or less.
- A \$4,000 credit for each new employment position with wages and benefits of more than \$40,000 annually.

To be granted the credit, the business's average employment positions at the qualified facility must increase by at least 15% over the following four calendar quarters from the period in which the employee was hired.

Qualified business

The business must be conducting manufacturing, research and development activities, or commercial testing (excluding light and power business), and locate or expand in a rural county or CEZ. Businesses located in a CEZ will only receive credit for persons who at the time of hire are residents of the CEZ. For further information on qualifying business activity, see the definition section below.

Businesses must create a new work force, or expand the existing work force by a 15% average increase (full-time employment positions) over the preceding four calendar quarters. All new positions created by the business will qualify for the credit for the four consecutive quarters following the quarter in which the positions are filled.

Employment requirements

New full-time employment positions must be maintained for four consecutive calendar quarters. A full-time employment position is one that is filled by one or more employees who:

- Work 35 hours per week for 52 weeks.
- Work 455 hours each quarter (excluding overtime) of the year.
- Work 1,820 hours annually (excluding overtime) during a period of four consecutive quarters.

For seasonal employers, qualified employment position also includes the equivalent of a full-time employee in work hours for four consecutive full calendar quarters.

To qualify, a new application must be submitted every four consecutive quarters that you project employment to increase over 15%. Positions hired after the end of four consecutive calendar quarters are not considered for this credit.

When a person filling a position quits or is terminated, the approved credit for that position will not be canceled if both the following are met:

- The cumulative period of any vacancies in that position is not more than 120 days in the four-quarter period.
- During a vacancy, the employer is training or actively recruiting a replacement permanent, full-time employee for the position. An employee in-training qualifies as filling a position, if that employee is working at least 35 hours a week.

Eligible area

Before making a final investment or hiring decision based on this program, the business should confirm the eligibility of the facility's location to ensure it is located in a designated rural county or a CEZ.

Rural county means a county with fewer than 100 people per square mile or a county smaller than 225 square miles as determined annually by the [Office of Financial Management](#).

As of April 1, 2021, there are 30 counties classified as rural. A list of rural counties is revised annually and can be viewed at dor.wa.gov/taxes-rates/tax-incentives.

Community Empowerment Zone (CEZ) means an area meeting the requirements of RCW 43.31C.020 and officially designated as a CEZ by the director of the Department of Commerce.

The following cities are currently designated as CEZs:

- Bremerton.
- Spokane.
- Yakima.
- Tacoma.
- Duwamish and White Center.

In addition to the facility's location, only positions filled by persons who are residents of the CEZ at the time of hiring are eligible for the tax credit.

Resident means the person who fills the qualified employment position makes his or her home in the CEZ. A mailing address alone is insufficient to establish that a person is a resident.

You can view CEZ maps on our website at dor.wa.gov/taxes-rates/tax-incentives.

Our online [Tax Rate Lookup Tool](#) will also tell you if a street address is in a Rural County or CEZ.

Application

The [Rural Area Application for New Employee B&O Tax Credit](#) must be filed with the Department of Revenue within 90 days after the first qualified employment position is filled. A credit cannot be taken until the application is approved.

A copy of the Rural County Application for B&O Tax Credit on New Employees along with the worksheet is available on our website at dor.wa.gov, or by calling our Telephone Information Center at 360-705-6705. The Department of Revenue must approve or deny applications within 60 days. If denied, the business may file for an administrative review per Washington Administrative Code (WAC) 458-20-100.

Limitations

For a full-time employment position to be eligible for credit, it must be requested on the application and approved by the Department of Revenue. Any position(s) created that exceed the amount approved on your application are not eligible for the credit.

The positions must be new. Positions may not be transferred from an established site in Washington to a new site or other qualified location unless the vacated positions are filled.

Using the credit once approved

A credit of \$2,000 or \$4,000 will be authorized for each position requested on the application. The department will establish the credit in your MyDOR account following approval of the application. The business may apply the credit against its B&O tax liability. The credit used on each return must not be greater than the amount of B&O tax due on that return. The credit may be carried over until used.

Note: This credit is only to offset B&O tax. It may not be used to offset sales tax or other taxes owed on the return.

How to determine the 15% increase in positions

Qualification for the B&O tax credit depends upon whether enough new positions are expected to be filled to meet the 15% average increase test. Positions filled in the four quarters prior to filling the first qualified position are not eligible for a credit, but the positions are used to calculate whether the 15% increase has been met.

To determine if the number of new positions anticipated will meet the average increase of 15%:

1. Add the number of all full-time employees (those who work at least 455 hours per quarter) as reported to Employment Security for **each of the four preceding quarters** to find the number of full-time employees for those periods.
2. Add the hours of the remaining employees (seasonal and part-time) on each report for the preceding four quarters, and divide by 455 to find the number of other full-time equivalent (FTE) employees.
3. Add the totals from step 1 and 2 above to find the total FTEs for each quarter (see example in table 1, lines a - d).
4. Add the FTEs for all four quarters together for the annual total (see table 1, line e).
5. Divide the annual total FTEs by four. The answer represents the average number of full-time employment positions (see table 1, lines f and g).

A worksheet is included with the Rural County Application for B&O Tax Credit on New Employees. To obtain the average number of FTEs for the previous four calendar quarters and current four calendar quarters, complete the tables on the worksheet. The average number of FTEs for the current four calendar quarters must be 15% **higher** than the average number of FTEs for the previous four calendar quarters (see table 2).

Table 1	Table 2
Number of full time FTEs for 4 prior quarters	Average Number of FTEs for 4 full quarters after hire date multiplied by 1.15
a. Quarter 1 11	a. Multiply total on line (g) by 1.15 13 x 1.15
b. Quarter 2 15	b. Total 15.2375 = 15 (due to rounding)
c. Quarter 3 16	
d. Quarter 4 11	
e. Total FTEs (add a through d) 53	
f. Divided by 4 ÷ 4	
g. Average number of FTEs for previous year 13.25 = 13 (due to rounding)	

Example One: Although the company hires two new employees in Quarter 1, they do not meet the 15% average test and will receive no credit for the positions.

Estimated Number of FTEs for 4 full quarters after hire date.

a. Quarter 1	13
b. Quarter 2	13
c. Quarter 3	13
d. Quarter 4	13
e. Total FTEs (add a through d)	52
f. Divided by 4	÷ 4
g. Average number of FTEs for 4 consecutive full calendar quarters after hire date	13

Example Two: Company hires four new employees in Quarter 1. In this instance, the company will meet the 15% increase test, and will receive a credit for four new positions if the positions are maintained for 4 consecutive calendar quarters.

Estimated Number of FTEs for 4 full quarters after hire date.

a. Quarter 1	15
b. Quarter 2	15
c. Quarter 3	15
d. Quarter 4	15
e. Total FTEs (add a through d)	60
f. Divided by 4	÷ 4
g. Average number of FTEs for 4 consecutive full calendar quarters after hire date	15

Annual report

Businesses with approved applications must file an [Rural Area Annual Report for New Employee B&O Tax Credit](#) with the Department of Revenue by the last day of the month immediately following the end of the four consecutive full calendar quarters for which a credit under this chapter is earned. Annual reports are required in two consecutive years for each approved credit. Employment Security reports may be requested to verify eligibility. Wage and benefit information may also be necessary to verify the credit.

The B&O tax credit will be canceled if the required reports are not submitted or do not contain the necessary information (verification that the positions were created and filled for 12 consecutive months). If the credit is canceled, the business will be required to pay back any credit taken on the Combined Excise Tax Return, plus interest, immediately.

Definitions

Manufacturing has the meaning given in RCW 82.04.120. In addition, for the purposes of this credit, manufacturing also includes the activities performed by research and development laboratories and commercial testing laboratories.

Research and development means the development, refinement, testing, marketing, and commercialization of a product, service, or process before commercial sales have begun, but only when such activities are intended to ultimately result in the production of a new, different, or useful substance or article of tangible personal property for sale. Commercial sales excludes sales of prototypes or sales for market testing if the total gross receipts from such sales of the product, service, or process do not exceed one million dollars.

Contact information

For questions about the application and report, call Taxpayer Account Administration at 360-705-6214.