

Rural County Business & Occupation Tax Credit for New Employees

The information contained in this fact sheet is current as of the date of publication and is intended only as general information. It does not cover every aspect of this incentive. Not all possible applications of this program are discussed. This fact sheet does not alter or supersede any administrative regulations or rulings issued by the Department.

Contact Information

Washington State
Department of Revenue
Taxpayer Account Administration
(360) 902-7175

Helpful links

General Tax Information
<http://dor.wa.gov>

Tax Incentives

Visit our website dor.wa.gov, and select *Tax Incentive Programs*.

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

- \$2,000 credit for each new qualified employment position with annual wages and benefits of \$40,000 or less; or
- \$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 qualified employment positions at the specific facility must increase by at least 15 percent over the following four calendar quarters from the period in which the employee was hired.

Eligible Area

The list of rural counties is revised annually (effective July 1 through June 30) by the Office of Financial Management. Before making a final investment or hiring decision based on this program, the business should confirm the eligibility of an area by visiting our website at dor.wa.gov and select *Tax Incentive Programs*. Near the bottom of our Tax Incentives page there is a list of Rural Counties and CEZs, along with maps of the CEZs.

Our online Tax Rate Lookup Tool will also tell you if a street address is in a Rural County or CEZ. To access the tool from our home page click on *Find a sales tax rate (GIS)*.

- **Rural Counties:** A county with fewer than one hundred persons per square mile or a county smaller than two hundred twenty-five square miles as determined annually by the Office of Financial Management and published by the Department of Revenue effective for the period July 1st through June 30th.

As of July 1, 2010, only 8 counties are not classified as rural counties:

Benton, Clark, King, Kitsap, Pierce, Snohomish, Spokane, and Thurston

All other counties are rural counties.

- **Community Empowerment Zones (CEZ):**

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 currently have CEZs:

Bremerton

Duwamish

White Center

Spokane

Yakima

Tacoma

The business must be located within the zone. In addition, 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.

Application

An application 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 and a valid credit certificate is issued by the Department.

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, under *Get a form or publication* or by calling our Telephone Information Center 1-800-647-7706.

The Department of Revenue must approve or deny applications within 60 days. If denied, the business may appeal the decision to the Department's Appeals Division.

Eligibility Requirements

- 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 types of business see the definition section on page 4.
- Businesses must create a new work force, or expand the existing work force by a 15 percent average increase (full-time employment positions) over the preceding four calendar quarters. All positions created by a new business will qualify for the credit for the four consecutive quarters following the quarter in which the positions are filled.
- 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 percent. Positions hired after the end of four consecutive calendar quarters are not considered for this credit. Credit for a position may not be received under both this program and the B&O tax credit programs for employees of Software Manufacturers or companies located in International Services Districts.
- When a person filling a position quits or is fired, the approved credit for that position will not be canceled as long as 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, as long as that employee is working at least 35 hours a week.

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 position(s) 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 in the application. The Department will send an Employee Credit Certificate to the business following approval of the application. AFTER the business has received the certificate AND each new position is filled, 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 may not be used to offset sales or other taxes owed on the return, only the B&O tax.

To take the credit, a copy of the Employee Credit Certificate must be attached to the Combined Excise Tax Return. The amount of the credit should be entered on page two of the Combined Excise Tax Return under the CREDITS section, credit ID number 810. The total of all credits is then entered on page one of the Combined Excise Tax Return in the TOTALS section, and subtracted from the subtotal of taxes due for that period.

How To Determine 15percent 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 percent 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 percent increase has been met.

To determine if the number of new positions anticipated is an average increase of 15 percent:

1. Add the number of all full-time employees (455 hours or more worked) as reported to Employment Security for each of the four preceding quarters to find the number of full-time employees for that period
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 1 and 2 above to find the total FTEs for the quarter (see table 14, lines a - d)
4. Add the FTEs for all four quarters together for the annual total (table 14, line e)
5. Divide the annual total FTEs by four. The answer represents the average number of full-time employment positions (table 14, 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 percent higher than the average number of FTEs for the previous four calendar quarters (table 15).

NOTE: Tables 14 and 15 are to be used with both examples one and two.

14. Number of full time equivalents (FTEs) for 4 prior quarters:

a. Quarter 1	11
b. Quarter 2	15
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)

(Transfer this number to page 2, line 15 of the application)

15. Average Number of FTEs for 4 full quarters after hire date multiplied by 1.15

a. Multiply total on line (g) by 1.15	13 × 1.15
b. Total	15.2375 = 15 (due to rounding)

(Transfer this number to page 2, line 15 of the application)

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

16. Example 1 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 percent increase test, and will receive a credit for four new positions if the positions are maintained for 4 consecutive calendar quarters.

16. Example 2 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

(Transfer this number to page 2, line 16 of the application)

Documentation Requirements

Businesses with approved applications must file an Annual Report 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. Employment Security reports can be requested to verify eligibility. Wage and benefit information may also be necessary to verify the credit. The New Employee B&O Tax Credit Annual Report is available at dor.wa.gov under *Get a form or publication*.

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.

Laws and Rules

- Chapter 82.62 Revised Code of Washington (RCW) — Tax Credits for Eligible Business Projects in Rural Counties.
- Washington Administrative Code (WAC) 458-20-240 — Manufacturers New Employee Tax Credits
- Copies of the law and administrative rule are available at dor.wa.gov under *Find a law or rule* or by calling our Telephone Information Center at 1-800-647-7706.

Definition

Manufacturing and Research and Development

Manufacturing or research and development activities must be conducted at the facility to be considered an eligible business project.

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.

For tax assistance or to request this document in an alternate format, visit <http://dor.wa.gov> or call 1-800-647-7706. Teletype (TTY) users may call (360) 705-6718.