



## Questions and Answers about the International Services Districts Business and Occupation Tax Credit

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In 1998, the Legislature enacted RCW 82.04.44525 that established a business and occupation (B&O) tax credit for the creation of new employment positions dedicated to providing certain services to international customers. The employment positions providing the international services must be located in specific geographical areas.

### **What are the geographical areas for purposes of the tax credit?**

An eligible area is either a community empowerment zone (CEZ) under RCW 43.63A.700 or a contiguous group of census tracts that meets the unemployment and poverty criteria of RCW 43.63A.710 and is so designated by ordinance of the governing body of a city or legislative authorities of contiguous cities with a population of greater than 80,000. This provision applies to counties that do not contain a community empowerment zone. For a list and maps of qualifying CEZs and International Service Districts, visit us at <http://dor.wa.gov>, under "Quick Clicks" select Tax Incentive programs.

### **How much is the tax credit?**

The amount of the credit is \$3,000 per year for each qualified employment position created. If an eligible position is created after July 1st of a given year, the credit is reduced to \$1,500 for that year. If the position is created before July 1st, the full amount of credit is available. Additionally, \$3,000 in credit can be taken in each of the following four years if the position is maintained for those four years.

### **What is a qualified employment position?**

A qualified employment position is a permanent full-time position that provides international services. If an employee leaves employment, the position is considered filled if the employer is either training or recruiting a replacement employee.

### **Do existing employees qualify for the tax credit?**

If an existing employee moves into a new employment position that provides international services and a replacement is hired to fill the position of that employee, the new position is eligible for the tax credit. In all cases, the position that generates the tax credit must be a new position created after July 1, 1998.

### **Does the credit have to be used in the year it is earned?**

The credit can be accrued and carried over until it is used. The credit amount cannot be refunded.

## **What are international services?**

International services means the providing of certain services that are subject to tax under RCW 82.04.290(2) and is either for a person domiciled outside the United States or the service itself is for use primarily outside the United States.

## **What services are classified as international services?**

Under RCW 82.04.44525(3)(c)(iii) eligible services are:

Computer; data processing; information; legal; accounting and tax preparation; engineering; architectural; business consulting; business management; public relations and advertising; surveying; geological consulting; real estate appraisal; or financial services.

## **What specific activities are covered by the definition of eligible services?**

The law defines the eligible services to mean the following:

1. "Computer services" are services such as computer programming, custom software modification, customization of canned software, custom software installation, custom software maintenance, custom software repair, training in the use of software, computer systems design, and custom software update services;
2. "Data processing services" are services such as word processing, data entry, data retrieval, data search, information compilation, payroll processing, business accounts processing, data production, and other computerized data and information storage or manipulation. "Data processing services" also includes the use of a computer or computer time for data processing whether the processing is performed by the provider of the computer or by the purchaser or other beneficiary of the service;
3. "Information services" are services such as electronic data retrieval or research that entails furnishing financial or legal information, data or research, Internet service as defined in RCW 82.04.297, general or specialized news, or current information;
4. "Legal services" are services such as representation by an attorney, or other person when permitted, in an administrative or legal proceeding, legal drafting, paralegal services, legal research services, and court reporting services, arbitration, and mediation services;
5. "Accounting and tax preparation services" are services such as accounting, auditing, actuarial, bookkeeping, or tax preparation services;
6. "Engineering services" are services such as civil, electrical, mechanical, petroleum, marine, nuclear, and design engineering, machine designing, machine tool designing, and sewage disposal system designing services;
7. "Architectural services" are services such as structural or landscape design or architecture, interior design, building design, building program management, and space planning services;
8. "Business consulting services" are services such as primarily providing operating counsel, advice, or assistance to the management or owner of any business, private, nonprofit, or public organization, including but not limited to those in the following areas: Administrative management consulting; general management consulting; human resource consulting or training; management engineering consulting; management information systems consulting; manufacturing management consulting; marketing consulting; operations research consulting; personnel management consulting; physical distribution consulting; site location consulting; economic consulting; motel, hotel, and resort consulting; restaurant consulting; government affairs consulting; and lobbying;

9. "Business management services" are services such as administrative management, business management, and office management. "Business management services" does not include property management or property leasing, motel, hotel, and resort management, or automobile parking management;
10. "Public relations and advertising services" are services such as layout, art direction, graphic design, copy writing, mechanical preparation, opinion research, marketing research, marketing, or production supervision;
11. "Surveying services" are services such as land surveying;
12. "Geological consulting services" are services rendered for the oil, gas, and mining industry and other earth resource industries, and other services such as soil testing;
13. "Real estate appraisal services" are services such as market appraisal and other real estate valuation; and
14. "Financial services" are services such as banking, loan, security, investment management, investment advisory, mortgage servicing, contract collection, and finance leasing services, engaged in by financial businesses, or businesses similar to or in competition with financial businesses

**Does a business have to apply for the tax credit?**

No. There is no application or prior approval required for a business to take the tax credit. However, when businesses use the tax credit, the Research Division of Department of Revenue may survey those businesses to determine the effectiveness of the tax credit in creating new jobs.

**How does a business take the tax credit?**

If a business has created new employment positions that provide international services, the business states the amount of credit they are taking in the "Credits" section (Part IV) on the Combined Excise Tax Return. The records of the business must record the amount of credit earned, taken, and available for future tax returns.

**What specific information does the business have to maintain for verification of credits taken?**

The law requires that the business have information available that includes:

- Employment records for the previous six years;
- Information relating to description of international service activity engaged in at the eligible location by the person; and
- Information relating to customers of international service activity engaged in at that location by the person.

For more information contact the Department's Telephone Information Center at 1-800-647-7706.