Department of Revenue Washington State

# Excise Tax Advisory

Excise Tax Advisories are interpretive statements authorized by RCW 34.05.230.

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## Alternative Credit Computation Formula
## Seasonal Employment Manufacturers

Chapter 82.62 RCW provides business and occupation (B&O) tax credits to persons:

- Engaged in manufacturing, commercial testing, or research and development activities;
- In an eligible area at a specific facility; and
- Increased their employment positions at the same facility by 15% :

This excise tax advisory (ETA) explains how an employer, who regularly operates only on a seasonal basis, and who hires more than 50% of its employees on a seasonal basis, determines if the 15% employment increase requirement to receive the credit has been met. See WAC 458-20-240 (Manufacturer's new employee tax credits) for more information regarding the B&O tax credits provided by chapter 82.62 RCW.

This alternative computation method is exclusively available for seasonal employers. Seasonal employers may not include part-time employees, who work less than 35 hours a week, in their computations, in order to meet the 15% employment increase threshold test or to determine the amount of tax credit entitlements. Full-time employees are treated as working 35 hours a week, for the purpose of this alternative computation method, even if such employees work more than 35 hours a week.

Seasonal employers, who otherwise qualify for the tax credit, may begin using such credit, when their total hours of employment during the credit period exceed total hours of employment during the base period by more than 15%.

In this ETA, the Department uses the term "credit period" to refer to the period described in RCW 82.62.010(4)(a) for which a credit is claimed. Effective January 1, 2008, this credit period is the four consecutive full calendar quarters after the calendar quarter during which the first qualified employment position is filled. Prior to January 1, 2008, the credit period is the calendar year in which a credit is sought.

In this ETA, the Department uses the term "base period" to refer to the period described in RCW 82.62.010(4)(a) again which the credit period is measured. The base period refers to the period immediately prior to the credit period described in 82.62.010(4)(a). Effective January 1, 2008, this base period is the previous four consecutive full calendar quarters immediately prior to the credit period. Prior to January 1, 2008, the base period is the calendar year immediately preceding the credit period.

Seasonal employers compute the total hours of employment during the credit period or during the preceding base period in the following manner:

> (Number of seasonal employees x number of weeks x 35 hours) + (number of full time employees x 1,820 hours) = total hours of employment in a given period.

To qualify for the tax credit, the total hours of employment at the credit period must be equal to or greater than 1.15 times the total hours of employment at the preceding base period. Two thousand dollars or four thousand dollars of tax credit (depending on if the annual wages and benefits of the qualified employment position is equal to $40,000 or less, or exceeds $40,000, respectively) may be used for every unit of 1,820 hours by which the hours worked in credit period exceeds the hours worked in preceding base period. Fractional unit of 1,820 hours does not qualify for any credit.

**Example 1:** Applicant is a shake mill, which employed four full-time employees year round and ten seasonal employees for 26 weeks during base period. During credit period, Applicant anticipates hiring five additional seasonal employees, with wages and benefits of less than $40,000 per year, and operating the mill for 30 weeks during the credit period.

The total hours of employment in the base period are 16,380 hours.

> 9,100 hours (10 seasonal employees x 26 weeks x 35 hours) + 7,280 hours (4 full-time employees x 1,820 hours) = 16,380 total hours of employment

Thus, in order to meet the 15% threshold test, Applicant must increase its total hours of employment in the credit period to 18,837 hours (1.15 x 16,380).

The anticipated total hours of employment in the credit period are 23,030 hours.

> 15,750 hours (15 seasonal employees x 30 weeks x 35 hours) + 7,280 hours (4 full-time employees x 1,820 hours) = 23,030 total hours of employment

The increased employment in credit period is greater than 15%. Once the 15% employment increase is satisfied, Applicant is entitled to $2,000 in B&O tax credit for each 1,820 hours in excess of 16,380 that are actually worked during the credit period.

In this case, if the anticipated hiring is actually achieved, Applicant will be entitled to receive B&O tax credit for 3 new full-time equivalent (FTE) positions or $6,000.

> 6,650 hours (23,030 total hours of employment in the credit period - 16,380 total hours of employment in base period) / 1,820 hours = 3.65 FTE positions

Only 3 FTE positions qualify for the B&O tax credit; no credit is available for the remaining fractional part of 1 FTE.

An issue arises when seasonal employees are entitled to different wages and benefits, and some of them earn more than $40,000 in annualized figures while some of them earn $40,000 or less in annualized figures. In such cases, whether applicants are entitled to $2,000 or $4,000 in B&O tax credit for each new FTE position created should be based on the average of actual wages and benefits of the additional seasonal employees in proportion to new FTE positions created, including any fractional part of an FTE.

**Example 2**: Applicant is a shake mill, which employed four full-time employees year round and ten seasonal employees for 26 weeks during base period. During the credit period, Applicant anticipates hiring two additional seasonal employees for 26 weeks and three more for 20 weeks. The five additional seasonal employees receive the following wages and benefits in the credit period: A = $22,000, B = $18,000, C = $16,000, D = $13,000 and E = $12,000.

The total hours of employment in the base period are 16,380 hours.

> 9,100 hours (10 seasonal employees x 26 weeks x 35 hours) + 7,280 hours (4 full-time employees x 1,820 hours) = 16,380 total hours of employment

Thus, in order to meet the 15% threshold test, Applicant must increase its total hours of employment in credit period to 18,837 hours (1.15 x 16,380).

The anticipated total hours of employment in the credit period are 20,300 hours.

> 13,020 hours ((12 seasonal employees x 26 weeks x 35 hours) + (3 seasonal employees x 20 weeks x 35 hours)) + 7,280 hours (4 full-time employees x 1,820 hours) = 20,300 total hours of employment

The increased employment in the credit period is greater than 15%. Once the 15% employment increase is satisfied, Applicant is entitled to $2,000 or $4,000 in B&O tax credit for each 1,820 hours in excess of 16,380 that are actually worked during the credit period.

In this case, if the anticipated hiring is actually achieved, Applicant will be entitled to receive B&O tax credit for 2 new full-time equivalent (FTE) positions.

> 3,920 hours (20,300 total hours of employment in credit period - 16,380 total hours of employment in base period) / 1,820 hours = 2.15 FTE positions

Only 2 FTE positions qualify for the B&O tax credit; no credit is available for the remaining fractional part of 1 FTE.

The only remaining question is whether Applicant is entitled to $2,000 or $4,000 B&O tax credit for its 2 new FTE positions. This depends on the average of actual wages and benefits of the five additional seasonal employees in proportion to the new FTE positions created, including any fractional part of an FTE.

> $81,000 in actual wages and benefits ($22,000 for A + $18,000 for B + $16,000 for C + $13,000 for D + $12,000 for E) / 2.15 FTE positions = $37,674

This figure, $37,674, is smaller than the $40,000 in actual wages and benefits required for the $4,000 B&O tax credit for each new FTE position. Therefore, Applicant only qualifies for $2,000 in B&O tax credit for each FTE position. If the anticipated hiring is actually achieved, Applicant is entitled to $4,000 in total B&O tax credit for the 2 new FTE positions created in the credit period.

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