Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 3014

Brief Description: Modifying the sales and use tax deferral program for investment projects in rural counties.

Sponsors: Representatives Kessler, Morrell and Van De Wege; by request of Governor Gregoire.

Brief Summary of Bill

- Extends the rural county sales and use tax deferral program from July 1, 2010 to July 1, 2020. Only distressed counties with an unemployment rate which is at least 20 percent above the state average for three years are eligible under the program.
- Requires the Department of Revenue to establish a list of distressed counties by July 1, 2010.

Hearing Date: 2/2/10

Staff: Susan Howson (786-7142).

Background:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. Sales tax is paid by the purchaser and collected by the seller. The use tax is imposed on items used in the state that were not subject to the retail sales tax and includes purchases made in other states and from sellers who do not collect Washington State sales tax.

The rural county sales and use tax deferral program grants a deferral of sales and use tax for manufacturing, including computer-related businesses, research and development laboratories, commercial testing facilities, and vegetable seed conditioning facilities located in rural counties, Community Empowerment Zones (CEZ), or a county containing a CEZ.

The sales and use taxes on qualified construction and equipment costs for such businesses located in these specific geographic areas are waived when all program requirements have been met and verified. These waiver requirements include: (1) an annual report covering each calendar year must be filed by March 31 of the following year; (2) all purchases have been verified as eligible by the Department of Revenue (DOR); (3) the facility must be used for qualified activities during the year in which the investment project is certified as operationally complete by the Department and for each of the following seven years; and (4) employment requirements have been met for a business located in a CEZ or county containing a CEZ.

This program is scheduled to expire on July 1, 2010.

Summary of Bill:

Beginning July 1, 2010, the rural county sales and use tax deferral program is changed to include only distressed counties. A distressed county means a county that has an unemployment rate which is at least 20 percent above the state average for three years as determined by the Employment Security Department. After June 30, 2010, Community Empowerment Zones are no longer eligible under the program.

The Department of Revenue (DOR) is required to establish a list of distressed counties by July 1, 2010, which is effective for 24 months. The list will be updated every two years based on Employment Security Department data.

Persons receiving a sales and use tax deferral under this program are required to electronically file any surveys, reports, returns, and other forms or information with the DOR. Deferral recipients must complete annual surveys which the DOR will use to complete annual statistical reports to the Legislature and a final outcomes report due December 1, 2019.

The program expires July 1, 2020.

Appropriation: None.

Fiscal Note: Available.

Effective Date: This bill takes effect on July 1, 2010, except for sections 3, 9, and 10. Section 3, relating to the Department of Revenue compiling a list of distressed counties, takes effect 90 days after adjournment of the session in which the bill is passed. If the Legislature does not enact Substitute House Bill 1597, relating to the administration of state and local tax programs, then Sections 9 and 10, relating to annual surveys for tax incentives, take effect as of July 1, 2010.