

SENATE BILL REPORT

SB 6613

As Reported by Senate Committee On:
Economic Development, Trade & Innovation, February 4, 2010

Title: An act relating to modifying the sales and use tax deferral program for investment projects in rural counties.

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

Sponsors: Senators Kastama, Shin, Kilmer and Sheldon; by request of Governor Gregoire.

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 1/25/10, 2/03/10, 2/04/10 [DPS-WM].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Majority Report: That Substitute Senate Bill No. 6613 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Kastama, Chair; Shin, Vice Chair; Zarelli, Ranking Minority Member; Delvin, Eide and Kilmer.

Staff: Karen Campbell (786-7448)

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The rural county and distressed area tax deferral as originally enacted in 1985 provided a deferral of sales and use taxes due on plant construction and expansion, or on acquisition of equipment by firms that engaged in manufacturing, research and development, or computer programming activities in counties with high rates of unemployment. In 1999 the program was changed so that the incentive became available in any rural county and in counties with community empowerment zones. A community empowerment zone is a geographic area, designated by the Department of Commerce (Commerce), characterized by lack of employment opportunities, below average median income level, lack of affordable housing,

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deteriorating infrastructure, and a lack of facilities for community services, job training, and education. This tax deferral program is scheduled to expire on July 1, 2010.

Summary of Bill (Recommended Substitute): Beginning July 1, 2010, the manufacturing 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. The Department of Revenue (DOR) is required to establish a list of distressed counties, which is effective for 24 months. 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 by December 1, 2019.

A new section is added to the act which allows sales and use tax deferrals to remain in place for up to two years during periods of temporary cessations of operations. To qualify for relief from paying deferred taxes during the period business is suspended, the remaining labor force must be greater than 10 percent of the recipient's labor force at the time the deferral was approved by the DOR. If the number of employment positions falls below the 10 percent threshold during the two year period, the amount of deferred taxes outstanding is due immediately. Recipients seeking relief from paying deferred taxes must apply to and be approved by DOR. The recipient is entitled to this relief only once.

The nomenclature for distressed county is changed to qualifying county.

Businesses engaged in manufacturing, research and development, or computer programming activities in community empowerment zones are eligible for the sales and use tax deferral program.

EFFECT OF CHANGES MADE BY ECONOMIC DEVELOPMENT, TRADE & INNOVATION COMMITTEE (Recommended Substitute): The substitute adds a new section to the act which allows sales and use tax deferrals to remain in place for up to two years during periods of temporary cessations of operations. To qualify for relief from paying deferred taxes during the period business is suspended, the remaining labor force must be greater than 10 percent of the recipient's labor force at the time the deferral was approved by the DOR. If the number of employment positions falls below the 10 percent threshold during the two year period, the amount of deferred taxes outstanding is due immediately. Recipients seeking relief from paying deferred taxes must apply to and be approved by DOR. The recipient is entitled to this relief only once.

The nomenclature for distressed county is changed to qualifying county.

The substitute also mandates that businesses engaged in manufacturing, research and development, or computer programming activities in community empowerment zones are eligible for the sales and use tax deferral program.

Appropriation: None.

Fiscal Note: Available on original bill.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: This tax deferral program will encourage investment in counties with high unemployment rates and target resources to areas that need it most. Counties hardest hit by the current fiscal crises will be able to move out of the economic situation they are in and economic development will occur.

OTHER: The tax deferral program should be extended to include businesses forced to temporarily suspend operations due to the current recession. The reporting deadlines need to be more flexible and the annual survey due date should be extended by one month.

Persons Testifying: PRO: Heidi Hughes, Office of the Governor; Nick Demerice, Commerce; Alyson Fouts, DOR.

OTHER: Lori Evans, Teck Washington; Bryce Yadon, Washington Economic Development Association; Amber Carter, Association of Washington Businesses.