FINAL BILL REPORT

2ESSB 5201

C 3 L 95 E1
Synopsis as Enacted

Brief Description: Providing tax exemptions for manufacturing and processing.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Bauer, Cantu, McAuliffe, Haugen, Winsley, Snyder, Loveland, Sheldon, Fairley, West, Long, Palmer, Schow, Moyer, Sellar, Rasmussen, Deccio, Heavey, Quigley, C. Anderson, Oke, Roach and Hale; by request of Governor Lowry).

Senate Committee on Ways & Means

Background: The sales tax is imposed on each retail sale of most articles of tangible personal property and certain services. Taxable services include construction, repair, telephone, lodging of less than 30 days, physical fitness, and some recreation and amusement services. Materials and labor used to alter or improve real or personal property are subject to the tax. Exempt from tax are purchases for resale and purchases of components and ingredients that become part of another product for sale.

Three sales and use tax deferral programs have been enacted to encourage the location of business in Washington.

The distressed area deferral program targets economically distressed areas with unemployment rates that are 20 percent higher than the state average. Manufacturing and research and development businesses may defer sales and use taxes on buildings, machinery and equipment, and installation labor. Manufacturing includes computer related businesses. The business is required to create at least one job per $750,000 of investment. Expansion of an existing facility is eligible if the cost of the expansion exceeds 25 percent of the existing facility. To be eligible, a cogeneration project must be integral to the manufacturing facility and be at least 50 percent owned by the manufacturer. The deferred taxes are forgiven if the investment project meets the program criteria during the repayment period.

The new business deferral program is available statewide to manufacturing and research and development firms that were not doing business in the state prior to 1985. The sales and use tax on new buildings, equipment and machinery, and installation labor is deferred for a three-year period after completion of the project. The business is required to repay the deferred taxes over a five-year period.

The high technology deferral program is available statewide to businesses involved in "high-tech" research and development and pilot scale manufacturing. The business must be involved in biotechnology, advanced computing, electronic device technology, advanced materials, or environmental technology. These businesses may defer sales and use taxes on buildings, machinery and equipment, and installation labor. The sales and use tax is deferred for a three-year period after completion of the project. The business is required to repay the deferred taxes over a five- or six-year period.

In 1994, the Legislature directed the Department of Revenue to study the impact of the current state tax structure on the manufacturing industry.

Summary: A statewide sales and use tax exemption is provided and the state's sales and use tax deferral programs are revised as follows.

Sales Tax Exemption. Sales of new and replacement machinery and equipment used directly in a manufacturing operation, including installation labor and services, are exempt from sales and use taxes. Machinery and equipment includes pollution control equipment.

Manufacturing operation includes that portion of a cogeneration project that is used to generate power for on-site consumption. Manufacturing operation does not include research and development activities, the production of electricity, or the preparation of food products on the premises of a person selling food at retail.

Distressed Area Tax Deferral. The distressed area tax deferral program is revised. Sales of machinery and equipment, including installation labor and services, used in businesses located in distressed areas are exempt from sales and use taxes whether or not the project continues to meet the program criteria during the repayment period. The requirement that a business create one job per $750,000 of investment in buildings or machinery and equipment is eliminated except for community empowerment zones and counties that are contiguous to eligible counties. Eligibility for cogeneration projects under the distressed area program is changed to that portion of a cogeneration project that generates power for consumption within the manufacturing site.

An expansion or renovation must increase the floor space or production capacity of an existing structure to qualify rather than costing more than 25 percent of the value of the existing facility.

Deferred taxes for businesses currently in the program need not be repaid on machinery and equipment for lumber and wood products industries, and sales of or charges made for labor and services, of the type that qualifies for exemption under this act, to the extent the taxes have not been repaid.

New Business Tax Deferral. The new business tax deferral program for buildings and machinery and equipment, including labor, for businesses not involved in manufacturing and research and development activities in the state prior to 1985, is terminated December 31, 1995.

High Technology Tax Deferral. Taxes deferred under the high technology tax deferral program need not be repaid. However, if a portion of the facility is used for other than qualified research and development, or pilot scale manufacturing during the eight years following completion of the facility, a pro-rated share of the taxes must be repaid with interest. However, no repayment is required on new and replacement machinery and equipment used directly in the manufacturing process, including installation labor and services, and sales of pollution control equipment used in manufacturing facility, including installation labor and services. An expansion or renovation must increase the floor space or production capacity of an existing structure to qualify rather than costing more than 25 percent of the existing facility.

The legislative fiscal committees are required to analyze the economic impacts of the manufacturers' tax exemption and report to the Legislature no later than December 1, 1999.

Votes on Final Passage:

Senate	45	4

<u>First Special Session</u>

Senate	45	1
House	92	5

Effective: July 1, 1995