Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1818

Brief Description: Clarifying that multiple qualified buildings are eligible for the high technology retail sales and use tax deferral.

Sponsors: Representatives Dickerson, Orcutt, Hunter and Carlyle.

Brief Summary of Bill

- Establishes that "multiple qualified buildings" are eligible for the high technology research and development sales and use tax deferral.

Hearing Date: 2/10/09

Staff: Joseph Archuleta (786-7192)

Background:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax rate up to a maximum of 3.1 percent; currently, local rates levied range from 0.5 percent to 2.4 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state which were not subject to the sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax.

The high technology research and development (R&D) sales and use tax deferral is allowed for the construction of buildings and acquisition of machinery and equipment for projects involving research and development or pilot scale manufacturing. To qualify the firm must be engaged in one of five areas related to high technology: advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology. In addition, an

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applicant is required to submit an application to the Department of Revenue (DOR) before beginning construction or equipment purchases. The application must include the location of the project, current employment, new employment estimates, estimated wages related to the project, estimated or actual cost data, time schedules for completion and operation, and other information required by the DOR. The deferral may apply to a building that is leased to a qualified high technology business if the owner/lessor agrees to pass on the economic benefit of the deferral to the lessee.

Originally, the sales/use tax liability was deferred for three years followed by a five year graduated repayment. Since 1995, the repayment requirement has been waived provided program requirements are maintained for seven years after the facility becomes operational. As of September 2007, approximately 560 firms had participated in the program. The statute is currently scheduled to expire on July 1, 2015.

Summary of Bill:

Establishes that "multiple qualified buildings" leased to the same person are eligible for the deferral when the structures are located within a five mile radius and the initiation of construction of each building begins within a 60-month period.

Requires that applications be submitted prior to the construction of each building for an investment project involving multiple qualified buildings.

Allows for shifting of qualified activities within a building or from one building to another and allows the Department of Revenue to develop rules to calculate apportionment of construction costs across these multiple buildings. The lessee is responsible for payment of any deferred tax that may become due and payable.

The bill is retroactive and applies to applications received after June 30, 2007.

Appropriation: None.

Fiscal Note: Requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.