



1 registration and unified business identifier number does not apply  
2 with respect to subcontractors.

3 (b)(i) When a general contractor, including a property owner  
4 acting as a general contractor, requests a final inspection, the  
5 city, town, or county that issued the building permit must request  
6 from the general contractor the name, unified business identifier  
7 number, and contractor registration number of any subcontractors that  
8 performed any portion of the work under the building permit. The  
9 department of revenue must develop a form for this purpose and make  
10 it available, at no cost, to the cities, towns, and counties.

11 (ii) Cities, towns, and counties may charge general contractors  
12 and property owners acting as a general contractor a fee of five  
13 dollars to defray the cost of collecting the information required in  
14 this subsection (1)(b) and providing the information to the  
15 department of revenue as required in (f) of this subsection (1).

16 (iii) This subsection (1)(b) only applies with respect to  
17 construction on single-family dwellings and multifamily residential  
18 buildings as defined in RCW 19.27.015.

19 (c) A general contractor or building permit applicant must  
20 provide a city, town, or county with complete and accurate  
21 information about the contractor and any subcontractors as requested  
22 by the city, town, or county pursuant to (a) and (b) of this  
23 subsection (1).

24 (d) When the verification is made and the information requested,  
25 as required in (a) and (b) of this subsection (1), nothing contained  
26 in this section is intended to be, nor (~~shall~~) may it be construed  
27 to create, or form the basis for any liability under this chapter on  
28 the part of any city, town or county, or its officers, employees or  
29 agents. (~~However, failure to verify the contractor registration~~  
30 ~~number results in liability to the city, town, or county to a penalty~~  
31 ~~to be imposed according to RCW 18.27.100(7)(a).)~~

32 (e) However, failure to comply with the provisions of (a) and (b)  
33 of this subsection (1) results in liability to the city, town, or  
34 county to a penalty to be imposed according to RCW 18.27.100(8)(a).

35 (f) Cities, towns, and counties must furnish the information  
36 collected pursuant to (a) and (b) of this subsection (1) to the  
37 department of revenue monthly at no charge to the department. The  
38 information must be provided in a format requested by the department.  
39 The department of revenue must, upon request, share such information

1 with the department of labor and industries and the employment  
2 security department.

3 (2) At the time of issuing the building permit, all cities,  
4 towns, or counties are responsible for:

5 (a) Printing the contractor registration number on the building  
6 permit; and

7 (b) Providing a written notice to the building permit applicant  
8 informing them of contractor registration laws and the potential risk  
9 and monetary liability to the homeowner for using an unregistered  
10 contractor.

11 (3) If a building permit is obtained by an applicant or  
12 contractor who falsifies information to obtain an exemption provided  
13 under RCW 18.27.090 or who violates subsection (1)(c) of this section  
14 by providing materially incomplete or inaccurate information to a  
15 city, town, or county, the building permit (~~shall~~) must be  
16 forfeited.

17 **Sec. 102.** RCW 18.27.200 and 2007 c 436 s 9 are each amended to  
18 read as follows:

19 (1) It is a violation of this chapter and an infraction for any  
20 contractor to:

21 (a) Advertise, offer to do work, submit a bid, or perform any  
22 work as a contractor without being registered as required by this  
23 chapter;

24 (b) Advertise, offer to do work, submit a bid, or perform any  
25 work as a contractor when the contractor's registration is suspended  
26 or revoked;

27 (c) Transfer a valid registration to an unregistered contractor  
28 or allow an unregistered contractor to work under a registration  
29 issued to another contractor;

30 (d) If the contractor is a contractor as defined in RCW  
31 18.106.010, violate RCW 18.106.320; (~~or~~)

32 (e) Subcontract to, or use, an unregistered contractor; or

33 (f) Provide materially incomplete or inaccurate information to a  
34 city, town, or county pursuant to a request for information as  
35 required by RCW 18.27.110.

36 (2) Each day that a contractor works without being registered as  
37 required by this chapter, works while the contractor's registration  
38 is suspended or revoked, or works under a registration issued to  
39 another contractor is a separate infraction. Each worksite at which a

1 contractor works without being registered as required by this  
2 chapter, works while the contractor's registration is suspended or  
3 revoked, or works under a registration issued to another contractor  
4 is a separate infraction.

5 **Part II**

6 **Repealing the Preferential B&O Tax Rate for Royalty Income**

7 **Sec. 201.** RCW 82.04.2907 and 2010 1st sp.s. c 23 s 107 are each  
8 amended to read as follows:

9 (1) Upon every person engaging within this state in the business  
10 of receiving income from royalties, the amount of tax with respect to  
11 the business is equal to the gross income from royalties multiplied  
12 by the rate (~~(of 0.484 percent)~~) provided in RCW 82.04.290(2)(a).

13 (2) For the purposes of this section, "gross income from  
14 royalties" means compensation for the use of intangible property,  
15 including charges in the nature of royalties, regardless of where the  
16 intangible property will be used. For purposes of this subsection,  
17 "intangible property" includes copyrights, patents, licenses,  
18 franchises, trademarks, trade names, and similar items. "Gross income  
19 from royalties" does not include compensation for any natural  
20 resource, the licensing of prewritten computer software to the end  
21 user, or the licensing of digital goods, digital codes, or digital  
22 automated services to the end user as defined in RCW 82.04.190(11).

23 **Part III**

24 **Economic Nexus for Out-of-State Wholesalers**

25 **Sec. 301.** RCW 82.04.066 and 2010 1st sp.s. c 23 s 103 are each  
26 amended to read as follows:

27 "Engaging within this state" and "engaging within the state,"  
28 when used in connection with any apportionable activity as defined in  
29 RCW 82.04.460 or wholesale sales taxable under RCW 82.04.257(1) or  
30 82.04.270, means that a person generates gross income of the business  
31 from sources within this state, such as customers or intangible  
32 property located in this state, regardless of whether the person is  
33 physically present in this state.

34 **Sec. 302.** RCW 82.04.067 and 2010 1st sp.s. c 23 s 104 are each  
35 amended to read as follows:

1 (1) A person engaging in business is deemed to have substantial  
2 nexus with this state if the person is:

3 (a) An individual and is a resident or domiciliary of this state;

4 (b) A business entity and is organized or commercially domiciled  
5 in this state; or

6 (c) A nonresident individual or a business entity that is  
7 organized or commercially domiciled outside this state, and in  
8 (~~any~~) the immediately preceding tax year the person (~~has~~) had:

9 (i) More than fifty thousand dollars of property in this state;

10 (ii) More than fifty thousand dollars of payroll in this state;

11 (iii) More than two hundred fifty thousand dollars of receipts  
12 from this state; or

13 (iv) At least twenty-five percent of the person's total property,  
14 total payroll, or total receipts in this state.

15 (2)(a) Property counting toward the thresholds in subsection  
16 (1)(c)(i) and (iv) of this section is the average value of the  
17 taxpayer's property, including intangible property, owned or rented  
18 and used in this state during the immediately preceding tax year.

19 (b)(i) Property owned by the taxpayer, other than loans and  
20 credit card receivables owned by the taxpayer, is valued at its  
21 original cost basis. Loans and credit card receivables owned by the  
22 taxpayer are valued at their outstanding principal balance, without  
23 regard to any reserve for bad debts. However, if a loan or credit  
24 card receivable is charged off in whole or in part for federal income  
25 tax purposes, the portion of the loan or credit card receivable  
26 charged off is deducted from the outstanding principal balance.

27 (ii) Property rented by the taxpayer is valued at eight times the  
28 net annual rental rate. For purposes of this subsection, "net annual  
29 rental rate" means the annual rental rate paid by the taxpayer less  
30 any annual rental rate received by the taxpayer from subrentals.

31 (c) The average value of property must be determined by averaging  
32 the values at the beginning and ending of the tax year; but the  
33 department may require the averaging of monthly values during the tax  
34 year if reasonably required to properly reflect the average value of  
35 the taxpayer's property.

36 (d)(i) For purposes of this subsection (2), loans and credit card  
37 receivables are deemed owned and used in this state as follows:

38 (A) Loans secured by real property, personal property, or both  
39 real and personal property(~~(-)~~) are deemed owned and used in the  
40 state if the real property or personal property securing the loan is

1 located within this state. If the property securing the loan is  
2 located both within this state and one or more other states, the loan  
3 is deemed owned and used in this state if more than fifty percent of  
4 the fair market value of the real or personal property is located  
5 within this state. If more than fifty percent of the fair market  
6 value of the real or personal property is not located within any one  
7 state, then the loan is deemed owned and used in this state if the  
8 borrower is located in this state. The determination of whether the  
9 real or personal property securing a loan is located within this  
10 state must be made, as of the time the original agreement was made,  
11 and any and all subsequent substitutions of collateral must be  
12 disregarded.

13 (B) Loans not secured by real or personal property are deemed  
14 owned and used in this state if the borrower is located in this  
15 state.

16 (C) Credit card receivables are deemed owned and used in this  
17 state if the billing address of the cardholder is in this state.

18 (ii)(A) Except as otherwise provided in (d)(ii)(B) of this  
19 subsection (2), the definitions in the multistate tax commission's  
20 recommended formula for the apportionment and allocation of net  
21 income of financial institutions as existing on June 1, 2010, or such  
22 subsequent date as may be provided by the department by rule,  
23 consistent with the purposes of this section, apply to this section.

24 (B) "Credit card" means a card or device existing for the purpose  
25 of obtaining money, property, labor, or services on credit.

26 (e) Notwithstanding anything else to the contrary in this  
27 subsection, property counting toward the thresholds in subsection  
28 (1)(c)(i) and (iv) of this section does not include a person's  
29 ownership of, or rights in, computer software as defined in RCW  
30 82.04.215, including computer software used in providing a digital  
31 automated service; master copies of software; and digital goods and  
32 digital codes residing on servers located in this state.

33 (3)(a) Payroll counting toward the thresholds in subsection  
34 (1)(c)(ii) and (iv) of this section is the total amount paid by the  
35 taxpayer for compensation in this state during the tax year plus  
36 nonemployee compensation paid to representative third parties in this  
37 state. Nonemployee compensation paid to representative third parties  
38 includes the gross amount paid to nonemployees who represent the  
39 taxpayer in interactions with the taxpayer's clients and includes  
40 sales commissions.

1 (b) Employee compensation is paid in this state if the  
2 compensation is properly reportable to this state for unemployment  
3 compensation tax purposes, regardless of whether the compensation was  
4 actually reported to this state.

5 (c) Nonemployee compensation is paid in this state if the service  
6 performed by the representative third party occurs entirely or  
7 primarily within this state.

8 (d) For purposes of this subsection, "compensation" means wages,  
9 salaries, commissions, and any other form of remuneration paid to  
10 employees or nonemployees and defined as gross income under 26 U.S.C.  
11 Sec. 61 of the federal internal revenue code of 1986, as existing on  
12 June 1, 2010.

13 (4) Receipts counting toward the thresholds in subsection  
14 (1)(c)(iii) and (iv) of this section are:

15 (a) Those amounts included in the numerator of the receipts  
16 factor under RCW 82.04.462 ((and,));

17 (b) For financial institutions, those amounts included in the  
18 numerator of the receipts factor under the rule adopted by the  
19 department as authorized in RCW 82.04.460(2); and

20 (c) For persons taxable under RCW 82.04.257(1) or 82.04.270 with  
21 respect to wholesale sales, the gross proceeds of sales taxable under  
22 those statutory provisions and sourced to this state in accordance  
23 with RCW 82.32.730.

24 (5)(a) Each December, the department must review the cumulative  
25 percentage change in the consumer price index. The department must  
26 adjust the thresholds in subsection (1)(c)(i) through (iii) of this  
27 section if the consumer price index has changed by five percent or  
28 more since the later of June 1, 2010, or the date that the thresholds  
29 were last adjusted under this subsection. For purposes of determining  
30 the cumulative percentage change in the consumer price index, the  
31 department must compare the consumer price index available as of  
32 December 1st of the current year with the consumer price index as of  
33 the later of June 1, 2010, or the date that the thresholds were last  
34 adjusted under this subsection. The thresholds must be adjusted to  
35 reflect that cumulative percentage change in the consumer price  
36 index. The adjusted thresholds must be rounded to the nearest one  
37 thousand dollars. Any adjustment will apply to tax periods that begin  
38 after the adjustment is made.

39 (b) As used in this subsection, "consumer price index" means the  
40 consumer price index for all urban consumers (CPI-U) available from

1 the bureau of labor statistics of the United States department of  
2 labor.

3 (6)(a) Subsections (1) through (5) of this section only apply  
4 with respect to the taxes imposed (~~(under this chapter)~~) on persons  
5 engaged in apportionable activities as defined in RCW 82.04.460 or  
6 making wholesale sales taxable under RCW 82.04.257(1) or 82.04.270.  
7 For purposes of the taxes imposed under this chapter on any activity  
8 not included in the definition of apportionable activities in RCW  
9 82.04.460, other than the business of making wholesale sales taxed  
10 under RCW 82.04.257(1) or 82.04.270, a person is deemed to have a  
11 substantial nexus with this state if the person has a physical  
12 presence in this state during the tax year, which need only be  
13 demonstrably more than a slightest presence.

14 (b) For purposes of this subsection, a person is physically  
15 present in this state if the person has property or employees in this  
16 state.

17 (c) A person is also physically present in this state if the  
18 person, either directly or through an agent or other representative,  
19 engages in activities in this state that are significantly associated  
20 with the person's ability to establish or maintain a market for its  
21 products in this state.

22 **Part IV**  
23 **Manufacturing Machinery and Equipment Exemption for Software**  
24 **Manufacturers**

25 **Sec. 401.** RCW 82.08.02565 and 2014 c 216 s 401 and 2014 c 140 s  
26 13 are each reenacted and amended to read as follows:

27 (1)(a) The tax levied by RCW 82.08.020 does not apply to sales to  
28 a manufacturer or processor for hire of machinery and equipment used  
29 directly in a manufacturing operation or research and development  
30 operation, to sales to a person engaged in testing for a manufacturer  
31 or processor for hire of machinery and equipment used directly in a  
32 testing operation, or to sales of or charges made for labor and  
33 services rendered in respect to installing, repairing, cleaning,  
34 altering, or improving the machinery and equipment.

35 (b) Except as provided in (c) of this subsection, sellers making  
36 tax-exempt sales under this section must obtain from the purchaser an  
37 exemption certificate in a form and manner prescribed by the

1 department by rule. The seller must retain a copy of the certificate  
2 for the seller's files.

3 (c)(i) The exemption under this section is in the form of a  
4 remittance for a gas distribution business, as defined in RCW  
5 82.16.010, claiming the exemption for machinery and equipment used  
6 for the production of compressed natural gas or liquefied natural gas  
7 for use as a transportation fuel.

8 (ii) A gas distribution business claiming an exemption from state  
9 and local tax in the form of a remittance under this section must pay  
10 the tax under RCW 82.08.020 and all applicable local sales taxes.  
11 Beginning July 1, 2017, the gas distribution business may then apply  
12 to the department for remittance of state and local sales and use  
13 taxes. A gas distribution business may not apply for a remittance  
14 more frequently than once a quarter. The gas distribution business  
15 must specify the amount of exempted tax claimed and the qualifying  
16 purchases for which the exemption is claimed. The gas distribution  
17 business must retain, in adequate detail, records to enable the  
18 department to determine whether the business is entitled to an  
19 exemption under this section, including: Invoices; proof of tax paid;  
20 and documents describing the machinery and equipment.

21 (iii) The department must determine eligibility under this  
22 section based on the information provided by the gas distribution  
23 business, which is subject to audit verification by the department.  
24 The department must on a quarterly basis remit exempted amounts to  
25 qualifying businesses who submitted applications during the previous  
26 quarter.

27 (iv) Beginning July 1, 2028, a gas distribution business may not  
28 apply for a refund under this section or RCW 82.12.02565.

29 (2) For purposes of this section and RCW 82.12.02565:

30 (a) "Machinery and equipment" means industrial fixtures, devices,  
31 and support facilities, and tangible personal property that becomes  
32 an ingredient or component thereof, including repair parts and  
33 replacement parts. "Machinery and equipment" includes pollution  
34 control equipment installed and used in a manufacturing operation,  
35 testing operation, or research and development operation to prevent  
36 air pollution, water pollution, or contamination that might otherwise  
37 result from the manufacturing operation, testing operation, or  
38 research and development operation. "Machinery and equipment" also  
39 includes digital goods.

40 (b) "Machinery and equipment" does not include:

1 (i) Hand-powered tools;  
2 (ii) Property with a useful life of less than one year;  
3 (iii) Buildings, other than machinery and equipment that is  
4 permanently affixed to or becomes a physical part of a building; and  
5 (iv) Building fixtures that are not integral to the manufacturing  
6 operation, testing operation, or research and development operation  
7 that are permanently affixed to and become a physical part of a  
8 building, such as utility systems for heating, ventilation, air  
9 conditioning, communications, plumbing, or electrical.

10 (c) Machinery and equipment is "used directly" in a manufacturing  
11 operation, testing operation, or research and development operation  
12 if the machinery and equipment:

13 (i) Acts upon or interacts with an item of tangible personal  
14 property;  
15 (ii) Conveys, transports, handles, or temporarily stores an item  
16 of tangible personal property at the manufacturing site or testing  
17 site;  
18 (iii) Controls, guides, measures, verifies, aligns, regulates, or  
19 tests tangible personal property at the site or away from the site;  
20 (iv) Provides physical support for or access to tangible personal  
21 property;  
22 (v) Produces power for, or lubricates machinery and equipment;  
23 (vi) Produces another item of tangible personal property for use  
24 in the manufacturing operation, testing operation, or research and  
25 development operation;  
26 (vii) Places tangible personal property in the container,  
27 package, or wrapping in which the tangible personal property is  
28 normally sold or transported; or  
29 (viii) Is integral to research and development as defined in RCW  
30 82.63.010.

31 (d) "Manufacturer" means a person that qualifies as a  
32 manufacturer under RCW 82.04.110. "Manufacturer" also includes a  
33 person that:

34 (i) Prints newspapers or other materials; or  
35 (ii) Is engaged in the development of prewritten computer  
36 software that is not transferred to purchasers by means of tangible  
37 storage media.

38 (e) "Manufacturing" means only those activities that come within  
39 the definition of "to manufacture" in RCW 82.04.120 and are taxed as  
40 manufacturing or processing for hire under chapter 82.04 RCW, or

1 would be taxed as such if such activity were conducted in this state  
2 or if not for an exemption or deduction. "Manufacturing" also  
3 includes printing newspapers or other materials. An activity is not  
4 taxed as manufacturing or processing for hire under chapter 82.04 RCW  
5 if the activity is within the purview of chapter 82.16 RCW.

6 (f) "Manufacturing operation" means the manufacturing of  
7 articles, substances, or commodities for sale as tangible personal  
8 property. A manufacturing operation begins at the point where the raw  
9 materials enter the manufacturing site and ends at the point where  
10 the processed material leaves the manufacturing site. With respect to  
11 the production of class A or exceptional quality biosolids by a  
12 wastewater treatment facility, the manufacturing operation begins at  
13 the point where class B biosolids undergo additional processing to  
14 achieve class A or exceptional quality standards. Notwithstanding  
15 anything to the contrary in this section, the term also includes that  
16 portion of a cogeneration project that is used to generate power for  
17 consumption within the manufacturing site of which the cogeneration  
18 project is an integral part. The term does not include the  
19 preparation of food products on the premises of a person selling food  
20 products at retail.

21 (g) "Cogeneration" means the simultaneous generation of  
22 electrical energy and low-grade heat from the same fuel.

23 (h) "Research and development operation" means engaging in  
24 research and development as defined in RCW 82.63.010 by a  
25 manufacturer or processor for hire.

26 (i) "Testing" means activities performed to establish or  
27 determine the properties, qualities, and limitations of tangible  
28 personal property.

29 (j) "Testing operation" means the testing of tangible personal  
30 property for a manufacturer or processor for hire. A testing  
31 operation begins at the point where the tangible personal property  
32 enters the testing site and ends at the point where the tangible  
33 personal property leaves the testing site. The term also includes the  
34 testing of tangible personal property for use in that portion of a  
35 cogeneration project that is used to generate power for consumption  
36 within the manufacturing site of which the cogeneration project is an  
37 integral part. The term does not include the testing of tangible  
38 personal property for use in the production of electricity by a light  
39 and power business as defined in RCW 82.16.010 or the preparation of

1 food products on the premises of a person selling food products at  
2 retail.

3 (3) This section does not apply (a) to sales of machinery and  
4 equipment used directly in the manufacturing, research and  
5 development, or testing of marijuana, useable marijuana, or  
6 marijuana-infused products, or (b) to sales of or charges made for  
7 labor and services rendered in respect to installing, repairing,  
8 cleaning, altering, or improving such machinery and equipment.

9 (4) The exemptions in this section do not apply to an ineligible  
10 person. For purposes of this subsection, the following definitions  
11 apply:

12 (a) "Affiliated group" means a group of two or more entities that  
13 are either:

14 (i) Affiliated as defined in RCW 82.32.655; or

15 (ii) Permitted to file a consolidated return for federal income  
16 tax purposes.

17 (b) "Ineligible person" means all members of an affiliated group  
18 if all of the following apply:

19 (i) At least one member of the affiliated group was registered  
20 with the department to do business in Washington state on or before  
21 July 1, 1981;

22 (ii) As of the effective date of this section, the combined  
23 employment in this state of the affiliated group exceeds forty  
24 thousand full-time and part-time employees, based on data reported to  
25 the employment security department by the affiliated group; and

26 (iii) The business activities of the affiliated group primarily  
27 include development, sales, and licensing of computer software and  
28 services.

29 **Sec. 402.** RCW 82.12.02565 and 2014 c 216 s 402 and 2014 c 140 s  
30 14 are each reenacted and amended to read as follows:

31 (1) The provisions of this chapter do not apply in respect to the  
32 use by a manufacturer or processor for hire of machinery and  
33 equipment used directly in a manufacturing operation or research and  
34 development operation, to the use by a person engaged in testing for  
35 a manufacturer or processor for hire of machinery and equipment used  
36 directly in a testing operation, or to the use of labor and services  
37 rendered in respect to installing, repairing, cleaning, altering, or  
38 improving the machinery and equipment.

1 (2) The definitions, conditions, and requirements in RCW  
2 82.08.02565 apply to this section.

3 (3) This section does not apply to the use of (a) machinery and  
4 equipment used directly in the manufacturing, research and  
5 development, or testing of marijuana, useable marijuana, or  
6 marijuana-infused products, or (b) labor and services rendered in  
7 respect to installing, repairing, cleaning, altering, or improving  
8 such machinery and equipment.

9 (4) The exemptions in this section do not apply to an ineligible  
10 person as defined in RCW 82.08.02565.

11 **Sec. 403.** RCW 82.63.010 and 2009 c 268 s 2 are each reenacted  
12 and amended to read as follows:

13 (~~Unless the context clearly requires otherwise,~~) The  
14 definitions in this section apply throughout this chapter unless the  
15 context clearly requires otherwise.

16 (1) "Advanced computing" means technologies used in the designing  
17 and developing of computing hardware and software, including  
18 innovations in designing the full spectrum of hardware from hand-held  
19 calculators to super computers, and peripheral equipment.

20 (2) "Advanced materials" means materials with engineered  
21 properties created through the development of specialized processing  
22 and synthesis technology, including ceramics, high value-added  
23 metals, electronic materials, composites, polymers, and biomaterials.

24 (3) "Applicant" means a person applying for a tax deferral under  
25 this chapter.

26 (4) "Biotechnology" means the application of technologies, such  
27 as recombinant DNA techniques, biochemistry, molecular and cellular  
28 biology, genetics and genetic engineering, cell fusion techniques,  
29 and new bioprocesses, using living organisms, or parts of organisms,  
30 to produce or modify products, to improve plants or animals, to  
31 develop microorganisms for specific uses, to identify targets for  
32 small molecule pharmaceutical development, or to transform biological  
33 systems into useful processes and products or to develop  
34 microorganisms for specific uses.

35 (5) "Department" means the department of revenue.

36 (6) "Electronic device technology" means technologies involving  
37 microelectronics; semiconductors; electronic equipment and  
38 instrumentation; radio frequency, microwave, and millimeter

1 electronics; optical and optic-electrical devices; and data and  
2 digital communications and imaging devices.

3 (7) "Eligible investment project" means an investment project  
4 which either initiates a new operation, or expands or diversifies a  
5 current operation by expanding, renovating, or equipping an existing  
6 facility. The lessor or owner of the qualified building is not  
7 eligible for a deferral unless:

8 (a) The underlying ownership of the buildings, machinery, and  
9 equipment vests exclusively in the same person; or

10 (b)(i) The lessor by written contract agrees to pass the economic  
11 benefit of the deferral to the lessee;

12 (ii) The lessee that receives the economic benefit of the  
13 deferral agrees in writing with the department to complete the annual  
14 survey required under RCW 82.63.020(2); and

15 (iii) The economic benefit of the deferral passed to the lessee  
16 is no less than the amount of tax deferred by the lessor and is  
17 evidenced by written documentation of any type of payment, credit, or  
18 other financial arrangement between the lessor or owner of the  
19 qualified building and the lessee.

20 (8) "Environmental technology" means assessment and prevention of  
21 threats or damage to human health or the environment, environmental  
22 cleanup, and the development of alternative energy sources.

23 (9)(a) "Initiation of construction" means the date that a  
24 building permit is issued under the building code adopted under RCW  
25 19.27.031 for:

26 (i) Construction of the qualified building, if the underlying  
27 ownership of the building vests exclusively with the person receiving  
28 the economic benefit of the deferral;

29 (ii) Construction of the qualified building, if the economic  
30 benefits of the deferral are passed to a lessee as provided in  
31 subsection (7) of this section; or

32 (iii) Tenant improvements for a qualified building, if the  
33 economic benefits of the deferral are passed to a lessee as provided  
34 in subsection (7) of this section.

35 (b) "Initiation of construction" does not include soil testing,  
36 site clearing and grading, site preparation, or any other related  
37 activities that are initiated before the issuance of a building  
38 permit for the construction of the foundation of the building.

39 (c) If the investment project is a phased project, "initiation of  
40 construction" shall apply separately to each phase.

1 (10) "Investment project" means an investment in qualified  
2 buildings or qualified machinery and equipment, including labor and  
3 services rendered in the planning, installation, and construction or  
4 improvement of the project.

5 (11) "Multiple qualified buildings" means qualified buildings  
6 leased to the same person when such structures: (a) Are located  
7 within a five-mile radius; and (b) the initiation of construction of  
8 each building begins within a sixty-month period.

9 (12) "Person" has the meaning given in RCW 82.04.030 and includes  
10 state universities as defined in RCW 28B.10.016.

11 (13) "Pilot scale manufacturing" means design, construction, and  
12 testing of preproduction prototypes and models in the fields of  
13 biotechnology, advanced computing, electronic device technology,  
14 advanced materials, and environmental technology other than for  
15 commercial sale. As used in this subsection, "commercial sale"  
16 excludes sales of prototypes or sales for market testing if the total  
17 gross receipts from such sales of the product, service, or process do  
18 not exceed one million dollars.

19 (14) "Qualified buildings" means construction of new structures,  
20 and expansion or renovation of existing structures for the purpose of  
21 increasing floor space or production capacity used for pilot scale  
22 manufacturing or qualified research and development, including plant  
23 offices and other facilities that are an essential or an integral  
24 part of a structure used for pilot scale manufacturing or qualified  
25 research and development. If a building or buildings are used partly  
26 for pilot scale manufacturing or qualified research and development,  
27 and partly for other purposes, the applicable tax deferral shall be  
28 determined by apportionment of the costs of construction under rules  
29 adopted by the department. Such rules may include provisions for  
30 determining the amount of the deferral based on apportionment of  
31 costs of construction of an investment project consisting of a  
32 building or multiple buildings, where qualified research and  
33 development or pilot scale manufacturing activities are shifted  
34 within a building or from one building to another building.

35 (15)(a) "Qualified machinery and equipment" means fixtures,  
36 equipment, and support facilities that are an integral and necessary  
37 part of a pilot scale manufacturing or qualified research and  
38 development operation. "Qualified machinery and equipment" includes:  
39 Computers; software; data processing equipment; laboratory equipment,  
40 instrumentation, and other devices used in a process of

1 experimentation to develop a new or improved pilot model, plant  
2 process, product, formula, invention, or similar property;  
3 manufacturing components such as belts, pulleys, shafts, and moving  
4 parts; molds, tools, and dies; vats, tanks, and fermenters; operating  
5 structures; and all other equipment used to control, monitor, or  
6 operate the machinery. For purposes of this chapter, qualified  
7 machinery and equipment must be either new to the taxing jurisdiction  
8 of the state or new to the certificate holder, except that used  
9 machinery and equipment may be treated as qualified machinery and  
10 equipment if the certificate holder either brings the machinery and  
11 equipment into Washington or makes a retail purchase of the machinery  
12 and equipment in Washington or elsewhere.

13 (b) "Qualified machinery and equipment" does not include any  
14 fixtures, equipment, or support facilities, if the sale to or use by  
15 the recipient is not eligible for an exemption under RCW 82.08.02565  
16 or 82.12.02565 solely because the recipient is an ineligible person  
17 as defined in RCW 82.08.02565.

18 (16) "Qualified research and development" means research and  
19 development performed within this state in the fields of advanced  
20 computing, advanced materials, biotechnology, electronic device  
21 technology, and environmental technology.

22 (17) "Recipient" means a person receiving a tax deferral under  
23 this chapter.

24 (18) "Research and development" means activities performed to  
25 discover technological information, and technical and nonroutine  
26 activities concerned with translating technological information into  
27 new or improved products, processes, techniques, formulas,  
28 inventions, or software. The term includes exploration of a new use  
29 for an existing drug, device, or biological product if the new use  
30 requires separate licensing by the federal food and drug  
31 administration under chapter 21, C.F.R., as amended. The term does  
32 not include adaptation or duplication of existing products where the  
33 products are not substantially improved by application of the  
34 technology, nor does the term include surveys and studies, social  
35 science and humanities research, market research or testing, quality  
36 control, sale promotion and service, computer software developed for  
37 internal use, and research in areas such as improved style, taste,  
38 and seasonal design.

