
SUBSTITUTE HOUSE BILL 1887

State of Washington

56th Legislature

1999 Regular Session

By House Committee on Finance (originally sponsored by Representatives Kessler, Lisk, Grant, Wensman, Wolfe and Pennington; by request of Department of Revenue)

Read first time 03/08/1999.

1 AN ACT Relating to revising the machinery and equipment tax
2 exemption by more precisely describing terminology and eligibility;
3 amending RCW 82.04.120, 82.08.02565, 82.08.02565, and 82.12.02565;
4 creating new sections; providing an effective date; and declaring an
5 emergency.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** The legislature finds that the application
8 of the manufacturer's machinery and equipment sales and use tax
9 exemption has, in some instances, been difficult and confusing for
10 taxpayers, and included difficult reporting and recordkeeping
11 requirements. In this act, it is the intent of the legislature to make
12 clear its intent for the application of the exemption, and to extend
13 the exemption to the purchase and use of machinery and equipment for
14 businesses that perform testing of manufactured goods for manufacturers
15 or processors for hire.

16 **Sec. 2.** RCW 82.04.120 and 1998 c 168 s 1 are each amended to read
17 as follows:

1 "To manufacture" embraces all activities of a commercial or
2 industrial nature wherein labor or skill is applied, by hand or
3 machinery, to materials so that as a result thereof a new, different or
4 useful substance or article of tangible personal property is produced
5 for sale or commercial or industrial use, and shall include: (1) The
6 production or fabrication of special made or custom made articles;
7 (~~and~~) (2) the production or fabrication of dental appliances,
8 devices, restorations, substitutes, or other dental laboratory products
9 by a dental laboratory or dental technician; (3) cutting, delimiting,
10 and measuring of felled, cut, or taken trees; and (4) crushing and/or
11 blending of rock, sand, stone, gravel, or ore.

12 "To manufacture" shall not include: Conditioning of seed for use
13 in planting; cubing hay or alfalfa; (~~or~~) activities which consist of
14 cutting, grading, or ice glazing seafood which has been cooked, frozen,
15 or canned outside this state; the mere assembly of an article of
16 tangible personal property exclusively from ingredients or components
17 manufactured by and purchased from another person or persons if the
18 amount paid for the ingredients or components is eighty percent or more
19 of the value of the assembled article; or the growing, harvesting, or
20 production of agricultural products.

21 **Sec. 3.** RCW 82.08.02565 and 1998 c 330 s 1 are each amended to
22 read as follows:

23 (1) The tax levied by RCW 82.08.020 shall not apply to sales to a
24 manufacturer or processor for hire of machinery and equipment used
25 directly in a manufacturing operation or research and development
26 operation, or to sales of or charges made for labor and services
27 rendered in respect to installing, repairing, cleaning, altering, or
28 improving the machinery and equipment, but only when the purchaser
29 provides the seller with an exemption certificate in a form and manner
30 prescribed by the department by rule. The seller shall retain a copy
31 of the certificate for the seller's files.

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

33 (a) "Machinery and equipment" means industrial fixtures, devices,
34 and support facilities, and tangible personal property that becomes an
35 ingredient or component thereof, including repair parts and replacement
36 parts. "Machinery and equipment" includes pollution control equipment
37 installed and used in a manufacturing operation or research and
38 development operation to prevent air pollution, water pollution, or

1 contamination that might otherwise result from the manufacturing
2 operation or research and development operation.

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

4 (i) Hand-powered tools;

5 (ii) Property with a useful life of less than one year;

6 (iii) Buildings, other than machinery and equipment that is
7 permanently affixed to or becomes a physical part of a building; and

8 (iv) Building fixtures that are not integral to the manufacturing
9 operation or research and development operation that are permanently
10 affixed to and become a physical part of a building, such as utility
11 systems for heating, ventilation, air conditioning, communications,
12 plumbing, or electrical.

13 (c) Machinery and equipment is "used directly" in a manufacturing
14 operation or research and development operation if the machinery and
15 equipment:

16 (i) Acts upon or interacts with an item of tangible personal
17 property;

18 (ii) Conveys, transports, handles, or temporarily stores an item of
19 tangible personal property at the manufacturing site;

20 (iii) Controls, guides, measures, verifies, aligns, regulates, or
21 tests tangible personal property at the site or away from the site;

22 (iv) Provides physical support for or access to tangible personal
23 property;

24 (v) Produces power for, or lubricates machinery and equipment;

25 (vi) Produces another item of tangible personal property for use in
26 the manufacturing operation or research and development operation;

27 (vii) Places tangible personal property in the container, package,
28 or wrapping in which the tangible personal property is normally sold or
29 transported; or

30 (viii) Is integral to research and development as defined in RCW
31 82.63.010.

32 (d) "Manufacturing operation" means the manufacturing of articles,
33 substances, or commodities for sale as tangible personal property.

34 ((The)) A manufacturing operation begins at the point where the raw
35 materials enter the manufacturing site and ends at the point where the
36 ((finished product)) processed material leaves the manufacturing site.

37 The term also includes that portion of a cogeneration project that is
38 used to generate power for consumption within the manufacturing site of
39 which the cogeneration project is an integral part. The term does not

1 include the production of electricity by a light and power business as
2 defined in RCW 82.16.010 or the preparation of food products on the
3 premises of a person selling food products at retail.

4 (e) "Cogeneration" means the simultaneous generation of electrical
5 energy and low-grade heat from the same fuel.

6 (f) "Research and development operation" means engaging in research
7 and development as defined in RCW 82.63.010 by a manufacturer or
8 processor for hire.

9 NEW SECTION. **Sec. 4.** The legislature intends that sections 2 and
10 3 of this act be clarifying in nature and are retroactive in response
11 to the administrative difficulties encountered in implementing the
12 original legislation.

13 **Sec. 5.** RCW 82.08.02565 and 1999 c . . . s 3 (section 3 of this
14 act) are each amended to read as follows:

15 (1) The tax levied by RCW 82.08.020 shall not apply to sales to a
16 manufacturer or processor for hire of machinery and equipment used
17 directly in a manufacturing operation or research and development
18 operation, to sales to a person engaged in testing for a manufacturer
19 or processor for hire of machinery and equipment used directly in a
20 testing operation, or to sales of or charges made for labor and
21 services rendered in respect to installing, repairing, cleaning,
22 altering, or improving the machinery and equipment, but only when the
23 purchaser provides the seller with an exemption certificate in a form
24 and manner prescribed by the department by rule. The seller shall
25 retain a copy of the certificate for the seller's files.

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

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

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

37 (i) Hand-powered tools;

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

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

12 (i) Acts upon or interacts with an item of tangible personal
13 property;

14 (ii) Conveys, transports, handles, or temporarily stores an item of
15 tangible personal property at the manufacturing site or testing site;

16 (iii) Controls, guides, measures, verifies, aligns, regulates, or
17 tests tangible personal property at the site or away from the site;

18 (iv) Provides physical support for or access to tangible personal
19 property;

20 (v) Produces power for, or lubricates machinery and equipment;

21 (vi) Produces another item of tangible personal property for use in
22 the manufacturing operation, testing operation, or research and
23 development operation;

24 (vii) Places tangible personal property in the container, package,
25 or wrapping in which the tangible personal property is normally sold or
26 transported; or

27 (viii) Is integral to research and development as defined in RCW
28 82.63.010.

29 (d) "Manufacturing operation" means the manufacturing of articles,
30 substances, or commodities for sale as tangible personal property. A
31 manufacturing operation begins at the point where the raw materials
32 enter the manufacturing site and ends at the point where the processed
33 material leaves the manufacturing site. The term also includes that
34 portion of a cogeneration project that is used to generate power for
35 consumption within the manufacturing site of which the cogeneration
36 project is an integral part. The term does not include the production
37 of electricity by a light and power business as defined in RCW
38 82.16.010 or the preparation of food products on the premises of a
39 person selling food products at retail.

1 (e) "Cogeneration" means the simultaneous generation of electrical
2 energy and low-grade heat from the same fuel.

3 (f) "Research and development operation" means engaging in research
4 and development as defined in RCW 82.63.010 by a manufacturer or
5 processor for hire.

6 (g) "Testing" means activities performed to establish or determine
7 the properties, qualities, and limitations of tangible personal
8 property.

9 (h) "Testing operation" means the testing of tangible personal
10 property for a manufacturer or processor for hire. A testing operation
11 begins at the point where the tangible personal property enters the
12 testing site and ends at the point where the tangible personal property
13 leaves the testing site. The term also includes that portion of a
14 cogeneration project that is used to generate power for consumption
15 within the site of which the cogeneration project is an integral part.
16 The term does not include the production of electricity by a light and
17 power business as defined in RCW 82.16.010 or the preparation of food
18 products on the premises of a person selling food products at retail.

19 **Sec. 6.** RCW 82.12.02565 and 1998 c 330 s 2 are each amended to
20 read as follows:

21 The provisions of this chapter shall not apply in respect to the
22 use by a manufacturer or processor for hire of machinery and equipment
23 used directly in a manufacturing operation or research and development
24 operation or to the use by a person engaged in testing for a
25 manufacturer or processor for hire of machinery and equipment used
26 directly in a testing operation.

27 NEW SECTION. **Sec. 7.** Sections 1 through 4 of this act are
28 necessary for the immediate preservation of the public peace, health,
29 or safety, or support of the state government and its existing public
30 institutions, and take effect immediately.

31 NEW SECTION. **Sec. 8.** Sections 5 and 6 of this act are necessary
32 for the immediate preservation of the public peace, health, or safety,
33 or support of the state government and its existing public
34 institutions, and take effect July 1, 1999.

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