
**Trade & Economic Development
Committee**

HB 2170

Brief Description: Providing private business development tax deferrals for community revitalization.

Sponsors: Representatives DeBolt, Alexander and Benson.

Brief Summary of Bill

- Creates a tax deferral program for investment projects in a geographic area designated by a local government that is at least 150 acres, has at least 20 acres of publicly owned open space used for a public park and outdoor recreational activities, has at least 100 acres of land adjacent to it used for recreational golf, has existing standard gauge freight or passenger rail infrastructure, is less than 1 mile from a state and federal highway system and has water rights designed around a particular recreational subject or idea.
- Provides a retail sales tax exemption for sales to an increment area amusement park development or the sale or charge for labor and services for installing, repairing, cleaning, altering or improving the machinery and equipment.

Hearing Date: 3/4/03

Staff: Tracey Taylor (786-7196).

Background:

The retail sales tax is by far the largest revenue source for the state. Together, the revenue for the retail sales tax and its companion use tax account for slightly more than 50 percent of state revenues supporting the state general fund.

The retail sales tax applies to the selling price of tangible personal property and certain services purchased at retail. In general, the tax applies to goods, construction including labor, repair of tangible personal property, lodging for less than 30 days, telephone service, and participatory recreational activities. The tax is levied at 6.5 percent by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent. Sales tax is

paid by the purchaser and is collected by the seller.

The use tax is imposed on items used in this state, the acquisition of which was not subject to Washington retail sales tax. This includes purchases made from out-of-state sellers, purchases from sellers who are not required to collect Washington sales tax, items produced for use by the producer, and gifts and prizes. The tax is measured by the value of the item at the time of the first use within the state, excluding any delivery charges. The state and local rates are the same as those imposed under the retail sales tax; however, the use tax is paid directed to the DOR.

There are several sales and use tax deferral/exemption incentives to encourage economic activity. These deferral/exemption programs cover the following: manufacturing, research and development, and computer related services businesses in rural counties; high technology research and development, and pilot scale manufacturing facilities; the new Narrows Bridge; a horse racing track; a baseball stadium; and a football stadium. The deferrals for the football stadium, baseball stadium, horse racing track, and new Narrows Bridge require payment of the tax after a deferral period. The rural manufacturing program and the high technology program do not require payment of the deferred tax as long as the facilities continue to be used for their original purpose.

Summary of Bill:

Prior to the initiation of the construction of an increment area investment project or the acquisition of machinery or equipment, a person must make an application for the deferral of taxes to the DOR. The application must include: information regarding the location of the increment investment area project; estimated or actual costs; time schedules for completion and operation; and other information required by the DOR. A person may apply for a separate deferral for each identifiable part of the project; however, each individual deferral need not overcome the initiation of construction threshold so long as the initial construction of the project began before January 1, 2006.

The taxes deferred under this program must be repaid. If the DOR finds that an investment project is being used for purposes not covered by this act then a portion of deferred taxes is immediately due based on a sliding scale from 100 percent to 12.5 percent.

A deferral recipient must distribute taxes to a local government in the county where the investment project is located according to an established schedule.

A retail sales tax exemption is authorized for sales to an increment area amusement park development or the sale or charge for labor and services for installing, repairing, cleaning, altering or improving the machinery and equipment.

For the purposes of this program, an "increment area" means the geographic area designated by a local government that is at least 150 acres, has at least 20 acres of publicly owned open space used for a public park and outdoor recreational activities, has at least 100 acres of land adjacent to it used for recreational golf, has existing standard gauge freight or passenger rail infrastructure, is less than 1 mile from a state and federal highway system and has water rights designed around a particular recreational subject or idea.

An "investment project" includes: construction of site preparation, structures, infrastructure and the acquisition of related machinery and equipment when used in the operation of a community increment area revitalization project or community and economic development; the underlying ownership of the structures, machinery and equipment vests exclusively in the same person (or has an agreement to pass the economic benefit of the deferral in reduced rent payments); work by a light and power business in the increment area; historic preservation, structures and installation of machinery and equipment.

"Amusement park" is defined as an entertainment facility within a designated increment area .

Appropriation: None.

Fiscal Note: Requested on March 3, 2003.

Effective Date: The bill contains an emergency clause and takes effect immediately.